



Oppenheim Research

Vtion Wireless Technology

Technology

Tapping into 3G wireless data growth in China

2009-11-06

Executive Summary	4
Tapping into 3G wireless data growth in China	4
SWOT Profile	6
Shareholder structure post-IPO	7
Key comparables and DCF valuation	8
DCF valuation	12
Market Overview	16
The market for wireless data cards in China	16
3G in China	19
Company Strategy	23
Focus on quality wireless data cards and related services in China	23
Broaden distribution, enter new provinces	25
Act as Mobile Virtual Network Operator (MVNO)	26
Value added online services: Vtion Business Club	28
Competition	30
Chinese competitors	30
International competitors	31
Financials	33
Revenue forecast model	33
Quick review of Q3 results	38
Profit & Loss Statement	40
Balance Sheet	41
Cash Flow Statement	42
Glossary of technical terms	43

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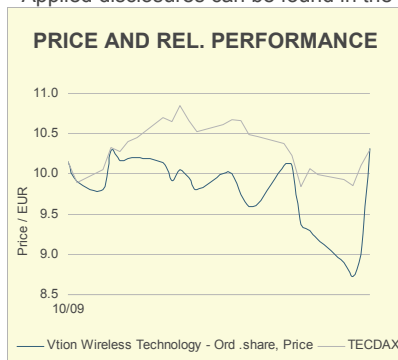
2009-11-06

Applied disclosures can be found in the appendix

Strong buy

Fair Value 12.50

Price 9.00 (Closing price as of 2009-11-04)



12 month high/low €	10.29/8.72
Rel.%	1m -11.0 3m -17.8 12m -27.6
Abs.%	1m -9.1 3m -11.3 12m -11.3

MARKET DATA

Reuters	V33G.DE
Bloomberg	V33 GR
Market cap EURm	143.8
EV EURm	98.1
Number of shares m	16.0
Free float %	32.4

NEXT EVENTS

Investors' day	2009-11-09
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Rel. Sector	++
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KEY CHANGES			
EBT %	09e: +2.1	10e: -0.0	
EPS %	09e: +9.2	10e: -0.0	
FV %			

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TAPPING INTO 3G GROWTH IN CHINA

Vtion (pronounced: "Vision") Wireless Technology is one of China's top 3 brands for data cards, which connect laptops and personal computers to the internet wirelessly. The launch of 3G networks in China in May '09 triggered strong growth: During Q3 Vtion sold 625k cards up from 607k for all of 2008. 75% of Vtion's cards are sold through China's three mobile operators. Vtion's strategy is to evolve from a hardware supplier to a marketing and innovation partner for them. It offers superior after sales service, operates a mobile online portal with >231k paying users and has become China's first 3G data reseller. Vtion is trading on '09 EV/EBITDA of 4.3x and PER of 8.3 – an unwarranted discount to peers. Backing out our forecast of €3.30 per share in net cash by YE'10, Vtion is trading on forward PER of 5.5x only. We initiate coverage with a strong buy rating.

WIRELESS DATA IN CHINA AT INFLECTION POINT

338m people access the internet in China, yet penetration is only 26%, leaving ample room for growth. Analysis Intl. forecasts >30% growth for notebook unit sales in China for the next several years. The launch of 3G networks in May '09 triggered strong demand for mobile broadband data cards. Since then Vtion has shipped >1m 3G cards. Vtion offers investors the opportunity to play this theme in a targeted way.

ESTABLISHED BRAND FOR WIRELESS DATA CARDS IN CHINA

For three consecutive years Brand Lab has listed Vtion as one of China's 500 most valuable brands. Vtion claims 25% market share making it #2 behind Huawei and ahead of ZTE. It offers the best after sales service and is the only data card vendor selling value added services to its users ("Vtion Business Club") via an online portal with a gross margin of 80% from this recurring revenue stream.

LAUNCH OF MVNO ACTIVITY

Mid-Aug. '09 Vtion started reselling mobile data capacity on China Telecom's and at a later stage on China Unicom's 3G networks, effectively acting as a virtual network operator (VNO), which should contribute positively to sales and gross margin (VNO: 40% gross margin). Vtion's portal and VNO activities hold the potential to slow the decline in gross margin that we are forecasting for its hardware business.

KEY DATA					
€ (Yr. end: 12/31)	2007	2008	2009e	2010e	2011e
Sales m	29.00	39.18	70.00	101.45	123.51
EBIT m	9.24	12.60	19.94	24.74	27.22
Net profit m	9.16	12.39	19.12	22.00	24.19
Oper. CF m	7.15	12.27	-10.76	15.94	22.44
Adj. EPS	0.92	0.90	1.20	1.38	1.51
Dividend	0.00	0.00	0.00	0.24	0.28
PER			7.5	6.5	5.9
Div. yield %			0.0	0.0	2.7
EV/EBITDA			4.5	3.4	2.5
Price to book			1.5	1.2	1.0
EBIT margin %	31.9	32.2	28.5	24.4	22.0
ROCE %	109.1	124.5	38.6	39.5	39.1
Sust. FCF yield %			-21.8	11.0	21.7
EPS CAGR 08-11e: 19 %			Net debt/Oper. CF 09e: 4.2		Eq. ratio 09e: 85 %

Executive Summary

Tapping into 3G wireless data growth in China

<p>Strong demand for 3G data cards in China</p>	<p>Founded in July 2002, Vtion has become a leading provider of wireless data cards in China. Data cards enable notebook users to go online by connecting to wireless networks. In 2008 Vtion sold 607k data cards (+41% yoy), representing 25.5% of the Chinese market. In H1'09 it shipped 505k cards (+66% yoy), in Q3'09 625k and we forecast this to rise to 1.67m by year end (+174% yoy). Since the launch of 3G networks in China, shipments have clearly accelerated.</p>
<p>75% of Vtion's shipments are via the three domestic mobile operators</p>	<p>Vtion sells approx. 75% of its cards through mobile operators in China, the rest via wholesale to independent resellers and through direct sales. It delivers cards to all three domestic mobile operators. For regulatory purposes every operator needs to have at least three suppliers – as current #2, Vtion is well positioned to remain one of these three. It is the only Chinese vendor that has built a strong after sales organization, which has become an important differentiator in the market. China Telecom has outsourced after sales services for data cards to Vtion in Fujian, one of the economically most vibrant provinces. Per mid 2009 Vtion had approx. 225k paying users to value added services branded as "Vtion Business Club". It is about to act as an MVNO by reselling data contracts on behalf of China Telecom and at a later stage on behalf of China Unicom – an activity that should contribute 12% to Vtion's total sales in 2011.</p>
<p>China is the world's largest internet market by number of users; key drivers for further growth are in place</p>	<p>With 338m users, China has overtaken the USA as the #1 internet market. Yet penetration of 26% leaves substantial room for subscriber growth. Many users in China go online in internet cafés. They have yet to buy their first PC. According to Lenovo, domestic #1 with 28.6% market share, Q2 '09 PC shipments in China grew 14% yoy, reversing two consecutive quarters with negative growth¹. Lenovo's global notebook shipments increased 21% yoy in calendar Q2. Consumers are driving growth preferring notebooks and netbooks over desktop PCs. China's €400bn stimulus package is geared towards fostering private consumption. Combined with falling PC prices, double digit unit growth for notebooks will likely continue. Teledensity, computer literacy and the availability of high-speed internet connections are critical for economic growth. The Chinese government is subsidizing the purchase of low cost PCs in rural areas and there is a PC upgrade program for urban areas. Its telco regulator is demanding action from operators to bridge the Chinese digital divide between less developed rural provinces and high growth coastal regions. Comparing Q2 to Q1 at an annualized rate, China's economy grew 15%.²</p>
<p>Since late '08 three mobile operators in lieu of just two</p>	<p>In late 2008 China restructured its telecommunications sector. Splitting China Unicom into two parts (one with a GSM, one with a CDMA network) and merging each with an existing fixed line operator (China Telecom and China Netcom) means there are now three mobile operators: China Mobile, China Unicom and China Telecom. This has led to increasing competition among them, benefiting Chinese businesses and consumers and spurring innovation.</p>
<p>Launch of 3G networks in May 2009</p>	<p>In May 2009 3G networks were finally launched in China. Three different network technologies are used: TD-SCDMA, the home grown Chinese 3G standard, is used by China Mobile, W-CDMA by China Unicom and CDMA EV-DO by China Telecom. The fact that three standards will coexist poses a challenge to laptop manufacturers while presenting an opportunity for data card vendors. Operating margins on laptops are thin. Wireless modules are still expensive relative to profit margins on laptops. Hence it is less likely that laptop manufacturers will add wireless modules to their products because they do not know which network a user will subscribe to. Instead</p>

¹ Lenovo, Q1 2009 report (NB: Lenovo's Q1 runs from April 1 to June 30)

