

MLS MULTIMEDIA SA

[ML Sr. AT]

- Proven and sustainable turnover growth
- Utilize its leading position in the navigation software and systems' market in Greece to introduce value added services
- Growth opportunities from the gradual introduction of multimedia systems in the Greek educational system



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Greek Equities - May 12, 2010

MLS Multimedia SA

Sector : Information Technology - Software

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Company Description:

MLS Multimedia is a small-medium size information and communication technology (ICT) company in Greece, generating revenues through the development of a broad range of software systems in multimedia and navigation. The Company's major product categories consist of navigating systems and software, language technology applications (such as translators, etc.) educational technology products (educational software and interactive boards) as well as other multimedia products in the areas of entertainment.

In million €	2009	2010 E	2011 E
Turnover	14.79	16.75	18.46
EBITDA	4.98	5.48	6.06
Margin %	33.69%	32.71%	32.81%
Net Income	2.40	2.48	2.57
Margin %	16.25%	14.79%	13.93%

Price (12/05/2010)	€2.24
Shares Outstanding	12,417,000
MktCap (in €,000)	27,814

Beta (2 years)	0.82
Dividend '09	€ 0
Div. Yield	0%

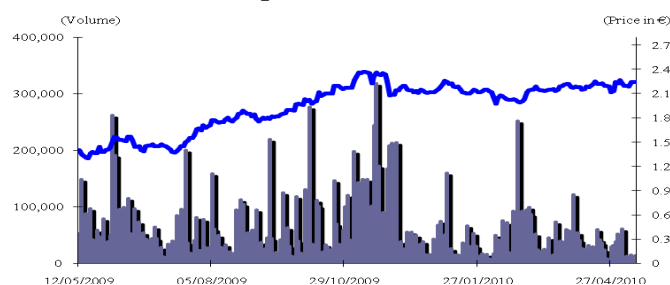
	2009	2010 E	2011 E
P/E	11.57x	11.23x	10.81x
P/BV	1.92x	1.71x	1.54x
Debt/Equity	0.00	0.00	0.00
ROE	17.17%	16.10%	14.96%

Source: Company data & VRS Projections

Key Investment Points

- ⊙ For the last 5 years, MLS managed to post strong growth in sales and profitability reaching an annual average growth rate of 46% and 55% respectively. For the fiscal 2010, turnover will expand by at least 13%, with the majority deriving from navigation products and services.
- ⊙ Navigation comprises the growth story for MLS, with the sector's growth remaining strong despite the recent economic crisis. In addition, MLS is targeting monthly recurrent fees from the establishment of its customer base. The Company will receive these fees for the provision of value added services including information about the traffic, the weather forecast, gas stations and pharmacies. MLS will provide this information through its navigation sets as well as mobile phones that use its platform.
- ⊙ MLS is likely to undertake part of the €80 million forthcoming educational technology related state projects of the Ministry of Education over the next 5 years.
- ⊙ The Company has no bank debt exposure retaining a healthy balance sheet with strong cash flows that will finance future growth.
- ⊙ According to our estimates for the period 2010-2014, turnover will post an average annual growth of 11.3%, while EBITDA margin will range close to the fiscal 2009 levels of 33.7%. **By applying our forecasts for the coming 5-years in the DCF model, we derive a fair price of €2.64 per share.**

Share Price Graph (52 Weeks) - Max: €2.37 - Min: €1.30



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General Overview

For the last 5 years, MLS managed to post strong growth in sales and profitability reaching an annual average growth rate of 46% and 55% respectively. Fiscal 2009 was an exceptional year despite the overall Greek economy crisis mostly attributed to the strong demand for the Company's innovative products in automotive navigation. For the fiscal 2010, we believe that the Company will retain its double digit turnover growth rate but on a lower pace compared to past years. The growth is attributed to:

- 1/ the promotion of new innovative navigation products offering value added services, and
- 2/ the introduction of new educational technology products, and
- 3/ the undertaking of new projects that are expected to be distributed by the ministry of education.

For the next 5-year period, we have projected solid growth for sales and bottom line results for the Company based on the following key assumptions:

1. The introduction of new facilities and services in Company's navigation products will retain the demand, assuming solid growth in the coming years with MLS remaining the leader in the navigation market;
2. The Company is also expecting to receive recurring revenues on a monthly basis from value added services through its navigation product network (including mobile and navigation sets);
3. MLS continues to innovate and translate its R&D activities into successful products and services;
4. MLS brands its products successfully utilizing additional international partnerships in the future;
5. The Greek ministry of education has announced that it will promote educational technology to schools distributing projects of at least €80 million over the next 3-5 years.

Investment Case

Automotive Navigation

Navigation systems represented about 93% of Company's turnover for the fiscal 2009 presenting an annual growth of 30% compared to the fiscal 2008. MLS is a pioneer in the Greek navigation market, having developed and distributed the first navigation system for vehicle owners in the Greek market in 2003. During the last 5 years, MLS managed to remain the market leader in the fast growing navigation market in Greece, with an average annual growth rate in sales of 108% (160% with respect to navigation sets).

For the fiscal 2009, the domestic navigation market accounted for about 200,000 navigation sets from 150,000 in fiscal 2008 and 50,000 navigation sets in fiscal 2007. For the current year, navigation sets are expected to reach 230,000. With respect to the market value, in fiscal 2009 the navigation market was estimated at approximately €25 million from 27.8 million in fiscal 2008. The reduction was attributed to lower average selling prices.

MLS however, managed to increase its market value share absorbing about 56% of the market in fiscal 2009 from 38% in fiscal 2008. With respect to navigation sets, the Company absorbed 45% of the market from 31% in fiscal 2008. As a conclusion, the Company managed to increase its share in navigation sets, selling higher priced value added products. The projected market shares of MLS are supported by:

- the Company's continuous investments in advanced technology seeking new potential for navigation systems that advances its competitiveness,
- The expansion of navigation software to mobile phones in Greece and Cyprus,
- The expansion of sales network, covering most of the possible selling points (92% weighted distribution),
- Agreements with automotive distributors.

The Company's target in the coming years is to sell value added navigation products and services through its navigation systems, utilizing its Talk & Drive technology. The Company aims to establish an increasing customer base that will pay recurring fees on a monthly basis for its services through its navigation sets and mobile phone sets that supports the MLS platform. Such services include apart from navigation guidance, live traffic, news, useful

information about banks, overnight pharmacies, cheap gas stations, and other important data. In March 2010, MLS introduced the ‘MLS Destinator Live Traffic’ that supports such services at a low price of € 6.99 / month. In the future, MLS will continue investing on improving and expanding these services, remaining a pioneer in Greece.

