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Greek Equities - October 1st 2004

Neochimiki Lavrentiadis

Reuters: NChr.AT Sector :Chemicals

FLASH ALERT

1st HALF 2004 RESULTS

Company Description:

Neochimiki Group belongs to the chemical product-distributing sector. In 1999, it extended its activities to the chemical product-manufacturing sector. The largest share of Group's turnover relates to detergent sector (distribution of raw materials and production of cleaning and polishing products).

Neochimiki has a dominant position in the Greek chemical industry with a 30-year proven expertise, serving over than 2,000 clients with more than 150 different categories of chemicals.

	2003 A	2004 E	2005 E
(in mil. €)			
Turnover	55.84	80.29	99.28
EBITDA	11.21	15.29	17.75
Margin %	20.07%	19.05%	17.88%
Net Income	5.43	6.96	7.86
Margin %	9.73%	8.67%	7.92%

Price (30/09/2004)	€3.70
Shares (outstanding)	36,000,000
MktCap (in mn €)	133.2

Beta	0.80		
Dividend '03	€0.06		
Div. Yield	1.52%		
P/E	24.12x	18.83x	16.66x
P/BV	4.83x	3.48x	3.10x
Debt/Eq.	1.68x	1.44x	1.28x
ROE (avg)	25.14%	20.67%	19.03%

Source: Neochimiki & VRS Projections

Key Points

- As presented in Neochimiki Group consolidated 1H 2004 financial statements, **turnover accounted for €36.42 mn showing an increase of 36% y-o-y** from €26.78 mn a year ago. Consolidated EBT after minority interests reached €3.96 mn from €3.02 mn in 1H 2003, increased by 30.99% y-o-y. **Bottom line results were slightly above our expectations.**
- The majority of Group turnover growth, derives from:
 - the increase of detergent production sales for major multinational groups and private label,
 - the increase of export activity
 - the greater market share penetration in the distribution of chemical raw materials on behalf of well-known chemical group companies.
- The Group improved operating margins, leading to EBITDA margin of 21.1%, from 19.4% in 1H 2003.
- We do not change our sales projections for fiscal 2004 expecting turnover to reach €80.3 mn (+43.8% y-o-y). We lower our projection for gross margin on all business segments and reduce total expenses as a percent of total turnover. We expect EBITDA margin to account for 19.05% (€15.29 mn), and net income margin for 8.67% (€6.96 mn). We expect that 2nd half will be stronger due to further production capacity utilisation.

Neochimiki Group 1 H 2004 Results

(in ,000 €)	June-03	June-04	Change (%)
Turnover	26,775	36,416	36.01%
EBITDA	5,190	7,684	48.06%
Margin %	19.38%	21.10%	
EBT (a.m.)	3,023	3,960	30.99%
Margin %	11.29%	10.87%	

Source: Published Financial Results

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

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Comments on 1st Half 2004 Results

According to published consolidated financial statements for 1st Half '04, Neochimiki Group has succeeded to maintain strong results (36% turnover growth). Even though turnover growth was in line to our estimates, EBITDA and EBT margins appeared better than we expected. We believe that the Group seems to be performing strongly in most business segments and we remain positive that full year results will land close to our projections.

Turnover Growth Analysis

As presented in Neochimiki Group consolidated 1H 2004 financial statements, turnover amounted to €36.42 mn showing an increase of 36% y-o-y from €26.78 mn a year ago. The majority of Group's turnover growth derived from:

1. **The increase of detergent production sales** for major multinational groups and private labels. Turnover from production activities increased by 55.1% implying that the Group has so far succeeded in capturing through its production an increasing stake from imported detergents. We point that the (wholesale) detergent market that Neochimiki targets, is estimated at €310 mil., with imports currently representing about 97% of total (the domestic production accounted for approximately €10 mil. in 2003). **Neochimiki was the first company that entered the production of detergents for multinationals and private labels**, after the multinational corporations' termination of production activities in Greece and **currently holds about 95% of total domestic production.**

Opportunities arise from:

- the low penetration of domestic production (3%) compared to the total (wholesale) detergent market, and
- the multinational corporations' strategic decision to order the production of some detergents to third parties, in order to avoid the cost of importing that is affected by increased transportation expenses.