² The Economist, Aug. 15-21, 2009, « Asia's astonishing rebound » p.58

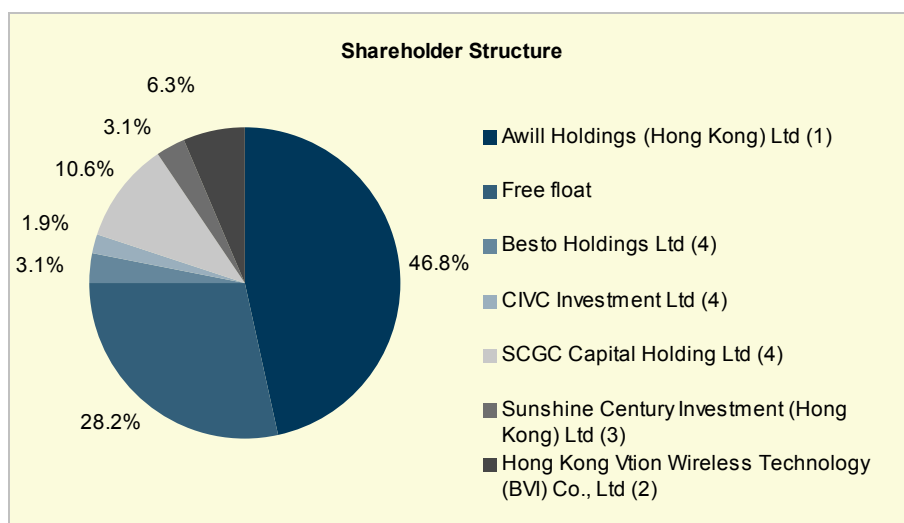
	<p>users will have to decide for themselves by buying a data card to upgrade their computer into a connected device. For this reason a need for data cards will likely exist for longer than in markets with just one 3G network standard.</p>
15m units opportunity	<p>Vtion is still early in its cycle. We forecast the Chinese market for wireless data cards to be 61m units over the coming four years to the end of 2013. This is based on the assumption that for 10 new net- and notebooks sold in China, 3 data cards are purchased, that for 100 PC's sold, 7 data cards are purchased and that a data card gets replaced every three years with a third of replacement sales churning away to embedded modules from the start of 2012. Assuming Vtion keeps its market share stable at around 25% this implies an opportunity of 15m cards over the next four years (for comparison our FY'09 forecast is for the company to ship 1.67m cards).</p>
Recurring revenues from Vtion business club	<p>Vtion primarily targets business users and government officials who tend to be less price-sensitive. Using its data cards as a Trojan horse, Vtion upsells customers into signing up for its business club, including data service solutions such as planning and booking travel online (cooperation partner Ctrip (CTRP.O), "Internet accelerator", which decreases load times for web pages thus optimizing internet connections. It also offers features such as electronic fax, SMS service, virus scanning and online translation. Users have risen from zero in January '06 to 231.5k at the end of September '09. They pay an annual subscription of RMB 240 (€24) per year or monthly ARPU of €2.</p>
Vtion is China's first virtual network operator for mobile data	<p>In mid-August '09 Vtion started to resell wireless data plans on China Telecom's and China Unicom's 3G networks bundled with one of its data cards. During the first six weeks since launching this new activity it has sold 2,218 contracts or about 0.7% of data cards sold during that time frame. This ratio could rise to 12% over the coming two years. Vtion makes money on the sale of its card, receives a sales commission by the telco operator concerned and benefits from a mark-up on the ongoing service charge the end customer is paying adding up to an economic value of RMB800 per VNO pack. The gross margin on this activity is about 40% according to the company. For our model we have taken a more conservative estimate.</p>
FY'09 guidance implies 53-79% sales growth and 53-59% EBIT growth yoy	<p>At the time of its Q3 results release in early November, management guided for 2009 sales of €66m-€70m with an EBIT margin of 29% implying EBIT of €19m-€20m. Our estimates are at the high end of that range. Our bottom up analysis suggests that guidance is cautious. Vtion publishes number of cards sold and the ASP on a monthly basis. A unit number above 200k for November with stable ASP would be indicative of Vtion meeting the upper end of guidance. Note that Q4 and Q1 are the seasonally slower quarters (Oct 1st - national day; Chinese New Year falls into Q1).</p>
DCF fair value €12.5 implies 2010 PER of only 9.1x – share price might move higher on the back of continued strong monthly sales of data cards	<p>This report contains our forecasts for the Chinese data card market to the end of 2013 as well as detailed financial projections for Vtion. We have assumed a steady decline in ASP, as well as downward trends for gross and EBIT margins. Terminal value represents but 38% of the EV our model arrives at (our DCF models on other telco equipment players tend to result in a 45-50% weight of terminal value). To calculate terminal value we assume sales growth of 1.5%, EBIT margin of 8% (from 32.2% in '08), capex to sales of 2.6%, D&A to sales of 2.5%, net working capital to sales of 22% and WACC of 12%. With this we arrive at a fair value per Vtion share of €12.5. If the share price were to rise to this level, it would still only trade on 2010 PER of 9.1x. For comparison, Sierra Wireless is trading on 11.7x, Novatel Wireless on 21.4x – and this despite the fact that both are under heavy pressure from Chinese competitors with structurally lower cost bases. Comba Telecom Systems, a specialist for indoor cellular coverage, which like Vtion generates ¾ of its revenues with Mobile Carriers in China is trading on 14.5x. We believe Vtion should trade at a 20-25% discount to Comba given the latter's longer history as a listed company (since 2002 in HK), broader product portfolio, higher degree of internationalization. Having said this, Vtion is growing faster and is significantly more profitable than Comba - if it can keep this up, the discount should vanish.</p>

SWOT Profile

VTION WIRELESS TECHNOLOGY	
Strengths	Weaknesses
<p>25% market share, top two brand in fast growing Chinese wireless data card market</p> <p>Clear focus on wireless data cards, related after sales and value added services</p> <p>Profitable business model# well capitalized to invest in growth</p> <p>Well connected in Chinese Telco sector (operators, regulators...)</p> <p>Stable, experienced management team</p> <p>Value added services: Vtion Business Club contributing stable cash flows</p>	<p>Vtion is small compared to peers</p> <p>Customer concentration (China Telecom singularly largest customer)</p> <p>No plans to address embedded market - a disadvantage outside China</p>
Future opportunities for investment	Future risks for investment
<p>Pioneer MVNO business model in China</p> <p>Enter additional provinces leveraging off established brand and relationships</p> <p>Grow Business Club and enter additional partnerships for online services</p> <p>Enter machine to machine market in China</p> <p>Enter selected overseas markets</p> <p>Increase profitability by insourcing R&D as volumes ramp</p>	<p>Huawei and ZTE might increase competitive pressure triggering a price war</p> <p>Vtion must manage high growth</p> <p>Unproven M&A track record</p>
INDUSTRY	
<p>Average Score Scoring range 1-10 (high score is good)</p>	
<p>Power of suppliers 9 Low and stable</p> <p>Not dependant on a single supplier</p>	<p>New entrants 8 Low and stable</p> <p>Difficult for new entrants to start now</p>
<p>Substitute products 4 Rising</p> <p>Embedded connectivity</p>	<p>Rivalry 1 High</p> <p>Many competitors some with larger ressources</p>
	<p>Power of customers 2 High</p> <p>Vtion's defense lines: Best after-sales service and Business Club</p>
SHARE PRICE TRIGGERS	
<p>Faster than expected unit growth; share gains in China beyond the current 25%</p> <p>More stable than expected ASP</p> <p>Faster than expected growth in Vtion Business Club members</p>	

Source: Oppenheim Research

Shareholder structure post-IPO



Source: Vtion Wireless

- (1) + (3) are incorporated in Hong Kong and are wholly owned by Mr. Chen Guo Ping, CEO Vtion Wireless
- (2) HK Vtion Wireless Technology is incorporated in the British Virgin Islands. This company is owned by Chen Guohe, He Zhihong (CTO Vtion) and Chen Guoshun. Mr. Chen Guohe and Mr. Chen Guoshun are brothers of Mr. Chen Guo Ping, CEO of Vtion Wireless.
- (4) Became shareholders via a private equity financing round in April 2008.

Lock-up arrangements

The private equity shareholders (Besto, CIVC and SCGC) have a lock up for six months following the IPO. After this period which ends at the start of April 2010, they can sell 50% of their holdings. After another three months period i.e. from the start of July 2010 the lock up for all of their shares ends.

The so called management shareholders (Awill, Sunshine, HK Vtion Wireless) have a 12 months lock-up i.e. they are barred from selling any shares until 1. October 2010.

Net proceeds €43.2m

Net proceeds from the IPO were €43.2m which were not yet reflected in Vtion Wireless' recent Q3 results.