At the same time, the Company aims to increase its penetration in mobile telephony offering navigation services to all mobile users. Strategically, MLS currently targets the i-phone users that are estimated at about 100,000 (and still growing fast). In fiscal 2010, the Company will introduce a platform for i-phone users based on the Talk&Drive technology in the Greek as well as any other desired language. The Company believes that the i-phone market is more suitable to utilise more advanced services.

Our model’s projections imply a sustainable leading domestic market share during the next 5-year period of about 43% in volume and 50% in value. With regard to this revenue stream, we have assumed an average growth rate in revenues of 10.7% with total navigator product sales reaching € 22.8 million by the end of the fiscal 2014, representing about 90% of total MLS turnover. Navigation revenues enjoy the highest gross profit margin among the Company’s product categories; the high margins are expected to sustain due to the value added services offered.

Internationally, MLS is targeting the Cypriot, the Central European and the Balkan market where R&D activities are in progress. These markets are expected to contribute limited revenues at this stage however their growth potential should not be underestimated. We have not included any revenues from that potential source.

Educational Technology

MLS is the indisputable leader in the Greek multimedia market possessing a portfolio of more than 100 titles. The Greek multimedia market however is significantly lower compared to other EU countries, a trend that is not expected to change significantly in the next 5 years. Recently MLS launched a complete series of interactive boards under the company’s brand (MLS board). The Company invests in R&D for other educational multimedia products like the e-book seeking to capture a stake from the country’s digitalization trend.

The future for educational technology products depends on the following factors:

- Higher penetration of technology to public schools and the utilization of

multimedia software for learning (assuming that the Greek educational system will follow the other European countries' educational norms) will also drive the household demand for multimedia learning higher.

- The stronger PC penetration rate to households that assumes higher demand for multimedia products as well.

With regard to this revenue stream, we have assumed average revenue of at least €210,000 over the next 5 years, representing about 1% of total turnover. We expect MLS to retain its leadership in this market and utilize its deep knowledge and sales network to develop and promote its products covering future needs. MLS has also got a strong foothold in the Cypriot multimedia market utilizing a similar business model with the one applied in Greece.

Projects & Services

During the last 5 years, MLS successfully completed multimedia projects for the Greek State and mostly for the Ministry of Education. As the domestic economy and the Greek state enter into the digital era, the Company's positioning in the market is to provide state as well as private entities with "tailor made" multimedia solutions. The Company's expertise in the development of multimedia solutions and its track record, make MLS a prime candidate to undertake large stake from the forthcoming State projects. In this front, MLS targets all potential projects in Greece and in neighboring countries, capturing benefits from this segment's higher profit margins and utilizing synergies from its strong technological know-how.

The Company's latest achievement is the development of an interactive board. The Company aims at selling this product to the Greek public and private schools, benefiting from the Ministry of Education's intention (according to announcements) to introduce interactive boards to all schools in Greece during the next 3 years. The total cost for the introduction of interactive boards only to high schools is estimated at €40 million. In addition to this project, the Ministry of Education will supply the schools with educational software during the next 3-5 years, a total project worth about €80 million. Both projects will be distributed to several companies, with MLS capturing at least 10% of the total.

Historic & Projected Turnover Breakdown

(in € ,000)

	2006	2007	2008	2009	2010 E	2011 E	2012 E	2013 E	2014 E
Projects									
Ministry of Development	114.4	86.2	58.0	0.0	0.0	0.0	0.0	0.0	0.0
% of total project revenue	48.5%	30.4%	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
y-o-y change	-80.6%	-24.6%	-32.7%	-100.0%					
Ministry of National Education	0	165	1,110	595	1,300	2,000	2,750	3,000	2,000
% of total project revenue	0.0%	58.1%	91.5%	84.3%	92.9%	95.2%	91.7%	92.3%	90.9%
y-o-y change			574.5%	-46.4%	118.6%	53.8%	37.5%	9.1%	-33.3%
Other Public Sector Projects	101	15	19	37	50	50	150	150	100
% of total project revenue	43.0%	5.3%	1.5%	5.2%	3.6%	2.4%	5.0%	4.6%	4.5%
y-o-y change	-83.2%	-85.2%	23.3%	98.7%	36.0%	0.0%	200%	0.0%	-33.3%
Private Projects	20	18	26	74	50	50	100	100	100
% of total project revenue	8.6%	6.2%	2.1%	10.5%	3.6%	2.4%	3.3%	3.1%	4.5%
y-o-y change	-80.8%	-12.7%	47.2%	184.6%	-32.4%	0.0%	100.0%	0.0%	0.0%
Total Project Revenues	236	283	1,212	705	1,400	2,100	3,000	3,250	2,200
% of total turnover	6.5%	4.0%	9.8%	4.8%	8.4%	11.4%	14.4%	13.9%	8.7%
y-o-y change	-86.0%	20.1%	327.7%	-41.8%	98.4%	50.0%	42.9%	8.3%	-32.3%
Navigation									
Navigation Software	1,224	1,596	1,161	310	600	750	800	1,000	1,200
% of total navigation revenue	44.2%	25.9%	11.0%	2.3%	4.0%	4.6%	4.5%	5.0%	5.3%
y-o-y change	494.7%	30.4%	-27.2%	-73.3%	93.3%	25.0%	6.7%	25.0%	20.0%
Navigation Systems	1,542	4,570	9,386	13,408	14,500	15,400	16,875	18,900	21,600
% of total navigation revenue	55.8%	74.1%	89.0%	97.7%	96.0%	95.4%	95.5%	95.0%	94.7%
y-o-y change	194.4%	196.3%	105.4%	42.8%	8.1%	6.2%	9.6%	12.0%	14.3%
Total Navigation Revenues	2,766	6,166	10,548	13,718	15,100	16,150	17,675	19,900	22,800
% of total turnover	75.9%	87.2%	84.8%	92.8%	90.1%	87.5%	84.6%	85.2%	90.4%
y-o-y change	279.1%	122.9%	71.1%	30.1%	10.1%	7.0%	9.4%	12.6%	14.6%
Multimedia									
Lingual Technology	375	321	229	70	65	60	60	60	60
% of total multimedia revenue	58.4%	51.9%	34.1%	19.2%	25.7%	28.5%	28.4%	28.3%	28.2%
y-o-y change	-24.3%	-14.3%	-28.6%	-69.4%	-6.6%	-7.6%	0.0%	0.0%	0.0%
Education Titles	211	238	399	249	149	119	120	120	121
% of total multimedia revenue	32.9%	38.4%	59.4%	68.3%	58.5%	56.2%	56.2%	56.3%	56.4%
y-o-y change	15.8%	12.8%	67.8%	-37.6%	-40.1%	-20.1%	0.4%	0.4%	0.8%
Other Titles	56	60	43	45	40	32	33	33	33
% of total multimedia revenue	8.7%	9.7%	6.5%	12.4%	15.9%	15.3%	15.3%	15.4%	15.4%
y-o-y change	-65.4%	8.0%	-27.7%	4.4%	-10.7%	-19.8%	0.6%	0.6%	0.6%
Total Multimedia Revenues	641	619	671	364	255	212	213	213	214
% of total turnover	17.6%	8.8%	5.4%	2.5%	1.5%	1.1%	1.0%	0.9%	0.9%
y-o-y change	-23.5%	-3.4%	8.5%	-45.8%	-30.0%	-16.9%	0.3%	0.3%	0.6%
Total Turnover	3,643	7,068	12,431	14,788	16,755	18,462	20,888	23,363	25,214