Neochimiki's competitive advantages consist of:

- a) its efficient plant (one of the largest factories of detergents in the Balkan area with excellent quality standards, combining low operating and manufacturing costs with high product designing and production capacity). We point that the plant is currently operating on a 30% capacity, assuming the potential to triple the production.
- b) the low prices as a result of economies of scale

broader portfolio of products > higher production volume > economies of scale > lower production cost > attractive pricing policy

- c) its excellent know-how in the detergent and house cleaning sector
- d) final products that meet the relevant standards

Today, Neochimiki produces detergent products for multinational corps in Greece such as Henkel, Unilever, Johnson Diversey and Sara Lee. In addition, the Group produces detergent final products on behalf of Super Market chains such as Carrefour, Dia and A-B Vasilopoulos.

2. The **increase of exports**, including packaging and distributing of imported and own production chemical raw materials and detergents for industries (including among other detergent, plastics, paint & lacquer) in the Balkans, representing approximately 14% of total Group turnover. It is reminded that the Group has already set up a 99.84% subsidiary in Romania, while in January 2004 it established a 100% subsidiary in Serbia, and in July 2004 a 100% subsidiary in Cyprus.
3. The **greater market share penetration** in the distribution of chemical raw materials on behalf of well-known chemical group companies. The 49% y-o-y increase of raw material sales for detergent companies is attributed to the increase of Group's production capacity after the initialization of the new plant. Sales of raw materials for paint and lacquers, increased by 64% y-o-y, positively affected by the new agreement with Shell, for the distribution of lacquers. The strong growth of polymer raw material sales (+38.3%), is attributed to the higher demand and the increase of exports. In addition, the Company entered the fields of industrial oils (mostly for the use in rubber industry), adding for the first time €3.2 mn to the total turnover.

1st Half 2004 Group Turnover Breakdown

	1-H '03	1-H '04	Ch. %
Production of			
Detergents for Multinational Corps	4,704	7,296	55.10%
% of Total	17.57%	20.04%	
Detergents for Private Labels	2,150	2,730	26.98%
% of Total	8.03%	7.50%	
Raw Materials for Detergent Industries	2,450	3,650	48.98%
% of Total	9.15%	10.02%	
Wholesale of Raw Materials for			
Paint & Lacquers	2,410	3,960	64.32%
% of Total	9.00%	10.87%	
Food Industry	2,050	2,050	0.00%
% of Total	7.66%	5.63%	
Textile Industry	2,250	1,410	-37.33%
% of Total	8.40%	3.87%	
Cosmetics & Detergents Industry	2,200	2,280	3.64%
% of Total	8.22%	6.26%	
Polymers	3,160	4,370	38.29%
% of Total	11.80%	12.00%	
Fertilisers	1,800	1,820	1.11%
% of Total	6.72%	5.00%	
Industrial Oils	0	3,200	
% of Total	0.00%	8.79%	
Production & Distribution for			
Water Processing & Biological Sewage	2,100	2,100	0.00%
% of Total	7.84%	5.77%	
Raw Materials for Metal Industries	1,500	1,550	3.33%
% of Total	5.60%	4.26%	
TOTAL TURNOVER	26,774	36,416	36.01%

Source: Company Data

EBITDA & EBT (a.m.) Margin Analysis

During the first half of 2004, **EBITDA margin improved** significantly reaching 21.1% from 19.4% during the first half of 2003. This improvement is attributed mostly to the increase of production activities as a percent of total turnover. The business segment of production activities operates on approximately 48.5% gross profit margin.

Even though total expenses increased by 72% y-o-y during the first half of 2004, they improved significantly compared to the full year results, representing 13% of total turnover, compared to 14% of total for the full year 2003. The improvement compared to the full year results is attributed to the higher utilisation of the recently completed investments on production units.

The high investments on production plants, **boosted depreciation expenses** that increased by 85% y-o-y, representing 6% of total turnover, from 4% a year ago. As a result, **EBIT margin remained unchanged to 15%, despite the strong improvement of EBITDA**. In addition, EBT (a.m.) margin slightly reduced to 10.9% from 11.3% affected by the increase of financial expenses following the increase of debt.

Key Elements of Balance Sheet

The Company was listed on the Athens Stock Exchange in May 2003. The majority of capital raised was utilized for fixed assets, either through acquisition or construction. Net tangible assets, increased by 76% y-o-y, and 24% during the first 6 months of 2004, to €63.06 mn. The Group is under a €10 mil investment plan regarding the construction of a new warehouse (storage area of 15,000 m³) on its property in Thessaloniki.