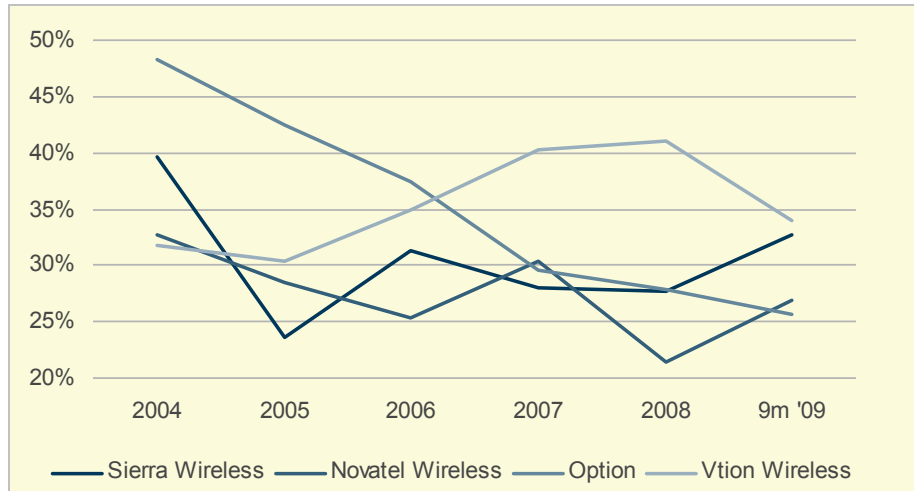
Key comparables and DCF valuation

	Price local	MCap in EURm	Gearing		EV/Sales		EV/EBITDA		EBITDA margin		EV/EBIT		P/E						
			2009	2010	2009	2010	2009	2010	2008	2009	2010	2011	2009	2010	2011				
Vion Technology	DE	9.00	144	-32.4%	1.39x	0.90x	0.64x	3.3x	2.5x	32.6%	31.1%	27.0%	25.4%	4.9x	3.7x	2.9x	7.6x	6.5x	5.9x
International wireless card vendors																			
Sierra Wireless	CA	8.76	184	-49.0%	0.26x	0.14x	0.13x	1.7x	1.5x	10.8%	4.9%	8.3%	8.8%	n.m.	6.0x	6.2x	18.6x	11.7x	16.2x
Novatel Wireless Inc	US	9.19	194	-47.9%	0.44x	0.42x	0.40x	3.4x	3.4x	4.0%	8.1%	10.0%	11.7%	13.1x	8.5x	4.4x	27.0x	21.4x	13.1x
Option NV (BE Listing)	BE	1.24	51	-34.6%	0.18x	0.18x	0.10x	n.m.	6.1x	0.0%	-7.2%	3.0%	11.2%	n.m.	n.m.	n.m.	n.m.	n.m.	20.7x
		Average			0.3x	0.2x	0.2x	5.4x	4.0x					13.1x	7.3x	5.3x	22.8x	16.5x	16.7x
		Median			0.3x	0.2x	0.1x	5.4x	4.1x					13.1x	7.3x	5.3x	22.8x	16.5x	16.2x
Chinese Wireless Technology																			
China TechFaith WirelessUS		3.15	93	-82.5%	0.12x	0.14x	0.16x	1.2x	1.6x	9.2%	10.0%	9.1%	9.8%	2.8x	12.9x	21.8x	17.5x	52.5x	78.7x
ZTE Corporation (Class .CN		39.14	6,786	1.2%	1.14x	0.97x	0.85x	14.3x	12.7x	8.1%	8.0%	7.7%	7.9%	17.7x	15.7x	13.3x	29.1x	23.5x	20.2x
Longcheer Holdings Ltd.SG		0.52	98	-42.6%	0.17x	0.13x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.7x	n.a.	n.a.	5.2x	4.3x	n.a.
Lenovo Group Ltd. (HK Icn		4.38	3,522	-31.4%	0.25x	0.20x	0.18x	14.4x	6.6x	0.1%	2.3%	3.3%	3.6%	64.9x	11.5x	7.3x	580.4x	26.2x	16.0x
Ctrip.com International LUS		57.50	2,633	1.6%	14.0x	10.30x	7.82x	37.9x	27.6x	36.7%	36.9%	37.3%	36.4%	41.7x	30.5x	23.5x	45.7x	34.7x	26.5x
BYD Electronic Co. Ltd. HK		7.52	1,482	2.8%	1.75x	1.47x	1.25x	13.2x	10.8x	14.2%	13.2%	13.6%	13.2%	20.9x	17.4x	14.7x	23.9x	18.8x	16.6x
Spreadtrum Communica US		5.56	168	25.6%	3.37x	2.04x	1.48x	n.m.	67.2x	-16.3%	-24.1%	3.0%	9.5%	n.m.	n.m.	20.3x	n.m.	289.0x	11.1x
Comba Telecom SystemHK		7.89	727	6.6%	2.19x	1.72x	1.53x	13.9x	11.7x	13.0%	15.7%	14.8%	15.5%	15.3x	11.6x	10.2x	18.5x	14.5x	12.1x
		Average			2.9x	2.1x	1.9x	15.8x	19.7x					23.7x	16.6x	15.9x	23.3x	57.9x	25.9x
		Median			1.4x	1.2x	1.2x	14.1x	11.7x					17.7x	14.3x	14.7x	23.9x	24.9x	16.6x
Mobile operators																			
China Unicom (Hong Ko CN		10.04	20,855	0.2%	1.37x	1.27x	1.17x	3.4x	3.1x	45.0%	40.8%	40.7%	40.3%	14.8x	15.7x	12.4x	20.1x	25.0x	21.1x
China Mobile Ltd. (OrdinCN		73.90	129,646	0.0%	2.94x	2.78x	2.62x	5.8x	5.6x	52.5%	50.9%	49.4%	47.5%	9.0x	9.1x	9.0x	11.5x	11.5x	10.8x
China Telecom CorporatCN		3.45	24,419	0.2%	1.17x	1.07x	1.00x	3.2x	3.1x	45.0%	36.9%	34.5%	33.4%	10.4x	9.7x	8.8x	16.9x	15.0x	11.9x
		Average			1.8x	1.7x	1.6x	4.1x	4.0x					11.4x	11.5x	10.1x	16.2x	17.1x	14.6x
		Median			1.37x	1.27x	1.17x	3.4x	3.1x					10.4x	9.7x	9.0x	16.9x	15.0x	11.9x

Source: Oppenheim Research

Peer group 1: International data card vendors	First we look at Vtione's international peers active in the wireless data card business including Sierra and Novatel Wireless as well as Option. The advantage of this peer group is that wireless data cards are a core business for its members. However, none of them is active in mainland China in any meaningful way giving them a different growth profile over the coming years.
Peer group 2: China Wireless Technology	The second group consists of companies that supply technology and equipment to mobile operators in China. This group consists of ZTE, China Tech Faith, Lenovo, Longcheer, C-Trip, BYD, Spreadtrum Communications and Comba Telecom Systems. China TechFaith and Longcheer are design houses focused on the mobile phone / smart phone market. China TechFaith used to supply wireless data cards to Vtione. The Chinese Technology peer group is heterogeneous in terms of business models and company sizes; market capitalizations of its members, range from €80m to €6.6bn. Lenovo recently discontinued its small data card business. However, as the leading PC vendor in China with a market share of 28.6%, it taps into some of the same trends as Vtione. Unit sales of wireless data cards critically depend on the sale of laptop computers. C-Trip is China's premier travel portal. It also is a partner to Vtione's Business Club which offers online services to its users. BYD is an electronic manufacturing company and a supplier to Vtione. Spreadtrum Communications is an R&D house and likewise part of Vtione's suppliers.
Comba the most relevant peer in this group	We consider Comba Telecom Systems as the most relevant company in this peer group. It provides infrastructure to mobile operators and enterprises to enhance and extend their wireless communications networks through in-building and outdoor solutions including repeaters, antennas, digital microwave systems and related radio frequency passive accessories covering all bandwidths and mobile standards including GSM, CDMA, 3G (incl. TD-SCDMA) and broadband systems. In 2008 it generated 72% of its sales from China Mobile and China Unicom. Established in 1997, it went public on the Hong Kong Stock Exchange in 2003. Like Vtione it has one very large customer (46% of sales in '08) and reported a gross margin of 37.5% (Vtione: 41.1%). Comba's sales are much more dependant on the Chinese market than for instance those of ZTE or Lenovo. As a small cap stock it may be a more relevant comparison than companies with multi billion market capitalizations. Note that the peer group median for 2010 for EV/EBITDA of 9.7 is that of Comba.
Peer group 3: Chinese wireless operators	The third peer group is made up of Vtione's main distribution partners and customers: Mobile operators in China. One obvious way for investors to get exposure to China's burgeoning 3G market is by investing in an operator. However, the downside is that competition among them is rising and as a group they plan to invest €40bn in the roll-out of 3G networks.
Analysis of international wireless data cards vendors	In the following we discuss gross margin, EBIT margin and absolute free cash flow generation for Sierra Wireless, Novatel Wireless, Option and Vtione for the period 2004 to end of September 2009.

Among pure play wireless data card providers, Vtion has the highest gross margin

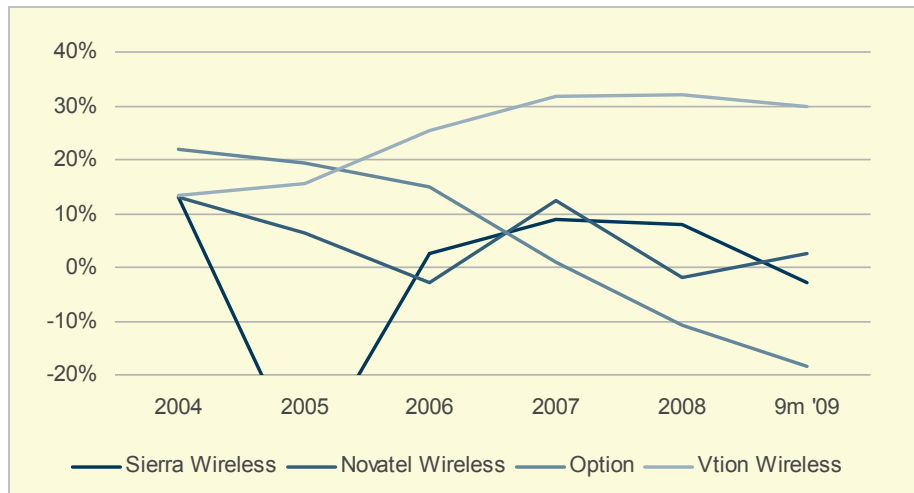


Source: Option, Sierra Wireless, Novatel Wireless, Vtion, Oppenheim Research

Vtion has the highest gross margin among its peers

Since 2007 Vtion has had the highest gross margin among its peers despite being the youngest player among this group. Note that Vtion reports under IFRS and consolidates its results in € just like Option B.V. Vtion has a structural advantage as it has the great majority of its costs base in China. This becomes even more obvious when comparing operating margins (see chart on next page). The increase in Sierra Wireless' gross margin since the start of 2009 reflects the consolidation of Wavcome, which Sierra acquired at the end of 2008. Wavecom specializes in machine to machine modules which tend to carry gross margins of 50%.