Source: Company's Historic Data & VRS Projections.

Company Profile

MLS Multimedia SA was established in October 1995 in Thessalonica, Northern Greece. The Company operates in the broader multimedia market on both commercial and development basis. MLS's research and development team produces multimedia applications and solutions for the retail market as well as for third parties such as educational institutions, state-owned organizations and private corporations.

Over the past 10 years, the Company's strategic objectives have been to:

- Develop new multimedia applications used for a broad range of computer systems;
- Produce specialized language technology systems for targeted clientele groups;
- Develop a relatively lower number of multimedia products however with a greater content and higher capabilities;
- Give strong emphasis on technological advancements;
- Create a portfolio of products and services with high added value;
- Initiate export activities for certain product categories.

The Company's history is highlighted below:

MLS Corporate History	
1995	Production of the first electronic encyclopedia
1996	Initiation of major investments for the creation of multimedia titles
1998	The first electronic encyclopedia "TOMI" in the Greek market. Co-operation with the Greek Ministry of Education
1999	MLS awarded with the European Information Technology Grand Prize MLS files for listing on Athens Exchange (Greece)
2000	Participation in "NEW MEDIA SA", a company dealing with CD and DVD production
2001	MLS is listed on Athens Exchange (Greece)
2002	Launch of the first Greek language translator and the first voice recognition application
2003	First automatic navigation system for cars

2004	Continuous voice recognition application in co-operation with Phillips
2005	Launch of “MLS Destinator” (co-operation with Destinator and NGI)
2007	“MLS Talk & Drive” (voice recognition for navigation systems) “MLS Destinator” becomes a standardized navigation system in the Greek market. Co-operation with the country’s 3 major mobile telephony providers, Cosmote, Vodafone and Wind
2008	MLS Destinator is offered on the Company’s own branded hardware
2009	Introduction of navigation systems to mobile telephony
2010	Introduction of live traffic and other value added services to navigation systems Launch of the MLS Board

Source: The Company.

Portfolio of Products

The Company’s major product categories consist of navigating systems, language technology applications (such as translators, etc.), as well as other multimedia products in the areas of education, entertainment, automotive and office equipment.

The following table presents MLS’ major branded products:

TABLE 1

MLS Branded Product Portfolio

Source: The Company.

- Automatic Translator SYSTRAN
 - “MLS Talk & Write”
- Electronic Encyclopedia DOMI
- “MLS Destinator” (automatic navigation)
 - “MLS-ASUS”
- “MLS Destinator Live Traffic”

Distribution

Through its major offices located in Athens and Thessalonica, the Company has built a broad distribution network to promote its products across Greece. Points of sale currently exceed 1,500 consisting of some of the country's top retail networks such as mobile telephony networks (Cosmote), electrical and electronic appliances store-networks (Germanos, Dixxons, Media Markt, Plaisio, Multirama, Electro World, Electroniki, Expert, etc.), bookstores (Papasotiriou, Elefderoudakis), and hypermarkets (such as Carrefour).

Clientele Base

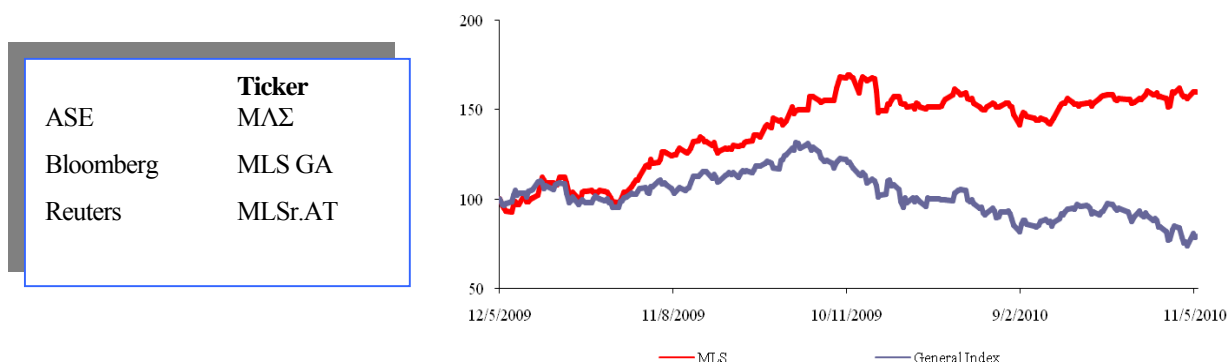
The Company's major product categories –navigation and multimedia– target individuals, professionals and corporations. With regard to the projects / services segment, the Company has clients from both the public and private sector of the Greek economy.