With regard to **current assets** for the Group during the first 6-months of 2004, **inventories** appear significantly higher (+94% y-o-y) compared to the same period of the previous year, affected by early orders. **Debtor's turnover ratio** remains at approximately 120 days, while **creditor's turnover ratio** ranges at approximately 80-85 days. These levels are expected to remain unchanged in the full year results.

Group **long term liabilities** increased to €41 mn during the 1st half 2004, compared to €33 mn at the end of fiscal 2003, and account for a **corporate bond**. Short-term bank loans remained to €20 mn, settling '*bank debt / equity*' ratio to 1.6x. This ratio is high; it is justified however by Groups decision to follow a low supplier's turnover ratio, benefiting from discounts that in most cases exceed bank interest rates. In addition, the Group is under a strong investment strategy in order to strengthen its position in the Greek market, increase its market share in most business segments and expands abroad.

Group 1st Half 2004 Results

Balance Sheet				
	1H 2003	% of Total	1H 2004	% of Total
Net Formation Expenses	1,215	1.64%	2,294	2.01%
Net Tangible Assets	35,812	48.38%	63,103	55.28%
Financial Assets	52	0.07%	82	0.07%
Current Assets	34,822	47.04%	45,479	39.84%
Cash and Securities	1,974	2.67%	2,873	2.52%
Prepayments & Accrued Income	147	0.20%	326	0.29%
TOTAL ASSETS	74,023		114,157	
TOTAL CAPITAL & RESERVES	27,956	37.77%	38,710	33.91%
Provisions	0	0.00%	242	0.21%
Total L-Term Liabilities	15,000	20.26%	41,009	35.92%
Total Current Liabilities	30,942	41.80%	34,099	29.87%
Accrued Expenses	125	0.17%	98	0.09%
TOTAL EQUITY & LIABILITIES	74,023		114,157	
Income Statement				
	1H 2003	1H 2004	Change %	
Turnover	26,775	36,416	36.01%	
Cost of Sales	18,837	24,035	27.59%	
Gross Operating Results	7,938	12,381	55.98%	
Gross Margin	29.65%	34.00%		
Total Expenses	2,748	4,725	71.96%	
EBITDA	5,190	7,684	48.06%	
EBITDA Margin	19.38%	21.10%		
Depreciation	1,173	2,173	85.20%	
EBIT	4,017	5,511	37.21%	
EBIT Margin	4.38%	5.97%		
Net Financial Results	-965	-1,428	48.05%	
Net Extraordinary Results	70	22	-68.64%	
Net Results Before Taxes	3,122	4,105	31.50%	
Proportion of Minority rights	99	145	46.99%	
Net Results Before Taxes & After Minorities	3,023	3,960	30.99%	
Net Results (b.t.&a.m.) Margin	11.29%	10.87%		

Source: Company Published Results

Investment Case

The Neochimiki Group has succeeded in becoming the largest distributor of industrial chemicals on behalf of large corporations in Greece. The Group is also the market leader in the domestic detergent (final-product) manufacturing sector, seeking at the same time to explore opportunities from the broader market of chemicals for other industries and utilizing the technological expertise that has build over the last 30 year of operations.

Full Year Estimates Revisions

Following the disclosure of the 6month 2004 Group results, we revised our projections for the full year results.

- **We are not adjusting our sales model** targets for fiscal 2004 expecting turnover to reach €80.3 mn.
- We are **lowering our gross operating margin** forecasts to 31.8% at end 2004 from 33% previously, following a more conservative approach with regard to operating margins on every business segment.
- On the other hand, **we lower total expenses** to 12.8% of total turnover from 14.2% previously, expecting to grow on a lower pace compared to turnover, in line with Group management's efforts to control administrative and distribution costs.

Strong Growth Rates – Solid Operating Profit Margins

From a financial perspective, past years have been those of achievement in the light of the significant investments in order to capture opportunities in the detergent production fields. As the majority of investments have been completed, we expect turnover to grow in line with capacity utilization, international expansion, and higher market share in all product categories of turnover breakdown.

Our projections refer to turnover CAGR₂₀₀₃₋₂₀₀₈ of 24.6%, with revenues related to detergent production of final products and raw materials representing at least 40% of the total. We also expect solid growth in revenue streams related to Paint & Lacquers, Polymers and Foods, where opportunities appear more attractive compared to the other fields.