Vtion also has best in class EBIT margin among pure plays



Source: Option, Sierra Wireless, Novatel Wireless, Vtion, Oppenheim Research

Vtion also has the highest EBIT margin among peers

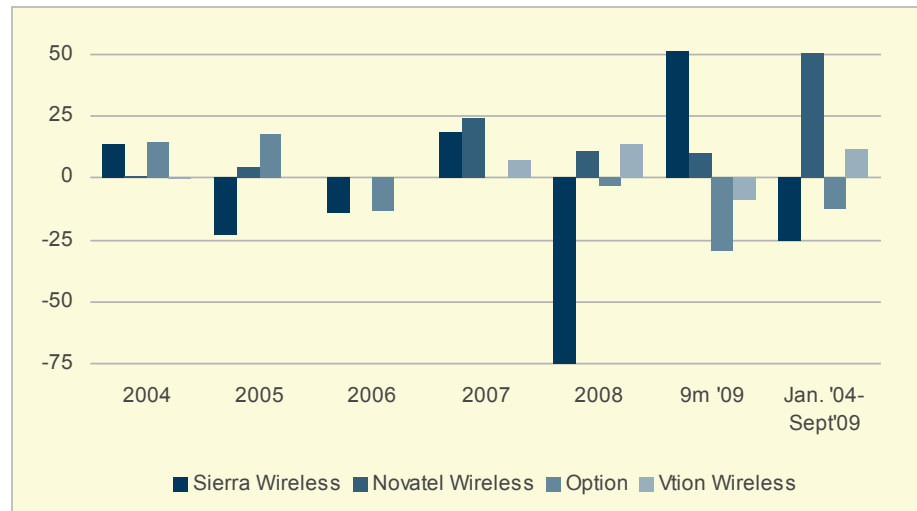
The next step in our analysis was to look at EBIT margins to also reflect the different opex structures. Only Vtion has been consistently profitable on the EBIT level since 2004. Its peers have had write downs and restructuring cost along the way. In the case of Sierra Wireless, these write downs may have included an element of big bath accounting setting the stage for higher profitability in the years following 2005 – investors miss out on this point by only considering “non-GAAP accounting”. Novatel was loss making on the EBIT level in 2006 and again dipped into the red in 2008. Since 2006 Vtion has clearly been the most profitable company among its international peers. Again this reflects its almost 100% Chinese cost structure. All players in this industry make extensive use of outsourcing in China. However, Vtion

also has its management, administration, R&D, sales and marketing functions in China. As a group Vtion's executive management team earned €123k in 2008. This is a structural cost advantage that cannot be met by international peers.

Comparison of absolute FCF creation

Margin analysis is useful; however, it may belie underlying free cash flow trends. Only absolute money amounts buy goods. Hence in the final step of our comparison we look at absolute FCF creation in €m. We have translated US\$ amounts at the average inter bank lending rates for the respective periods.

Cumulatively since Jan. '04 Vtion has generated more FCF than Sierra Wireless and Option



Source: Option, Sierra Wireless, Novatel Wireless, Vtion, Oppenheim Research

We believe Vtion deserves a premium over international peers

Summing up our comparison of gross margin, EBIT margin and absolute FCF generation, we conclude that Vtion is the most profitable player among its international peers. Despite being a much smaller company in terms of sales, Vtion has generated the second most FCF among its international peers since the start of 2004. Given its exposure to the Chinese 3G market, which is at an inflection point, we believe Vtion deserves to be valued at a premium over international pure play data card peers.

Unlike the Americas and Europe, China will not easily move towards an "embedded" model – a positive for Vtion

Note that the Chinese market will not easily move towards an embedded model in which PCs and laptop computers come with preinstalled wireless connectivity (as is already often the case with WiFi). This is because, unlike any other market globally, in China three different 3G standards will co-exist for years to come, making it difficult for PC makers to go for an embedded approach, which would increase the bill of material in the cutthroat laptop market to a point where they would lose competitiveness.

DCF valuation

Three-stage DCF model	We are using a three-stage DCF model to develop a better understanding for value drivers and test them for sensitivity. We are using our detailed forecasts for P&L, balance sheet and cash flow statement to 2013, which are explained in detail in the section discussion of Vtion's financials. From the end of 2013 the "autopilot" takes over and metrics converge towards the assumptions we have chosen for the terminal value. Given that Vtion's sales will likely grow strongly over the next three years as the company taps into the burgeoning 3G wireless market, we have applied some additional "brakes" to the mid-term forecasting period in order not to overstate mid-term growth and margin potential.
Assumption for long term sales growth: 1.5%	To calculate terminal value we assume 1.5% perpetual top line growth. China has clearly become one of the engines for global growth. It has averaged 7-10% GDP growth annually over the recent past. While we expect these growth rates to subside over time, we do believe that China offers better growth prospects than developed markets for a longer period of time.
Mid-cycle EBIT margin assumption: 8%	To calculate terminal value we assume an 8% EBIT margin – a long way down from the 31.9% Vtion achieved in 2008. This reflects our view that data cards will at some stage become commoditized, in which case arguably the margin could even be lower. However, it is Vtion's strategy to develop service offerings which will help to differentiate its products in the market and that are developing into higher margin revenue streams in their own right. These include (1) the Vtion Business Club – a range of online value added services to which data card users can subscribe for a monthly service fee; (2) Vtion's virtual network operation, which is about to debut in August 2009. Under this scheme, Vtion acts like a reseller of mobile data on behalf of China Telecom and China Unicom and collects a fee not just for the value of the hardware it provides but also a revenue share with the operator. (3) Vtion acts as an outsourcing partner to China Telecom for its after sales needs for data card products in the Fujian province. It is difficult to project the development of these services into the future; however, we do believe the company has taken tangible steps in the direction of diversifying its business model away from a pure hardware supplier. This is why we believe an 8% EBIT margin is not too aggressive in the long run.
Capex 2.6% of sales; depreciation and amortization 2.5% of sales	Vtion outsources the manufacturing of data cards. Its investments are primarily in computers, office space (it is planning to build an office block for an R&D center) and intangible assets including technology licenses (for instance from Qualcomm). However, on a normalized basis this is a high tech company with structurally low capex needs. To calculate terminal value we assume capital expenditure of 2.6% of sales, 0.1% higher than normalized depreciation and amortization to sales of 2.5%. We use 4% higher capex compared to D&A to reflect the fact that we still expect the company to grow during the terminal value period.
Mid- to long term cash tax rate: 25%	In 2009 Vtion started to pay tax for the first time; previously it was tax exempt. For 2009, 2010 and 2011 it will pay half the official 25% corporate tax i.e. 12.5% and start paying the full 25% from the start of 2012. Consequently our DCF uses a 25% cash tax rate from the start of 2012, which we also use in computing terminal value.
We project rising net working capital intensity near to mid-term	Near to mid-term we are projecting rising working capital intensity peaking at 58.3% at the end of 2009. This reflects strong top line growth as well as Vtion's budding VNO approach, which allows consumers to pay for a bundle of data card and wireless data service in monthly installments rather than having to pay for the hardware upfront as is currently the case. However, long term we expect net working capital needs to normalize at 22% of sales. For comparison this metric stood at 10%, 10.8% and 3.9% for Novatel Wireless, Sierra Wireless and Option respectively at the end of 2008 (historically Option has been trending closer to 15-16% in net working capital to sales). The structurally higher assumption we make for Vtion reflects its VNO approach as well as a fair amount of conservatism in forecasting on our behalf.

<p>WACC of 12% to calculate terminal value; beta factor of 1.28</p>	<p>We are discounting our FCF projections with a WACC of 8.4% rising to 12% for the terminal value. We use a capital asset pricing model to derive WACC. We have made the following assumptions to arrive at a beta factor reflecting Vtion's relative level of risk. We use four factors, which we rate relative to a benchmark of 1. A value above 1 means "higher risk", a value below 1 means "lower risk". We also apply a relative weight to these factors to reflect their relevance to the overall level of risk. Cyclical exposure accounts for 25% of total risk and we apply a factor of 1.3 to reflect the fact that wireless technology is cyclical in nature. A company needs to follow all new technological developments and with every new generation it has to prove is worth again.</p>
<p>Business model with low visibility</p>	<p>The next factor is transparency, which represents the visibility of Vtion's sales. Order cycles in wireless data cards tend to be very short (four to eight weeks) and hence visibility is fairly low. There is no such thing as a "confirmed order book". Hence we apply a factor of 1.35 and an overall weighting of 35% to this factor. Size/liquidity is a measure of the tradability of the stock following its intended listing. Given that it is a fairly small equity issue, one has to assume that trading will not be very liquid, at least initially. We therefore apply the maximum weighting of 1.9 to this factor. However, in order not to overstate the impact on our fundamental valuation, we assign a weighting of 20%.</p>
<p>Beta factor of 1.28</p>	<p>Given Vtion's large net cash position of >€70m following its IPO, we put a rating of 0.5 on "leverage" with a weighting of 20%. The net result of these considerations is a beta factor of 1.28. Statistically speaking this means "Vtion is 28% more risky than its benchmark".</p>
<p>Think of our DCF as a floor for valuation; net of cash it implies '10 PER of 6.8x only</p>	<p>We regard our DCF model as a floor for valuation. If Vtion continues to deliver results that keep meeting or beating expectations, its multiples should trend towards those of peers as discussed above. Note that our DCF valuation implies a PER of 9.1x for 2010 only. Note that at that stage Vtion should have net cash per share of €3.3. Adjusting for net cash it would only trade on PER of 6.8x (!).</p>
<p>Pay-out ratio of 10-30%</p>	<p>Vtion plans to pay out 10-30% of net profit as dividend. We assume it will start by paying out 20%. When the tax rate jumps to 25% in 2012 we believe Vtion will likely increase its pay-out ratio to assure progression in the absolute dividend payment. Based on our assumptions, it has a dividend yield of 2.5% for 2009.</p>

Sensitivity analysis
around our DCF derived
base case

		Long term growth rate					
		12.4	0.5%	1.0%	1.5%	2.0%	2.5%
EBIT margin	7.0%	11.7	11.8	11.9	12.0	12.1	
	7.5%	11.9	12.0	12.1	12.2	12.4	
	8.0%	12.2	12.3	12.4	12.5	12.6	
	8.5%	12.4	12.5	12.6	12.8	12.9	
	9.0%	12.6	12.7	12.9	13.0	13.2	
	9.0%	12.6	12.7	12.9	13.0	13.2	
		Long term growth rate					
		12.4	0.5%	1.0%	1.5%	2.0%	2.5%
Risk free rate	3.5%	12.4	12.6	12.7	12.9	13.1	
	4.0%	12.3	12.4	12.5	12.7	12.8	
	4.5%	12.2	12.3	12.4	12.5	12.6	
	5.0%	12.0	12.1	12.2	12.3	12.5	
	5.5%	11.9	12.0	12.1	12.2	12.3	
	5.5%	11.9	12.0	12.1	12.2	12.3	
		EBIT margin					
		12.4	7.0%	7.5%	8.0%	8.5%	9.0%
Risk free rate	3.5%	12.2	12.4	12.7	13.0	13.3	
	4.0%	12.0	12.3	12.5	12.8	13.1	
	4.5%	11.9	12.1	12.4	12.6	12.9	
	5.0%	11.7	12.0	12.2	12.5	12.7	
	5.5%	11.6	11.9	12.1	12.3	12.6	
	5.5%	11.6	11.9	12.1	12.3	12.6	
		Net Working Capital / Sales					
		12.4	21.0%	21.5%	22.0%	22.5%	23.0%
Capex / Sales	1.6%	13.2	13.1	13.1	13.1	13.0	
	2.1%	12.8	12.8	12.7	12.7	12.7	
	2.6%	12.4	12.4	12.4	12.3	12.3	
	3.1%	12.1	12.1	12.0	12.0	12.0	
	3.6%	11.7	11.7	11.7	11.6	11.6	
	3.6%	11.7	11.7	11.7	11.6	11.6	