Shareholders' Structure

Shareholder	Equity Stake
Ioannis Kamatakis	66%
Free Float (with each investor holding less than 5%)	34%

Source: The Company

Share Price Performance vs. General Index (base=100)



	12 May 2010	2009	2010 E	2011 E	2012 E	2013 E	2014 E
Price (in €)	€2.24						
Shares	12,417,000						
Market Capitaliz. (in €)	27,814,080						
EPS (in €)		0.19	0.20	0.21	0.24	0.29	0.32
Book Value / Share (x)		1.2	1.3	1.5	1.6	1.8	2.1
EV (in € thous.)		23.74	24.26	23.56	21.67	18.31	14.35
P/E (a.t.& m.i.)		11.57x	11.23x	10.81x	9.30x	7.77x	7.05x
P/BV		1.92x	1.71x	1.54x	1.37x	1.22x	1.09x
EV/EBITDA		4.76x	4.43x	3.89x	3.13x	2.31x	1.68x
EV/Sales		1.61x	1.45x	1.28x	1.04x	0.78x	0.57x
Dividend / Share (in €)		-	0.06	0.06	0.07	0.09	0.10
Dividend Yield		-	2.5%	2.7%	3.1%	3.8%	4.2%

Source: VRS Estimates

Valuation (DCF Methodology)

We have applied the DCF methodology which is the most widely accepted approach for corporate valuation and provides a greater depth of understanding of the Company's dynamics. We note that the DCF method incorporates best the Company's growth prospects over the next 5 years.

By projecting the Company's operating profits, and then adjusting for taxes, depreciation, capital expenditures and working capital, we end up with the future free cash flows to the firm. Discounting those cash flows with the weighted average cost of capital (the interest rate that weighs both own capital and debt employed by a company), we end up with the Company's enterprise value, also known as EV that equals with equity value (or market capitalization) plus debt minus cash.

Applying the above assumptions and factors, the fair value (EV minus debt plus cash as of December 2010) for the Company settles at €32.78 million or € 2.64 per share.

The following important assumptions have been made in the DCF model:

- Infinity weighted average cost of capital at 10.7% (based on a 20% debt to equity ratio with cost of equity and cost of debt assumed at 13.2% and 6.5% respectively),
- Cost of equity is based on risk free rate of 5.0%, risk premium of 6.0% and beta of 1.2x.
- Infinity Sales Growth of 1.5%,
- Infinity EBIT Margin of 18%.

The recent economic crisis has affected important valuation factors, altering the final fair valuation compared to last year's estimates. These factors are:

- More conservative approach in financial projections.
- Increase in the cost of equity, due to higher risk free rate and market risk premium. We have calculated the cost of equity for every projected year and the infinity period separately, reflecting our expectation for these factors in the coming 5-years and the long term period.

The following table demonstrates our assumptions and calculations.

	2010 E	2011 E	2012 E	2013 E	2014 E	L-Term Assumptions
ASSUMPTIONS						
Growth Rate (Sales)	13.3%	10.2%	13.1%	11.9%	7.9%	1.5%
EBIT Margin	17.3%	16.6%	17.0%	18.1%	18.4%	18.0%
Tax Rate	10.0%	12.0%	12.0%	12.0%	12.0%	25.0%
Working Capital (% of sales)	8.6%	7.2%	7.0%	3.1%	2.3%	3.5%
Capex (% of sales)	20.5%	15.2%	10.3%	9.2%	8.5%	9.0%
Cost of Capital	15.4%	15.4%	14.4%	13.2%	13.2%	10.7%
Depreciation (% of sales)	15.4%	16.2%	16.2%	15.8%	15.5%	9.0%
CASH FLOW STATEMENT						
Turnover	16.8	18.5	20.9	23.4	25.2	25.6
EBIT	2.9	3.1	3.5	4.2	4.6	4.6
Less: Adjusted Tax	0.3	0.4	0.4	0.5	0.5	0.6
Adjusted Operating Profit	2.6	2.7	3.1	3.7	4.1	4.0
Plus: Depreciation	2.6	3.0	3.4	3.7	3.9	2.3
Operating Cash Flow	5.2	5.7	6.5	7.4	8.0	6.3
Less: Change in Working Capital	1.4	1.3	1.5	0.7	0.6	0.9
Less: Capex	3.4	2.8	2.2	2.2	2.2	2.3
Cash Flow to the Firm (FCFF)	0.3	1.6	2.9	4.6	5.3	3.1
Discount Factor	0.87	0.75	0.67	0.61	0.54	0.60
Present Value of Cash Flows	0.28	1.19	1.94	2.78	2.84	
Accumulated Present Value	0.28	1.47	3.41	6.19	9.02	
Residual Value						33.6
Present Value of Residual Value						20.2
WACC CALCULATION						
Risk Free Rate	7.0%	7.0%	6.0%	6.0%	6.0%	5.0%
Beta Factor	1.2	1.2	1.2	1.2	1.2	1.2
Market risk Premium	7.0%	7.0%	7.0%	6.0%	6.0%	6.0%
Cost of Equity	15.4%	15.4%	14.4%	13.2%	13.2%	13.2%
Debt / Debt + Equity	0.0%	0.0%	0.0%	0.0%	0.0%	20.0%
Cost of Debt	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Tax Rate	10.0%	12.0%	12.0%	12.0%	12.0%	25.0%
WACC	15.4%	15.4%	14.4%	13.2%	13.2%	10.7%
VALUATION						
Enterprise Value	29.23					
% Residual Value of Total	69.1%					
Less: Net Debt	-3.56					
Value of firm (EUR mn)	32.78					
Outstanding # of shares (000)	12,417					
Value of share (EUR)	2.64					

Source: VRS Estimates

The fair value implies a P/E ratio of 13.23x for the financial year 2010 and 12.75x for 2011 based on the above projections.

The model's assumptions presume also the following conditions:

- The Company will undertake the public projects incorporated into our financial forecasts;
- Sustained demand for navigators with MLS maintaining its leading position;
- Continuous investments in new systems and / or updating of existing multimedia products;
- Ability to finance the long-term investment program.

Sensitivity Analysis

Our valuation incorporates a sensitivity analysis based on the discounted free cash flow method employing a discount rate in the range of 8.7% - 12.7% and a growth rate between 0.5% - 2.5%.

		WACC				
		8.7%	9.7%	10.7%	11.7%	12.7%
GROWTH	0.50%	2.82	2.70	2.47	2.28	2.12
	1.00%	3.13	2.80	2.55	2.34	2.18
	1.50%	3.29	2.92	2.64	2.42	2.24
	2.00%	3.47	3.06	2.74	2.50	2.30
	2.50%	3.68	3.21	2.86	2.58	2.37

Source: VRS Estimates.

Financial Analysis

Profit & Loss Analysis

Turnover Analysis

For the last 5 years the Company's financials have performed exceptionally well, posting an average annual sales and net profit growth of 46% of 55% outpacing ours and market's estimates. This growth is mostly attributed to the rapid expansion of navigation systems, where MLS is the market leader. In the coming years, we believe that growth will sustain, but on a slower pace compared to past performance.