Gross profit margins will decrease but will remain strong. We note that the sector is at a mature stage, and we also expect pressures on pricing. Gross margin currently

stands at 34.16%, with our estimations accounting for 30.46% at end 2006.

EBITDA margin accounted for approximately 20% at end fiscal 2003, a level that will decrease, but will remain strong, to 17.4% at end fiscal 2006.

Key Investment Points

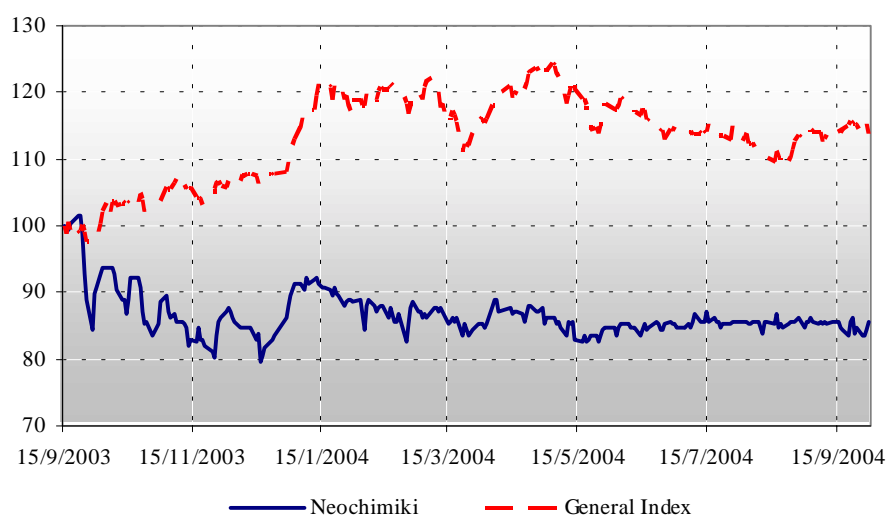
- ☞ Neochimiki Group is the leading supplier of detergent products on behalf of large multinationals (95% share of domestic production) and private labels (26% share of domestic production) in Greece.
- ☞ The Group has benefited from the withdrawal of multinational corporations' production units in Greece, entering the final (wholesale) detergent product sector by acquiring and developing manufacturing facilities.
- ☞ Neochimiki is diversifying its product portfolio (commercial and/or production) by providing industrial chemicals that meet the needs in many industries, some of them with solid growth rates such as plastics, paint, water treatment, fertilizers, food and detergents.
- ☞ The Group expands its activities in Greece geographically seeking for higher market shares on all product divisions.
- ☞ The strength of the Group is its high quality products and the relationship of trust with multinational groups. Neochimiki aims to further utilize this relationship, setting up the fundamentals for further expansion of their collaboration in the Balkans and Eastern Europe.

Strategies for Future Development

The Group has adopted a long-term strategy to:

- Maintain leadership and expand product portfolio with regard to the distribution of chemical raw materials in all sectors of local chemical markets
- Increase production of detergent final products and raw materials capturing an increasing share from total wholesale detergent sector
- Develop privately-owned production facilities, packaging and repackaging, of chemical products in Thessaloniki, in order to explore distribution opportunities in Northern Greece, the Balkans and Eastern Europe
- Establish subsidiaries in foreign countries. The Group will explore opportunities through distributing chemical products to existing customers with operations in the Balkans and some countries in Eastern Europe.

Share Price Performance vs. General Index (base=100, period=12months)



Data as of 30/9/2004 2003 A 2004 E 2005 E 2006 E

Price (in €)	3.70				
Shares Outstanding	36,000,000				
Market Capitalisation (in €)	133,200,000				
EPS (in €)		0.15	0.19	0.22	0.24
Book Value / Share (x)		0.8	1.0	1.2	1.3
EV (in €thous.)		177,603	185,384	185,580	180,271
P/E (a.t.& m.i)		24.12x	18.83x	16.66x	15.08x
P/BV		4.83x	3.48x	3.10x	2.76x
P/Cash Flow		13.21x	9.05x	8.04x	7.51x
EV/EBITDA		15.85x	12.12x	10.45x	9.26x
EV/Sales		3.18x	2.31x	1.87x	1.61x
Dividend / Share (in €)		0.06	0.08	0.09	0.10
Dividend Yield		1.55%	2.12%	2.40%	2.65%

Source: VRS Estimates

Valuation

DCF Methodology

Evaluating our projections on the DCF valuation method we end up on a fair value of €162.27 mil or €4.51 per share.