Source: Oppenheim Research

How to read the table

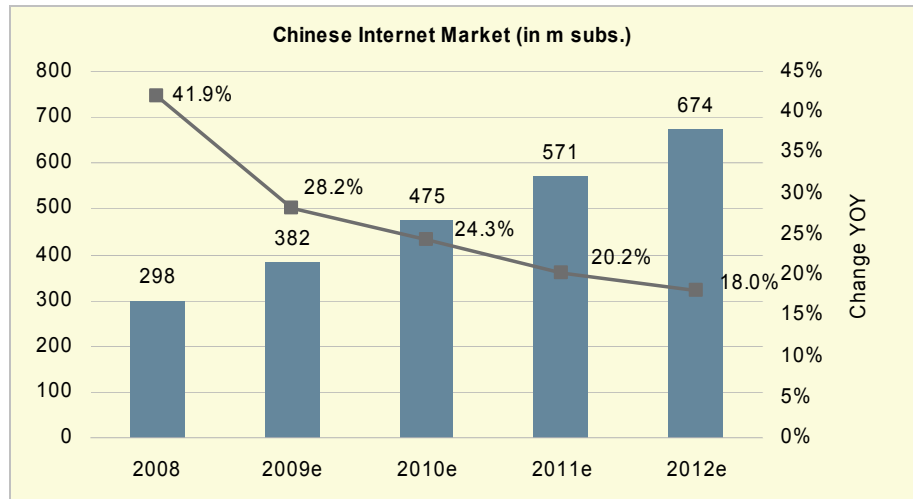
Varying assumptions on long term growth rates (from 0.5% to 2.5%) and the long term EBIT margin (from 7% to 9%) results in a DCF fair value range of €11.7 to €13.2 per Vtion share.

Market Overview

The market for wireless data cards in China

Internet usage and sales of notebook computers are important elements to forecast growth

China is Vtion's domestic market and the key driver for future growth. Wireless data cards connect laptop computers to the internet. Projections of the laptop unit sales as well as internet usage are critical to assess the market opportunity.

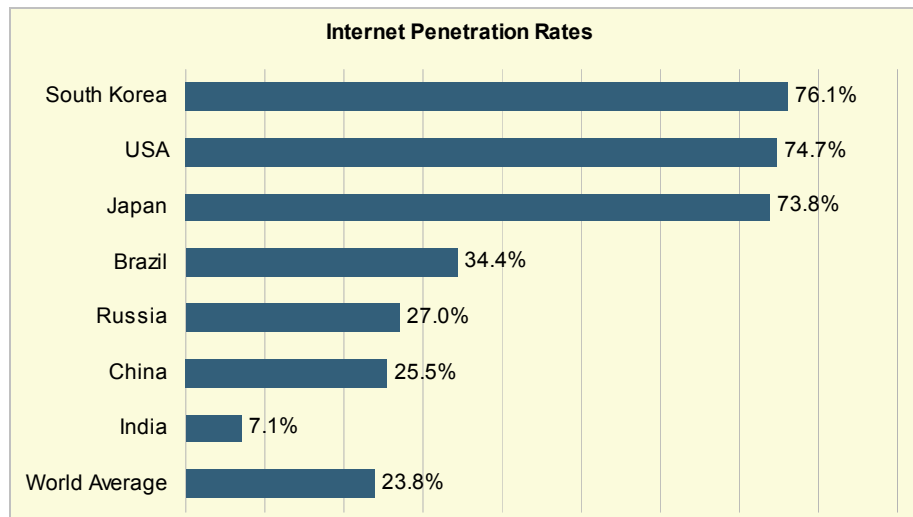


Source: CNNIC, IDC Research, Oppenheim Research

Only one in four Chinese go online, leaving room for significant expansion

At the end of June '09 there were 338m internet users in China, of which 319m used broadband access.³ While these are big numbers it means only slightly more than one in four Chinese have access to the internet (penetration rate: 25.5%). We assume household penetration remains low as many users access the internet from internet cafés. The vast majority of Chinese have yet to purchase their first PC.

Compared to developed markets internet penetration in China is still low



Source: CNNIC

³ Source: CNNIC

PC shipments in China +14% in Q2 after two quarters with declines; laptop shipments >20%

Lenovo, China's #1 PC brand with a market share of 28.6% in Q2 (up 0.3% qoq) saw its units sales increase 15% in the April to June quarter vs. +14% for the Chinese market as a whole. The market had declined in the two prior quarters. Lenovo does not break down its China shipments by notebook and desktop; however, its notebook shipments overall grew 21% yoy and accounted for 64% of its total sales while its shipments of desktop computers fell by 15%. For mature markets (N.Am, EU) it reported a decline in shipments of 17%. Lenovo noted that demand is driven by consumers rather than business users and that there was a continued shift from desktop to laptop and netbook PCs – a trend also visible in China. While official numbers for the H1 laptop market have not been published yet, it appears that the Chinese laptop and netbook market is seeing accelerating growth.

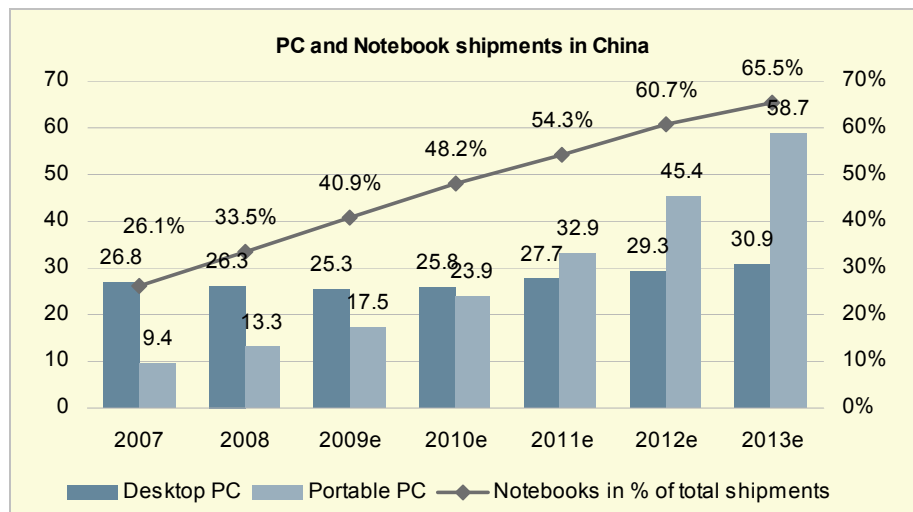
>20% sequential growth in Chinese laptop market in Q3 and Q4 '09 likely; our assumption differs slightly on timing laptop shipments vs. IDC's estimates

Quanta, which together with Compal manufactures more than 50% of the world's laptops globally, expects shipments to grow by 20% in Q3⁴ and predicts a similar growth rate for Q4⁵. PC shipments tend to be higher in H2. This year the development might be helped additionally by the launch of Windows 7, which Microsoft plans to unveil in October. In light of overall economic growth trends, it seems reasonable to assume that growth rates of the Chinese laptop market should be higher than the world's average. Because of signs of a pick-up in laptop sales, we have adjusted IDC Research's forecast by bringing forward 1m laptop shipments from their 2011 projection to 2010; we have left IDC's total unit shipments to 2013 unchanged.

Laptop shipments in China to overtake desktops in 2011

IDC Research in its forecast for the Chinese PC market predicts a CAGR for laptop shipments of 34.6% for the period 2008 to 2013. From a base of 13.3m portable computers sold in 2008, it expects annual shipments to rise to 58.7m units by 2013. According to this research, 2011 will mark a tipping point when laptop shipments exceed those of desktop unit sales for the first time in China. Growth of desktop shipments pale by comparison (CAGR '08-'13e: 3.3%), reflecting a base effect but also the trend from desktop to laptop PCs. Nevertheless, some 26m to 30m desktops are shipped in China annually. In areas where fixed line broadband has not arrived, wireless data cards may be used to connect to the internet even though penetration rates in this segment should be well below those for mobile PCs.