For the period 2010 - 2014, Group's turnover is expected to increase by approximately 11.26% on average annually, mostly attributed to the sales of navigation systems, receiving at the same time important revenues from large public projects.

1. **Navigation.** This division accounts for the majority of Company's turnover (92.8% for the fiscal 2009) presenting at the same time the highest growth rate. In the coming 5 years, revenues from navigation system are expected to grow on an average annual rate of 10.7% (14% in volume basis) reaching €22.8 million by the end of the fiscal 2014. This growth is based on the following assumptions:
 - a) The Greek market will reach 230,000 pieces by the end of the fiscal 2010, and will continue growing with an average annual rate of about 5% until the fiscal 2014. With regard to navigation set sales, the market value is estimated to remain close to € 25 million, but value added services will gradually enhance the overall navigation market value.
 - b) MLS will remain the leader in the market of navigation sets holding about 45% market share in volume. In addition, the Company will absorb the majority of the value added services, reaching its value market share at about 56%.
 - c) The Company will receive an increasing revenue from the sale of its software to mobile sets.
 - d) Selling prices will remain close to an average of €135 per set.
2. **Public projects.** MLS is expected to bid for educational technology related state projects of at least € 15-20 million. For the period 2010-2014, we have projected that the Company will undertake projects of €11 million from the Ministry of Education from a total projected project outflow of €80 million.
3. **Multimedia.** We have been very conservative with regard to multimedia

sales due to the fact that the Greek market is not very familiar with such products, a fact that is not expected to change significantly in the next 3-5 years. As a result, we have projected revenues of about 210-215,000 in the next 5 years.

Cost of Sales Analysis

Gross profit margin is expected to range at the region of 53 – 53.7% during the period 2010-2014. The improvement is mostly attributed to the increasing stake of value added services through navigation software. With regard to the analysis of the cost of sales, our projections include the following assumptions:

- Inventories recognized as expense will increase in line with total navigation and multimedia volume sales;
- Payments to 3rd parties will gradually increase to € 0.89 mn from € 0.63 mn during the year 2009, as the Company assigns part of the large projects to outsourcers;
- A part of Company's expenses represent investment in software products recorded at completion as intangible asset and transferred to the relative account in assets.

Historic & Projected Cost of Sales Breakdown

(in € ,000)	2008	2009	2010 E	2011 E	2012 E	2013 E	2014 E
Inventories recognized as expense	6,639	6,378	7,185	7,873	8,884	9,916	10,728
y-o-y change	130.7%	-3.9%	12.7%	9.6%	12.8%	11.6%	8.2%
Personnel payments and expenses	61.5	87.9	96.7	105.4	113.8	122.9	129.0
y-o-y change	52.4%	42.9%	10.0%	9.0%	8.0%	8.0%	5.0%
Payments & other exp. to 3rd parties	527.6	629	691	747	792	839	889
y-o-y change	10.3%	19.2%	10.0%	8.0%	6.0%	6.0%	6.0%
Other expenses & services	75	275	283	292	300	309	319
y-o-y change	117.5%	265.1%	3.0%	3.0%	3.0%	3.0%	3.0%
MLS Production Expenses	-560	-461	-412	-392	-387	-387	-387
y-o-y change	40.5%	-17.7%	-10.5%	-4.9%	-1.3%	0.0%	0.0%
Total Cost of Sales	6,743	6,908	7,844	8,625	9,703	10,800	11,678
% of turnover	54.24%	46.72%	46.82%	46.72%	46.45%	46.23%	46.31%
y-o-y change	122.4%	2.5%	13.5%	10.0%	12.5%	11.3%	8.1%

Source: Company Data & VRS Projections

EBITDA Analysis

EBITDA margin accounted for approximately 33.7% during the fiscal 2009, unchanged compared to fiscal 2008 figures. In the coming years, the EBITDA margin is expected to fluctuate close to the fiscal 2009 levels and will be affected by the following factors:

1. Gross margin is estimated to increase by 0.4% compared to the fiscal 2009 levels;
2. While for the next 5 years, turnover will grow on an average annual rate of 11.3%, administrative expenses will increase by 13.4%, distribution expenses (the majority of Op.ex.) by 9% and R&D expenses by 15%. The total operating expenses will grow on an average annual rate of 11.2%, remaining almost unchanged as a percent of turnover.
3. Once more, part of Company's expenses represent investment in software products recorded at completion as intangible asset and transferred to the relative account in assets.

Historic & Projected Administrative Expenses Breakdown

(in € ,000)	2008	2009	2010 E	2011 E	2012 E	2013 E	2014 E
Personnel payments and expenses	123.0	175.7	186.3	197.5	211.3	226.1	241.9
y-o-y change	-20.9%	42.9%	6.0%	6.0%	7.0%	7.0%	7.0%
Payments & other exp. to 3rd parties	352.0	415.5	440.4	462.4	490.2	519.6	550.8
y-o-y change	12.8%	18.0%	6.0%	5.0%	6.0%	6.0%	6.0%
Exceptional Non-Operating Expen.	62.3	7.0	50.0	50.0	50.0	50.0	50.0
y-o-y change	-63.8%						
Other expenses	127	116	119	123	126	130	134
y-o-y change	-13.6%	-9.1%	3.0%	3.0%	3.0%	3.0%	3.0%
MLS Production Expenses	-373	-307	-275	-252	-215	-215	-215
y-o-y change	-6.3%	-17.7%	-10.5%	-8.3%	-14.7%	0.0%	0.0%
Administrative Expenses	291	407	521	581	663	711	762
% of turnover	2.34%	2.75%	3.11%	3.14%	3.17%	3.04%	3.02%
y-o-y change	-25.0%	39.7%	28.1%	11.4%	14.2%	7.2%	7.2%

Source: Company Data & VRS Projections.

Historic & Projected Distribution Expenses Breakdown

(in € ,000)	2008	2009	2010 E	2011 E	2012 E	2013 E	2014 E
Personnel payments and expenses	128.3	241.5	270.5	302.9	345.3	393.7	448.8
y-o-y change	6.1%	88.2%	12.0%	12.0%	14.0%	14.0%	14.0%
Payments & other exp. to 3rd parties	176.5	202.4	232.7	256.0	276.5	293.1	310.7
y-o-y change	-70.9%	14.7%	15.0%	10.0%	8.0%	6.0%	6.0%
Doubtfully debt provisions	10.0	0.0	0.0	0.0	0.0	0.0	0.0
y-o-y change							
Other expenses	463	1,438	1,582	1,692	1,828	1,965	2,102
y-o-y change	310.6%	210.3%	10.0%	7.0%	8.0%	7.5%	7.0%
MLS Production Expenses	-70	-58	-69	-56	-54	-54	-54
y-o-y change	-88.3%	-17.7%	19.3%	-18.5%	-4.0%	0.0%	0.0%
Selling, distribution expenses	708	1,824	2,016	2,195	2,396	2,598	2,808
% of turnover	5.70%	12.33%	12.03%	11.89%	11.47%	11.12%	11.14%
y-o-y change	192.4%	157.6%	10.5%	8.9%	9.1%	8.4%	8.1%

Source: Company Data & VRS Projections.