(in ,000 €)	2004 E	2005 E	2006 E	2007 E	2008 E	L-Term Assumptions
Cash Flow to the Firm (FCFF)						
EBIT	11,030	12,601	13,730	14,710	15,850	16,310
Less: Adjusted Tax	818	1,462	2,006	2,786	3,519	3,621
Adjusted Operating Profit	10,212	11,139	11,724	11,923	12,331	12,689
Plus: Depreciation	4,263	5,153	5,729	6,335	7,005	7,190
Operating Cash Flow	14,476	16,292	17,453	18,258	19,336	19,879
Less: Working Capital	10,332	4,513	232	2,103	1,191	1,225
Less: Capex	12,951	6,017	5,832	6,441	6,931	7,190
Cash Flow to the Firm (FCFF)	-8,807	5,762	11,388	9,714	11,215	11,464
Discount Factor	0.939	0.881	0.821	0.767	0.710	0.710
Present Value of Cash Flows	-8,271	5,077	9,351	7,455	7,967	
Accumulated Present Value	-8,271	-3,194	6,157	13,612	21,579	
Residual Value						274,437
Present Value of Residual Value						194,965
Enterprise Value	216,545					
VALUATION						
Value of firm	216,545					
Less: Net Debt	54,353					
Plus: Participations	80					
Value of firm	162,272					
Value of share	€4.51					
WACC CALCULATION						
Risk Free Rate	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%
Beta Factor	1.10	1.10	1.10	1.10	1.10	1.10
Market risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Cost of Equity	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
Debt / Debt + Equity	59.0%	56.2%	51.0%	48.9%	44.5%	44.5%
Cost of Debt	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
Tax Rate	10.00%	15.00%	18.00%	22.00%	25.00%	25.0%
Weighted Average Cost of Capital	6.48%	6.53%	6.79%	6.84%	7.08%	7.08%

Source: VRS Estimates

GROUP HISTORICAL & PROJECTED PROFIT & LOSS ACCOUNT

(in ,000 €)		2002 A	2003 A	2004 E	2005 E	2006 E
Turnover		46,819	55,838	80,289	99,284	111,978
	y-o-y Change %	58.20%	19.26%	43.79%	23.66%	12.78%
Cost of Sales		34,157	36,822	54,779	68,386	77,932
	% of Turnover	72.96%	65.94%	68.23%	68.88%	69.60%
	y-o-y Change %	58.91%	7.80%	48.77%	24.84%	13.96%
Gross operating results		12,662	19,016	25,510	30,899	34,046
Other operating income		65	58	60	60	60
Total Gross Operating Results		12,727	19,074	25,570	30,959	34,106
Gross Operating Margin		27.18%	34.16%	31.85%	31.18%	30.46%
	y-o-y Change %	55.83%	49.87%	34.06%	21.07%	10.17%
Administrative Expenses		1,127	2,061	2,409	3,078	3,449
	% of Turnover	2.41%	3.69%	3.00%	3.10%	3.08%
Research and Development costs		0	58	321	397	448
	% of Turnover	0.00%	0.10%	0.40%	0.40%	0.40%
Distribution Cost		3,592	5,749	7,547	9,730	10,750
	% of Turnover	7.67%	10.30%	9.40%	9.80%	9.60%
Total Expenses		4,719	7,868	10,277	13,205	14,647
	% of Turnover	10.08%	14.09%	12.80%	13.30%	13.08%
	y-o-y Change %	68.54%	66.73%	30.62%	28.49%	10.92%
EBITDA		8,008	11,206	15,293	17,754	19,459
EBITDA Margin		17.10%	20.07%	19.05%	17.88%	17.38%
	y-o-y Change %	49.21%	39.94%	36.47%	16.09%	9.60%
Depreciation		1,968	2,663	4,263	5,153	5,729
	% of Turnover	4.20%	4.77%	5.31%	5.19%	5.12%
EBIT		6,040	8,543	11,030	12,601	13,730
	% of Turnover	12.90%	15.30%	13.74%	12.69%	12.26%
	y-o-y Change %	36.01%	41.44%	29.11%	14.24%	8.96%
Total Financial Income		27.2	14.4	20.0	20.0	20.0
Total Financial Expense		1,509	2,167	3,024	3,024	2,754
Net Extraordinary Results		-95	250	150	150	150
Net Results Before Taxes		4,464	6,640	8,175	9,746	11,145
EBT Margin		9.53%	11.89%	10.18%	9.82%	9.95%
	y-o-y Change %	34.48%	48.77%	23.12%	19.21%	14.36%
(-)Prior years' taxes differences		287	282	200	200	200
Tax income		1,222	732	818	1,462	2,006
	Effective Tax Rate	27.38%	11.02%	10.00%	15.00%	18.00%
Taxes not charged to the oper. Cost		0	0	0	0	0
Net Results After Taxes		2,955	5,626	7,158	8,084	8,939
EAT Margin		6.31%	10.08%	8.92%	8.14%	7.98%
	y-o-y Change %	32.31%	90.43%	27.23%	12.94%	10.58%
Proportion of Minority rights		103	194	200	220	250
Consolidated Net Results (a.t.&m.i.)		2,852	5,432	6,958	7,864	8,689
Net Margin		6.09%	9.73%	8.67%	7.92%	7.76%
	y-o-y Change %	34.31%	90.50%	28.09%	13.02%	10.49%