Laptop CAGR '08-'13: 34.6%



Source: IDC Research, Oppenheim Research

⁴ Quanta Computers Q2 2009 report, August 24, 2009

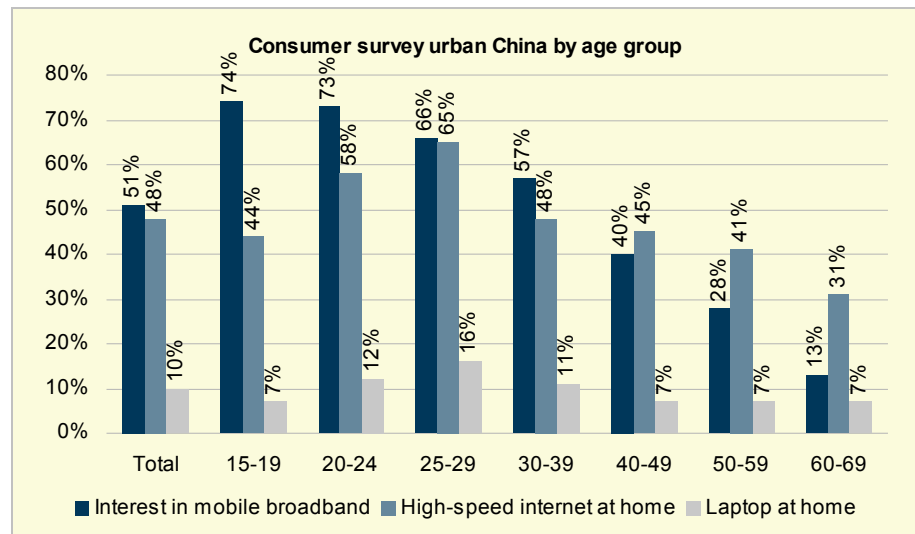
⁵ Financial Times Deutschland, August 25, 2009, p. 8

A survey cited by Ericsson in May 2009 found strong interest among urban Chinese consumers in mobile broadband. Researchers looked at different age groups from 15-19 year olds all the way to 60-69 year olds and asked for their interest in mobile broadband. Consumers were also asked to say whether they have high speed internet access at home and whether they own a laptop. The results bode well for demand:

- 51% of all respondents expressed interest in mobile broadband
- 67% of those who have a laptop at home are interested
- 61% of those who have fixed broadband at home are interested
- 44% of respondents want to use mobile broadband even at home in a fixed location
- Laptop ownership for all respondents in this urban consumer group was only 10%, implying significant untapped demand; with prices for laptops falling demand should increase significantly.

Interest in mobile broadband is particularly strong among the 15-29 year olds, where it ranges from 66% to 74%. Every year 6.1m Chinese graduate from university. They should fall into this age group. Applying the survey's findings, 70% of them or 4.3m should be interested in mobile broadband. Incidentally this is also the age group with the highest laptop ownership – the sweet spot for mobile data card vendors.

Recent consumer survey finds 73% of 20-24 year old urban Chinese are interested in mobile broadband



Source: China Urban Infocom study 2008 – Consumer Lab, Ericsson

Substantial cross-selling opportunity for fixed-mobile broadband packages

The survey findings point to substantial cross-selling opportunities for operators with both fixed line and wireless networks. The operator with the highest number of residential fixed lines is China Telecom with 208m (-5.1% since the start of '09) lines at the end of July 2009 and 5.6m (+12.6% since the start of '09) broadband users. It appears China Telecom has been losing fixed line customers to China Unicom, who saw its residential lines increase by 8% since the start of the year to over 100m. Growth in broadband connections was even stronger up 40.6% since the start of the year to 10.3m users by the end of July '09.

Massive battle for mobile broadband subscribers taking shape

We believe there is important price elasticity in the market both for laptop PCs as well as 3G service charges. Clearly many millions of consumers are interested. The absolute size of the market will critically depend on cheaper notebook computers coming to market as well as the pricing for 3G service by the three mobile operators. Mobile operators have launched initial sections of their 3G networks and announced their respective brands. However, they have yet to define their marketing strategies for mobile broadband data usage and therefore data cards. Thanks to restructuring of the Chinese telecommunications operator landscape, competition has become more intense. We suspect a huge battle for mobile broadband subscribers is taking shape in China and should gain momentum in H2 2009 and going into 2010.

Mobile subscribers					Change			
in m.	September '09		Dec '08		since 1 Jan.		in Aug. in Sept	
	share	subs	share	subs	abs.	rel.	abs.	
China Unicom	20.5%	142.80	21.6%	133.37	9.43	7.1%	0.81	0.94
China Mobile	72.8%	508.37	73.9%	457.25	51.12	11.2%	5.26	5.43
China Telecom	6.7%	46.78	4.5%	27.91	18.87	67.6%	2.08	2.97
Total	100%	697.95	100%	618.53	79.42	12.8%	8.15	9.34

Local access lines					Change			
in m.	September '09		Dec '08		since 1 Jan.		in Aug. in Sept	
	share	subs	share	lines	abs.	rel.	abs.	
China Unicom	35.5%	107.13	16.2%	100.15	6.99	7.0%	-0.48	-0.51
China Mobile								
China Telecom	64.5%	194.39	33.7%	208.35	-13.96	-6.7%	-1.52	-1.78
Total	100%	301.52	49.9%	308.50	-6.98	-2.3%	-2.00	-2.29

Broadband access lines					Change			
in m.	September '09		Dec '08		since 1 Jan.		in Aug. in Sept	
	share	subs	share	lines	abs.	rel.	abs.	
China Unicom	42.1%	37.47	36.5%	25.42	12.05	47.4%	0.87	0.87
China Mobile								
China Telecom	57.9%	51.45	63.5%	44.27	7.18	16.2%	0.69	0.89
Total	100%	88.92	100%	69.69	19.23	27.6%	1.56	1.76

Source: China Mobile, China Telecom, China Unicom, Oppenheim Research

3G in China

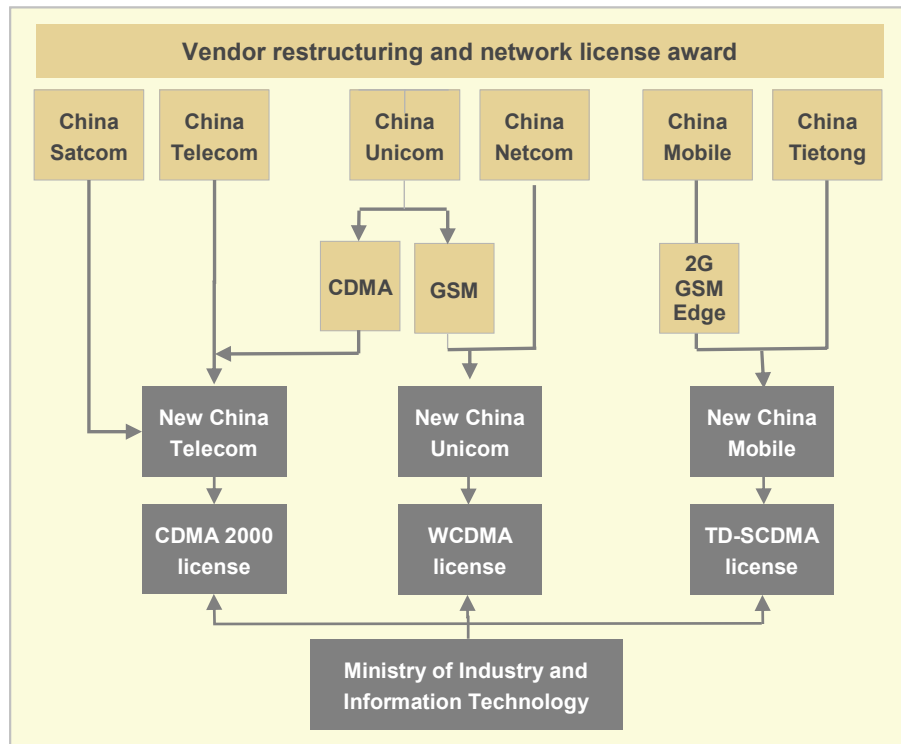
Old structure: Three mobile and three fixed line operators

Towards the end of 2008/beginning of 2009 and prior to awarding 3G licenses, China radically reformed its telecommunications sector going from six operators to three. It broke China Unicom into two pieces – one with a GSM and one with a CDMA network – and merged each of them with an existing fixed line operator. Today there are three fixed-mobile operators with a license for 3G mobile services each: China Mobile (GSM / TD-SCDMA), China Unicom (GSM / W-CDMA or UMTS) and China Telecom (CDMA / CDMA 2000). The build-out of mobile data networks is very different and will shape their strategies going forward.

China Telecom the leading operator on mobile broadband targeting ~15m mobile broadband users over 2-3 years

China Telecom was merged with the CDMA network that previously belonged to China Unicom. It was awarded a license to build and operate a 3G network based on CDMA 2000 and upgrade it later on to CDMA EV-DO. China Telecom is the smallest operator in terms of wireless voice. However, its CDMA network has historically provided the fastest wireless data access and hence it has been able to attract a significant share of early adopters. The roll out of its CDMA EV-DO mobile data network already covers 342 cities in >2000 counties at the end of July 2009.

New structure: Three fixed-mobile operators with a license for 3G mobile services each



Source: Vtion

China Telecom appears to be successful selling fixed-mobile bundles

China Telecom is aiming to cover all cities above prefecture level (>300) by year end '09 and plans to invest RMB80bn (~€8bn) in CDMA EV-DO over the coming two years (of which RMB47bn or 59% in '09)⁶. By the end of June 2009, China Telecom had 198.69m local access lines (down 10.66m or 5.1% since the start of the year), 49.87m broadband subscribers (up 5.6m or +12.6m) and 41.73m mobile subscribers (up 13.82m or +49.5%). China Telecom's strategy is to use its 3G head start to aggressively go after wireless data users.⁷ It aims to upsell existing fixed line customers by offering them fixed-wireless bundles. This offer seems to meet consumer demand. In H1 '09 mobile subscriber budling reached 48% (+13ppts) vs. a target of 46% by year end 2011. This development is mirrored in China Telecom signing up 21% net new mobile subscribers in China in H1 '09. China Mobile is on the losing end given that it does not have a fixed line network. China Telecom's target for mobile subscriber bundling over the next two to three years implies over 15m mobile broadband users. Mobile broadband is critical to its success and we believe it has a window of opportunity of six to nine months in which to capture as much share as possible before its competitors will catch up.