Historic & Projected R&D Breakdown

(in € ,000)	2008	2009	2010 E	2011 E	2012 E	2013 E	2014 E
Personnel payments and expenses	161.3	302.0	373.6	384.8	392.5	400.3	408.4
y-o-y change	12.1%	87.2%	23.7%	3.0%	2.0%	2.0%	2.0%
Payments & other exp. to 3rd parties	624.0	1,206.3	1,432.2	1,468.0	1,512	1,588	1,667
y-o-y change	12.9%	93.3%	18.7%	2.5%	3.0%	5.0%	5.0%
Other expenses	139.9	393.7	32.3	32.6	33.0	33.3	33.6
y-o-y change	71.0%	181.4%	-91.8%	1.0%	1.0%	1.0%	1.0%
MLS Production Expenses	-598	-1,330	-1,095	-928	-868	-753	-710
y-o-y change	2.5%	122.5%	-17.7%	-15.3%	-6.4%	-13.3%	-5.7%
y-o-y growth	327	572	743	958	1,069	1,269	1,399
% of turnover	4.63%	4.60%	5.03%	5.72%	5.79%	6.07%	5.99%
y-o-y change	67.8%	74.6%	30.1%	28.8%	11.7%	18.6%	10.3%

Source: Company Data & VRS Projections.

Key Elements of Balance Sheet

CAPEX: The majority of investments refer to intangible assets in the form of product (software) development and account for employee and related expenses. For the period 2010-2014, MLS is expected to invest about € 10 mn for intangible assets (€2 mn per year) part of which is expected to be subsidized by the Greek State and the remaining from own capital. Investments will focus on:

- a) Navigation software for all mobile sets,
- b) Introduction of new languages for the MLS Destinator Talk & Drive, in order to gradually expand operations internationally,
- c) Educational multimedia software and interactive board.

In addition, the Company is currently under a €2.65 mn investment program that includes the purchase of land and the rise of its new offices in Technopolis Thessalonica. This investment is subsidized by the Greek State.

Working Capital: With regard to current assets, inventory turnover ratio is calculated at 150 days (on average basis) during the period 2010-2014, from 132 at the end of the fiscal 2009.

Debtor turnover ratio is expected to account for approximately 90 days during the period 2010-2014 from 60 days (on average basis) during 2009 and 82 days in 2008.

We have also estimated that creditor turnover ratio will decline to 150 days during the period 2010-2014 from 198 in 2009 and 175 days in fiscal 2008.

Bank Debt: The Company has no long term debt. The positive cash flows allow for financing all planned investments.

Dividend Policy: We assume that MLS will be distributing approximately 30% of its net income every year for dividends. It can however make this policy more generous in future.

Historic & Projected Balance Sheet Ratios

	2007	2008	2009 E	2010 E	2011 E	2012 E	2013 E	2014 E
Stock Days	601	238	132	140	150	150	150	150
Debtors Days	111	82	60	70	80	90	90	90
Creditors Days	285	172	198	170	160	150	150	150
Total Debt/ Total Equity	0.26	0.37	0.41	0.36	0.32	0.29	0.28	0.26
Bank Loans/ Total Equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current Ratio	3.08	2.24	1.86	2.05	2.39	2.93	3.46	4.04
Quick Ratio - Acid Ratio	1.51	1.36	1.44	1.53	1.78	2.26	2.76	3.32

Source: Company Data & VRS Projections

Historic & Projected P&L Ratios

	2007	2008	2009 E	2010 E	2011 E	2012 E	2013 E	2014 E
Profit Margins								
Gross Margin	57.10%	45.76%	53.28%	53.18%	53.28%	53.55%	53.77%	53.69%
EBITDA Margin	43.61%	33.68%	33.69%	32.71%	32.81%	33.14%	33.90%	33.87%
EBIT Margin	19.71%	17.80%	18.46%	17.33%	16.64%	16.99%	18.06%	18.37%
Pre-tax profit margin	17.76%	15.34%	17.14%	16.43%	15.83%	16.27%	17.42%	17.78%
Net Profit margin	12.78%	14.64%	16.25%	14.79%	13.93%	14.32%	15.33%	15.64%
Cost Absorption & Sources								
Cost of sales on sales	42.90%	54.24%	46.72%	46.82%	46.72%	46.45%	46.23%	46.31%
Administrative cost on sales	5.49%	2.34%	2.75%	3.11%	3.14%	3.17%	3.04%	3.02%
Distribution cost on sales	3.43%	5.70%	12.33%	12.03%	11.89%	11.47%	11.12%	11.14%
R&D Expenses on Sales	4.63%	4.60%	5.03%	5.72%	5.79%	6.07%	5.99%	5.91%