Source: Company Data & VRS Estimates

GROUP HISTORICAL & PROJECTED BALANCE SHEET

	2002 A	2003 A	2004 E	2005 E	2006 E
Assets					
Formation Expenses	520	2,361	2,810	3,177	3,359
Accumulated depreciation	233	618	1,006	1,455	1,945
Total Net Formation Expenses	287	1,743	1,805	1,722	1,414
Tangible Assets	35,342	56,265	68,767	74,417	80,067
Accumulated depreciation	3,692	5,413	9,289	13,993	19,232
Total Net Tangible Assets	31,650	50,851	59,478	60,424	60,835
Financial Assets	28	81	80	80	80
TOTAL FIXED ASSETS	31,678	50,932	59,558	60,504	60,915
% Total Assets	56.07%	57.74%	53.58%	50.21%	50.16%
Inventories	8,614	11,199	15,215	18,510	19,068
Debtors	5,754	8,808	14,508	17,589	16,158
Notes Receivables	87	0	0	0	0
Cheques Receivables	6,095	9,523	12,914	14,831	15,234
Other Receivables	3,303	4,426	5,252	5,628	6,643
Securities (net)	1	6	6	6	6
Cash in bank and at hand	591	1,206	1,650	1,454	1,762
TOTAL CURRENT ASSETS	24,445	35,170	49,545	58,019	58,872
% Total Assets	43.3%	39.9%	44.6%	48.2%	48.5%
Prepayments & Accrued Income	89	366	250	250	250
GRAND TOTAL ASSETS	56,500	88,210	111,158	120,495	121,451
Equity & Liabilities					
Share capital	7,150	10,800	10,800	10,800	10,800
Share premium account	0	6,525	6,525	6,525	6,525
Total Reserves	3,075	7,768	15,097	16,276	17,580
Profit carried forward	3,180	1,875	5,006	8,545	12,455
Minority Rights	1,005	1,272	1,300	1,400	1,500
TOTAL CAPITAL & RESERVES	14,786	28,428	38,908	43,726	49,040
% Total Equity & Liabilities	26.17%	32.23%	35.00%	36.29%	40.38%
Provisions	0	18.8	20.0	20.0	20.0
Debenture Loans	0	21,000	41,000	41,000	41,000
Other long term debts	0	9	9	9	9
Bank Loans	21,000	12,000	0	0	0
Total L-Term Liabilities	21,000	33,009	41,009	41,009	41,009
Suppliers	7,331	8,246	11,564	14,666	14,372
Notes & Checks Payable	235	473	487	750	745
Banks	9,830	14,775	15,000	15,000	10,000
Current portion of long term debt	0	0	0	0	0
Taxes-duties	2,312	776.1	818	1,462	2,006
Social charges	160	256.6	301	385	431
Dividends	672	2,025	2,783	3,146	3,476
Sundry debtors	39	92	118	182	203
Total Current Liabilities	20,578	26,644	31,071	35,589	31,233
TOTAL LIABILITIES	41,578	59,653	72,080	76,598	72,242
% Total Equity & Liabilities	73.59%	67.63%	64.84%	63.57%	59.48%
Accrued Expenses	136	110	150	150	150
TOTAL EQUITY & LIABILITIES	56,500	88,210	111,158	120,495	121,451

Source: Company Data & VRS Estimates

Notes

Notes

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