Vtion shipped >1m 3G data cards since the launch of the networks in May 2009

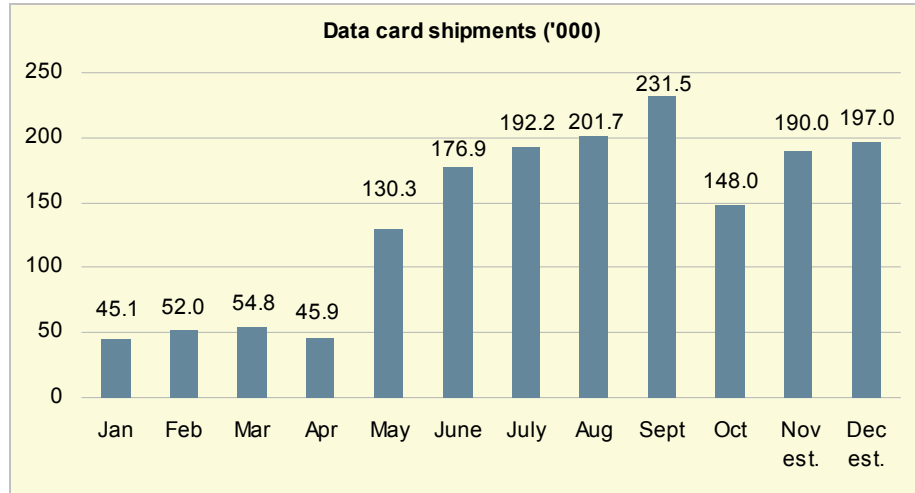
This is mirrored by the surge in CDMA data card shipments Vtion has been experiencing since May 2009. In July alone Vtion shipped 108k CDMA EV-DO cards, most of which were entry level products with a lower price point suitable for promotional offers. Applying a 25% market share to 5m new mobile broadband users implies an annual opportunity of 1.25m CDMA EV-DO cards or about 100k cards per month. Since launching its first CDMA EV-DO card at the start of May, Vtion has been shipping slightly over 100k cards per month to China Telecom. Note that China Telecom wants to reach its goal of approximately 15m mobile broadband users over

⁶ China Telecom Annual Report 2008; NB: p. 9 of China Telecom's H1 '09 results presentation mentions a FY capex target of just RMB39.2bn of which RMB17bn or 43.5% had been spent in H1 '09

⁷ China Telecom H1 2008 results presentation, pp. 17 + 18

2-3 years, which means the monthly CDMA EV-DO card shipments could move more clearly beyond 100k cards for Vtion, share gains notwithstanding.

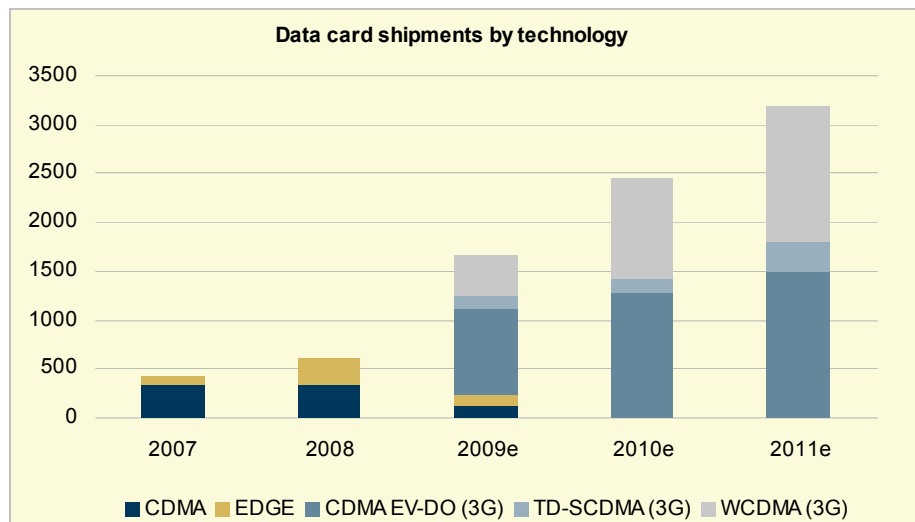
Surge in 3G data card shipments since May '09



Source: Vtion Technology

September peak month ahead of China's 60 year anniversary national holiday

The table above clearly illustrates the impact of launching 3G networks in China for the first time. This has led to a tripling and then quadrupling of monthly shipments. September was a bumper month in terms of Vtion's card shipments. It was fuelled by promotional activity ahead of China's 60 year national holiday on 1. Oct. Following that date, shops remained closed for the better part of one week which explains the ensuing dip in shipments in October. We expect shipments to move back close to the monthly run-rate of 200k cards in November and December. Note that Q2 and Q3 tend to be the seasonally strongest quarters whereas Q1 and Q4 are impacted by China National day and Chinese New Year respectively. Looking out into 2010, Vtion will benefit from a base effect in Q1 and partly in Q2 given still low shipment levels up until the end of April 2009.



Source: Vtion Technology

Jump in 3G cards suggests healthy demand picture at the start of 3G roll outs

H1 2009 was marked by the end of life of 2G data cards. Discounting end of life products had a dampening effect on ASP and gross margin both of which increased in Q3 vs. H1 '09. The shift towards 3G has now happened when it comes to Vtton's product mix. As can be seen from the following chart, we are relatively cautious with regards to our forecast for TD-SCDMA (China Mobile) cards given that this standard is the least mature. We expect that most users will gravitate towards CDMA EV-DO and W-CDMA cards over the coming two years. We will revisit this assumption as more data points on subscriber uptake becomes available.

China Unicom to launch major marketing campaign to promote its 3G service

China Unicom won a license to provide mobile 3G services based on W-CDMA (=UMTS), the standard most widely deployed globally. It plans to cover 335 cities towards the end of 2009, aiming for 96% nationwide coverage in 2011. Unicom plans to upgrade the network to HSDPA and HSUPA for even faster service and additional mobile broadband capacity both in the down- and uplink. For 2009 it has budgeted RMB110bn (~€11bn)⁸ in network capex. W-CDMA is a stable technology and we expect Unicom to launch a major marketing campaign over the coming months specifically promoting its 3G service.

China Mobile has close to 500m mobile subscribers; so far only 1.1m or 0.2% use 3G

While China Mobile is the largest operator by number of mobile subscribers, it actually has the smallest 3G footprint. It just finished the second phase of its TD-SCDMA network roll-out, which now covers 38 cities. China Mobile plans to cover 238 cities by year end '09 and to cover all prefecture-level cities in 2011. In H1 '09 it incurred capex of RMB62.8bn, leaving RMB71.1bn (+13.2% vs. H1) to be invested to reach the full year budget of RMB133.9bn. China Mobile has earmarked 76% or RMB102bn of its 2009 capex for 2G/3G integration; 24% will be invested in 2G and of this 70% in rural areas. For 2010 China Mobile plans to incur capex of RMB131bn followed by RMB110.5 during 2011.⁹

China Mobile investing €11bn in its 3G network; TD still needs some optimization

Over the coming two years China Mobile plans to invest RMB110bn (~€11bn) in its TD-SCDMA network alone. Compared to W-CDMA and CDMA 2000, the Chinese home grown 3G standard known as TD-SCDMA is less mature. Network reliability is still being optimized and there is only a limited number of end user terminals available restricting consumer choices. China Mobile has vowed to improve network quality and stability. It aims to have nearly 100 different phone models ready by year end 2009 and a total terminal choice of almost 300 (including data cards, M2M, fixed-wireless routers etc.).

Unlike its competitors China Mobile does not have a fixed line network

To reach this goal it is fostering a large developer community consisting of many suppliers before paring down the numbers at a later stage. At the end of July '09 China Mobile had shy of 1.1m 3G users or 0.2% of its total wireless subscriber base of 497.7m. Unlike Unicom and Telecom, China Mobile does not have a fixed line network and, therefore, no fixed line users it could up-sell to fixed-mobile bundles. When it comes to 3G, it seems China Mobile is a step or two behind its domestic rivals. Its share of net new mobile subscribers has slipped to 66% in H1 '09 from 88% in H1 '08. Over the same time frame average voice revenue per minute declined from RMB0.123 to RMB0.110 (down 10.6%). Value added services, pushing deeper into rural areas and pushing forward its TD-SCDMA network are strategic priorities for China Mobile.

⁸ Vtton analyst presentation, August 2009

⁹ China Mobile, annual report 2008 on Form 20-F, p. 44

Company Strategy

Focus on quality wireless data cards and related services in China

Focus yields tangible results	<p>For a small company focusing its resources makes perfect sense. By concentrating on one product group – wireless data cards – Vtion has achieved:</p> <ul style="list-style-type: none"> • Superior quality and reliable supplier status – proof points: Vtion has consistently low return rates on its products. It has been a qualified supplier for China Telecom for two consecutive years and China Unicom for six consecutive years; it also has obtained “strategic partner” status with China Mobile. Note that, apart from Vtion, only Huawei and ZTE have been selected as “top-tier qualified suppliers” by Telecom and Unicom. • Rising brand awareness – proof point: Vtion has been listed among China’s 500 most valuable brands for third year in a row in Brand Lab survey. • Superior after sales service – proof point: China Telecom has outsourced its after sales services to Vtion in Fujian province. • Competitive cost structure – proof point: Vtion operates with healthy gross and operating margins consistently higher than pure play peers, price declines have been offset by volume increases. • Short development cycle – proof point: Vtion has repeatedly launched new products within only three months “from spec to manufacturing”. • Building a recurring revenue base – proof point: Vtion Business Club, a value added online services business with approx. 225k paying users.
Value chain: Focus on customer facing activities	<p>Based on customer requirements, Vtion defines product specifications on the industrial design (ID), mechanical design (MI) and user interface (UI), which are then implemented in collaboration with specialized R&D houses. Once the design has passed rigorous testing and customer acceptance, manufacturing is outsourced to EMS companies. Currently Vtion uses Foxconn and BYD. Vtion selects the components used in the products and negotiates prices and logistics. It also monitors quality by carrying out extensive testing before products are shipped. Tests verify compatibility with PCs (many different models including older ones), the Internet, SIM card (GSM) and UIM (CDMA).</p>
Testing and R&D	<p>Test are also carried out to assure performance and reliability (e.g. for video streaming), extreme temperatures and humidity. Finally the RF qualities under various wireless coverage scenarios are tested. Some of these test need to be carried out by third parties, as customers demand an outsider’s view. Vtion carefully selects and audits all of its suppliers. Its in-house R&D focuses on software running on the cards, which defines how the card interacts with the PC it is installed on, as well as end user interface, which displays the operator logo, user guidelines installation and information on trouble shooting and remote updates. Finally Vtion takes care of packaging, branding and after-sales services.</p>
After sales services are a true differentiator in the Chinese market	<p>After sales service is a differentiating factor in China. Especially smaller brands often display a “hit and run” mentality, shipping products into a channel and moving on. More surprisingly, even Huawei and ZTE do not seem to emphasize after sales services for their data card products. Vtion on the other hand is operating a help line six days a week, 13 hours a day under a single nationwide toll-free phone number. Currently it employs 23 (15.3% of Vtion’s total workforce) in after sales services in 17 cities across nine provinces. Of these, 6 people operate the help line. There are three areas on which customers tend to seek support:</p> <ul style="list-style-type: none"> • Installation – in China many different PCs and laptop computers with various

software releases running on them are in use. Often this includes pirated software, which can lead to complications when seeking to install a wireless data card – this is not yet a plug & play market