Source: Company Data & VRS Projections

HISTORIC & PROJECTED PROFIT & LOSS ACCOUNT

(in ,000 €)	2007	2008	2009 E	2010 E	2011 E	2012 E	2013 E	2014 E
Turnover	7,068	12,431	14,788	16,755	18,462	20,888	23,363	25,214
y-o-y Change %	94.0%	75.9%	19.0%	13.3%	10.2%	13.1%	11.9%	7.9%
Cost of Sales	3,032	6,743	6,908	7,844	8,625	9,703	10,800	11,678
% of Turnover	42.9%	54.2%	46.7%	46.8%	46.7%	46.5%	46.2%	46.3%
y-o-y Change %	94.5%	122.4%	2.5%	13.5%	10.0%	12.5%	11.3%	8.1%
Total Gross Operating Results	4,036	5,688	7,880	8,911	9,837	11,185	12,563	13,537
Gross Operating Margin	57.1%	45.8%	53.3%	53.2%	53.3%	53.5%	53.8%	53.7%
y-o-y Change %	93.6%	41.0%	38.5%	13.1%	10.4%	13.7%	12.3%	7.7%
Other operating income	4	69	77	65	65	65	65	65
Operating Expenses	958	1,571	2,974	3,495	3,845	4,327	4,708	5,061
% of Turnover	13.6%	12.6%	20.1%	20.9%	20.8%	20.7%	20.2%	20.1%
y-o-y Change %	31.1%	64.0%	89.3%	17.5%	10.0%	12.5%	8.8%	7.5%
EBITDA	3,082	4,186	4,983	5,481	6,057	6,923	7,921	8,541
EBITDA Margin	43.6%	33.7%	33.7%	32.7%	32.8%	33.1%	33.9%	33.9%
y-o-y Change %	116.0%	35.8%	19.0%	10.0%	10.5%	14.3%	14.4%	7.8%
Depreciation	1,689	1,974	2,253	2,578	2,984	3,375	3,700	3,908
% of Turnover	23.9%	15.9%	15.2%	15.4%	16.2%	16.2%	15.8%	15.5%
EBIT	1,393	2,212	2,729	2,903	3,073	3,548	4,220	4,633
% of Turnover	19.7%	17.8%	18.5%	17.3%	16.6%	17.0%	18.1%	18.4%
y-o-y Change %	n/c	58.8%	23.4%	6.4%	5.8%	15.5%	18.9%	9.8%
Net Financial Results	-138	-306	-195	-150	-150	-150	-150	-150
Net Results Before Taxes	1,255	1,907	2,535	2,753	2,923	3,398	4,070	4,483
EBT Margin	17.8%	15.3%	17.1%	16.4%	15.8%	16.3%	17.4%	17.8%
y-o-y Change %	n/c	51.9%	32.9%	8.6%	6.2%	16.3%	19.8%	10.1%
Income Tax	352	87	131	275	351	408	488	538
Effective Tax Rate	28.0%	4.5%	5.2%	10.0%	12.0%	12.0%	12.0%	12.0%
Net Results (a.t.&m.i.)	904	1,820	2,403	2,478	2,572	2,990	3,582	3,945
Net Margin	12.8%	14.6%	16.3%	14.8%	13.9%	14.3%	15.3%	15.6%
y-o-y Change %	n/c	101.4%	32.0%	3.1%	3.8%	16.3%	19.8%	10.1%

Source: Company Data & VRS Estimates

HISTORIC & PROJECTED BALANCE SHEET

	2007	2008	2009 E	2010 E	2011 E	2012 E	2013 E	2014 E
Assets								
Total Intangible Assets	14,034	17,346	21,472	23,472	25,472	27,472	29,472	31,472
Accumulated depreciation	9,007	10,843	13,010	15,369	18,061	21,105	24,522	28,178
Total Net Intangible Assets	5,026	6,503	8,462	8,102	7,411	6,366	4,950	3,293
Tangible Assets	1,838	2,183	2,342	3,777	4,577	4,727	4,877	5,027
Accumulated depreciation	1,402	1,541	1,627	1,845	2,137	2,468	2,751	3,003
Total Net Tangible Assets	436	643	715	1,932	2,440	2,260	2,126	2,024
Financial & Other L-Term Assets	127	135	157	154	151	148	145	142
Total Fixed Assets	5,589	7,281	9,334	10,189	10,002	8,774	7,221	5,460
% Total Assets	36.29%	39.31%	45.54%	46.16%	41.80%	33.54%	24.83%	16.99%
Inventories	4,994	4,403	2,495	3,009	3,544	3,987	4,438	4,799
Debtors	2,158	2,788	2,441	3,213	4,046	5,150	5,761	6,217
Other Receivables	1,469	1,854	2,150	2,107	2,085	2,106	2,148	2,191
Cash in bank and at hand	1,189	2,196	4,075	3,557	4,252	6,142	9,508	13,460
Total Current Assets	9,810	11,240	11,161	11,886	13,929	17,386	21,856	26,668
% Total Assets	63.71%	60.69%	54.46%	53.84%	58.20%	66.46%	75.17%	83.01%
Total Assets	15,399	18,521	20,495	22,074	23,930	26,160	29,077	32,127
Equity & Liabilities								
Share capital	3,725	3,725	4,594	4,594	4,594	4,594	4,594	4,594
Share premium account	2,941	2,941	1,451	1,451	1,451	1,451	1,451	1,451
Reserves & Profit Carried Forward	5,542	6,841	8,448	10,231	12,062	14,187	16,717	19,486
Minority Rights	0	0	0	0	0	0	0	0
Total Capital & Reserves	12,209	13,507	14,494	16,276	18,107	20,232	22,763	25,532
% Total Equity & Liabilities	79.29%	72.93%	70.72%	73.73%	75.67%	77.34%	78.28%	79.47%
L-Term Bank Loans	0	0	0	0	0	0	0	0
Provisions for Staff Retirement	18	83	186	187	188	189	190	191
Deferred Tax Liabilities	0	0	0	0	0	0	0	0
Total L-Term Liabilities	18	83	186	187	188	189	190	191
Suppliers	2,364	3,183	3,739	3,653	3,781	3,987	4,438	4,799
Banks	0	0	0	0	0	0	0	0
Taxes-duties	74	138	176	248	316	367	440	484
Sundry debtors	734	1,610	1,899	1,709	1,538	1,385	1,246	1,122
Total Current Liabilities	3,171	4,931	5,814	5,611	5,635	5,739	6,124	6,405
Total Liabilities	3,190	5,014	6,001	5,798	5,823	5,928	6,314	6,596
% Total Equity & Liabilities	20.71%	27.07%	29.28%	26.27%	24.33%	22.66%	21.72%	20.53%
Total Equity & Liabilities	15,399	18,521	20,495	22,074	23,930	26,160	29,077	32,127

Source: Company Data & VRS Estimates

HISTORIC & PROJECTED CASH FLOW

(in € ,000)	2008	2009 E	2010 E	2011 E	2012 E	2013 E	2014 E
Profit after tax	1,820	2,403	2,478	2,572	2,990	3,582	3,945
Plus: Change of Depreciation	1,974	2,253	2,578	2,984	3,375	3,700	3,908
Gross Cash Flow	3,794	4,656	5,055	5,556	6,365	7,282	7,853
<i>Change in:</i>							
(-) Trade Debtors	630	-347	772	833	1,104	610	456
(-) Inventory	-592	-1,907	513	536	443	451	361
(-) Other Receivables	385	295	-43	-21	21	42	43
(+) Trade Creditors	820	556	-86	127	207	451	361
(+) Liabilities for taxes	64	38	72	68	51	73	45
(+) Other Short - term liabilities	876	289	-190	-171	-154	-138	-125
Change in Working Capital	1,337	2,842	-1,446	-1,324	-1,464	-718	-580
Operating Cash Flow	5,131	7,498	3,609	4,232	4,901	6,564	7,273
<i>Change in:</i>							
(-) Intangible Assets	3,312	4,126	2,000	2,000	2,000	2,000	2,000
(-) Tangible Assets	345	159	1,435	800	150	150	150
(-) Other long - term receivables	9	22	-3	-3	-3	-3	-3
(+) Other Long - term liabilities	64	104	1	1	1	1	1
(+) Cons. diff./ Minority Interests	0	0	0	0	0	0	0
Cash Flow from Investment	-3,602	-4,203	-3,431	-2,796	-2,146	-2,146	-2,146
Net Cash Flow Before Financing Activities	1,529	3,295	178	1,436	2,755	4,418	5,127
Increase in Share Capital	0	869	0	0	0	0	0
Increase in Share Premium Account	0	-1,490	0	0	0	0	0
Net Change in Reserves	99	-151	0	4	4	4	4
Change in Long - Term Debt	0	0	0	0	0	0	0
Change in Short - Term Debt	0	0	0	0	0	0	0
Dividends	621	645	695	745	869	1,055	1,180
Minority Interests on Profit	0	0	0	0	0	0	0
Net Cash Flow from Financing	-522	-1,417	-695	-741	-865	-1,051	-1,176
Cash at Beginning	1,189	2,196	4,075	3,557	4,252	6,142	9,508
Change in Cash and Marketable Securities	1,007	1,879	-518	695	1,890	3,366	3,952
Cash at End	2,196	4,075	3,557	4,252	6,142	9,508	13,460

Source: Company Data & VRS Estimates

Estimates' Revision

We have altered our projections in our valuation model given the recent economic crisis compared to last year's estimates that were also based on the Company's guidance.

More specifically with regard to the Company's turnover:

- We have increased revenues from projects as the Greek State is willing to spend more than 80 million during the next 3-5 years for multimedia educations, fields that MLS is well positioned.
- We have reduced revenues from Navigation systems, following a more conservative approach in front of the Greek economic crisis, selling price reductions and lower demand.
- The same occurs for the sales of multimedia products.

In € ,000	2010 E			2011 E			2012 E		
	old	new	% chg	old	new	% chg	old	new	% chg
Project Revenues	630	705	12.0%	661	1,400	112.0%	677	2,100	210.4%
Navigation Revenues	15,209	13,718	-9.8%	21,454	15,100	-29.6%	24,199	16,150	-33.3%
Multimedia Revenues	888	364	-59.0%	1,894	255	-86.5%	2,228	212	-90.5%

We have altered our profit & loss projections, following a more conservative approach with regard to profit margins and expenses, assuming that 2010 and 2011 will be tough years for all companies in Greece.

In € thous.	2010 E			2011 E			2012 E		
	Old	new	% chg	old	new	% chg	old	new	% chg
Turnover	16,727	14,788	-11.6%	20,432	16,755	-18.0%	24,008	18,462	-23.1%
Cost of Sales	9,068	6,908	-23.8%	11,050	7,844	-29.0%	12,974	8,625	-33.5%
OPEX	2,156	2,974	37.9%	2,717	3,495	28.6%	3,212	3,845	19.7%
EBITDA	5,511	4,983	-9.6%	6,673	5,481	-17.9%	7,830	6,057	-22.7%
Net Results	2,495	2,403	-3.7%	3,188	2,478	-22.3%	3,795	2,572	-32.2%

Source: Company Guidance & VRS Projections.

	Investment Risks / Concerns	Mitigating Factors / Important Notes
1	Revenues are characterized by high seasonality mainly in periods of Christmas and Easter. This trend may create volatility in the Company's cash flows.	Over the past years, MLS has not witnessed any significant effect on cash flow due to seasonality. Furthermore the Company is debt free.
2	The Company's high investments in R&D might not necessarily translate into new commercially successful products.	The Company's track record demonstrates a satisfactory 'return on investment' rate in the majority of projects that have been carried out from an R&D stage.
3	Greece is characterized by a slow penetration rate in terms of home PC users. This trend affects the sales of multimedia titles negatively.	The introduction of multimedia titles in the country's educational system is expected to dramatically alter the current trend.
4	The Greek public sector is suffering from inefficiencies in expediting tenders for the introduction of multimedia titles in the country's educational system.	Greece must absorb the 3 rd part of the EU Cohesion Funds by the end of 2013.
5	The limited international activities so far imply larger if not exclusive dependence on the domestic market place.	The Management is currently targeting Central Europe and the Balkans and has already entered Cyprus. The plan should translate into a greater contribution of international revenues to the total.
6	The Company is increasingly dependent on revenues from its navigation systems offered in the domestic market place.	Existing plans for more aggressive entrance in the mobile telephony market and geographic diversification are expected to alleviate this concern.
7	As it has occurred in several international markets, prices of navigation systems should continue dropping in line with strong competition, greater supply and product range enlargement.	Innovations made by the Company's R&D team and more aggressive branding –possibly via international partnerships– would decelerate such price trend.

Source: Valuation & Research Specialists, Company's Guidance

Notes

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VRS Cautions on Forward-Looking Statements

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VRS Makes a Statement about Real Estate Market Risk

The real estate market is to a large extent cyclical and faces risks at a number of levels. Among others, the following factors tend to affect the demand and the ability of tenants to pay rent:

- Macroeconomic environment
- Level of supply
- Interest rates

Furthermore, the following factors are mainly, but not exclusively, accountable for the course of property values:

- Macroeconomic environment
- Corporate Earnings
- Interest rates
- Financing mechanisms offered
- Returns on other types of assets
- Legal and tax legislation

Please contact “**VALUATION & RESEARCH SPECIALISTS**” for further information on Equity Research Related Fees.

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Covered Company	Reuters	Price Close	Date of Price Close	Disclosure
MLS	MLSr.AT	€ 2.24	12 May 2010	2, 4, 6

1. VRS has acted as financial consultant for the covered company within the past 24 months.
2. VRS has sent the research report to the covered company, prior to publication or dissemination, for factual verification.
3. VRS has changed the contents of the initially sent report, with respect to: no change has been made.
4. VRS has received compensation from the covered company for the preparation of this research report.
5. VRS produces research reports for this company on systematic basis.
6. VRS produces research reports for this company on demand basis.
7. VRS has produced a research report for this company within the past 12 months.

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