- Network issues: Especially in the early stages of 3G roll-outs reception varies and there have been issues around roaming and connectivity. For the end user it is hard to discern what causes, for instance, a slow connection – is it the data card or is it the network? When mobile data network reliability issues are identified, Vtion feeds them back to the operator concerned. In this way it contributes to improving quality and reliability of 3G networks.
- Most data card users tend to be business people with little or no IT expertise. Sometimes the help line ends up giving support on general PC issues rather than any perceived malfunction of the data card. This leads to high levels of customer satisfaction and reinforces Vtion's brand.

Complete product portfolio

Vtion aims to offer the most complete portfolio of wireless data cards covering all available interfaces (PCMCIA, USB, Mini-USB, Express 34 and PCI Express Mini) and transmission protocols (CDMA 1x, EDGE, TD-SCDMA, CDMA 2000 EV-DO Rev A and in the future Rev B, WCDMA, HSPA – UPA and DPA). It places particular emphasis on combining different radio interfaces in one card, for example EDGE and TD-SCDMA. Vtion plans to have launched ten 3G cards before year end '09. Offering a broad product portfolio makes sense in a country that boasts three different 3G standards as well as two second generation cellular standards with two intermediate (2.5 – 2.75G) standards all coexisting at the same time. Network build-out on these is very heterogeneous. Hence, in order to be certain to get a usable signal, multiradio and multistandard is a must in China.

In China multiple cellular standards will coexist: Three 3G standards, two 2.75G and two 2G standards

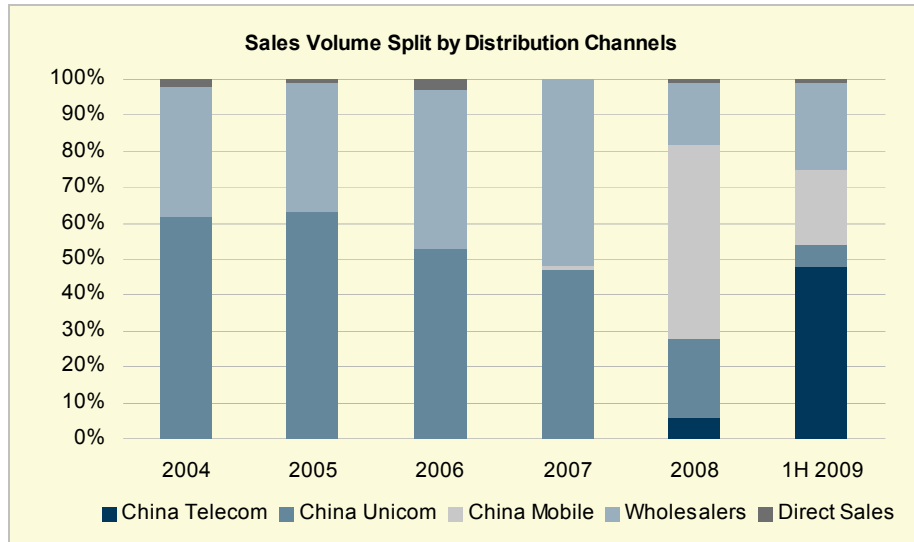
The Chinese market differs from other markets in that it will serve three different families of cellular standards: GSM, CDMA and the China's home grown 3G standard TD-SCDMA. By contrast in Europe the GSM family of cellular technology dominates (GSM, GPRS, EDGE, W-CDMA, HSPA). In the US two main standards prevail: The GSM family and the CDMA family (CDMA, CDMA 1x, CDMA 2000 EV-DO). iDEN – a proprietary standard set by Motorola – continues to be used by Sprint (part of Verizon) for professional users who like a walky-talky type application, which was first implemented in iDEN but has meanwhile become available in GSM and CDMA too.

No other country has as many competing 3G network standards as China – with positive implications for Vtion

Due to different standards and technology generations coexisting, laptop OEMs find it hard to preinstall wireless modems in their products. For a subscriber to China Telecom's CDMA EV-DO network a wireless module based on W-CDMA or TD-SCDMA would be worthless and vice-versa. By selectively embedding one network technology, it would run the risk of customers not buying its laptop or at least not be prepared to pay the higher price needed to cover the associated component cost. The easy choice for OEMs is to leave the decision which network technology to use up the end customer and simply provide the interface to external wireless data cards. Hence there is a structural difference in China compared to other markets which works in favor of wireless data card vendors as it will take longer for this market to shift towards embedded wireless modules.

Broaden distribution, enter new provinces

Shipments by channel

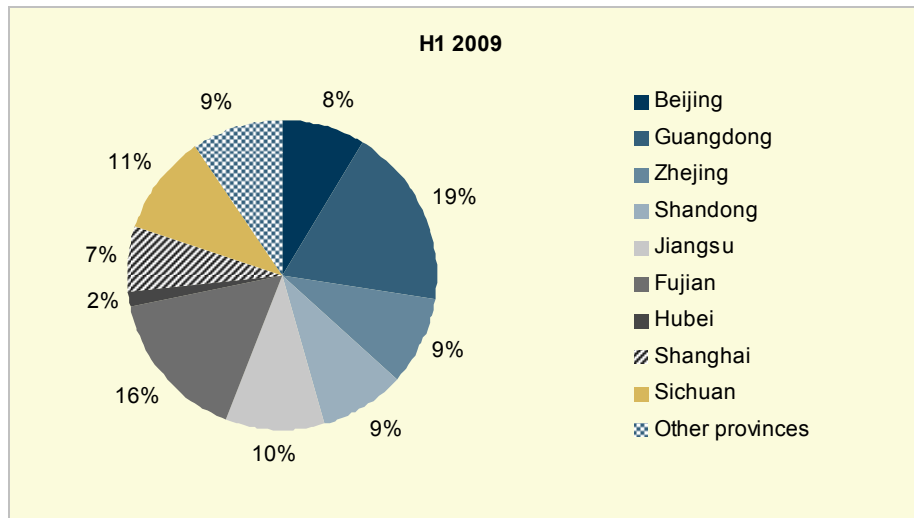


Sources: Vtion, Oppenheim Research

Approx. 75% of Vtion's cards sold via operators; ~25% via wholesale to independent retailers

Operators have become the most important channel for Vtion's data cards. Among the operators, China Telecom in H1 '09 represented the lion's share of shipments. We believe this reflects Telecom's more advanced 3G network roll-out and strategy of upselling existing landline users to fixed and mobile bundles. As the 3G roll-out of Unicom and China Mobile continues we expect them go after mobile broadband users more aggressively, which should lead to a more balanced distribution across the three operators over time. Clearly the biggest upside for Vtion is by achieving a similar market share with Unicom and China Mobile as it currently has with Telecom. Approx. 25% of Vtion's units are sold to wholesalers, who in turn supply independent retailers to complement the operator channel. Vtion sells 1% of its data cards directly to consumers via a handful of showrooms and shop-in-shops which are mainly used to collect consumer insights and which are currently established at outlets from telecom operators and wholesalers. By opening additional showrooms/shop-in-shops and with the help of the VNO model, which starts to go live in August '09, direct distribution could eventually account for 10-15% of total shipments.

Shipments by province



Source: Vtion

Vtition currently active in nine provinces; extend into additional ones

So far Vtition has been active in nine provinces: Beijing, Shanghai, Fujian, Guangdong, Zhejiang, Jiangsu, Shandong, Sichuan and Hubei with a combined population of 436m at the end of 2006¹⁰ – the most recent year for which population statistics broken down by province are available. These nine regions are the most developed in mainland China; many people with their "hu kou" (residency permit) in other provinces actually reside there. Hence, the actual population in these areas is likely higher than the NPFPC statistics suggest.

Vtition has strong supplier relationships with all three operators in China

A natural way to grow would be to enter additional provinces as 3G network roll-out progresses. Especially China Mobile seems strongly committed to bridging the digital divide that exists between less developed and highly advanced regions in China. The government is subsidizing the purchase of PCs. Vtition can piggy-back on these twin trends. Being listed as a top qualified supplier in key provinces with Unicom and Telecom and with status of "strategic partner" for China Mobile, Vtition stands a good chance to start selling through these same operators in additional regions.

Our model only considers Chinese potential; exports of data cards would come on top

Nevertheless, for our sales forecast we have only considered the domestic Chinese market. Sales to other geographies would be incremental to our revenue projection. We would expect Vtition to address emerging economies first before starting to sell into developed markets. We would also assume Vtition would attempt to fill small to mid-sized orders to gather experience and avoid going head to head with large competitors. Initially sales would be exclusively via wholesale, which would minimize any upfront investments. Vtition could readily address English speaking markets because all the packaging is available in English. Vtition would follow a low price policy to enter these markets, positioning a comparable feature set 2-5% below a comparable product from Huawei.

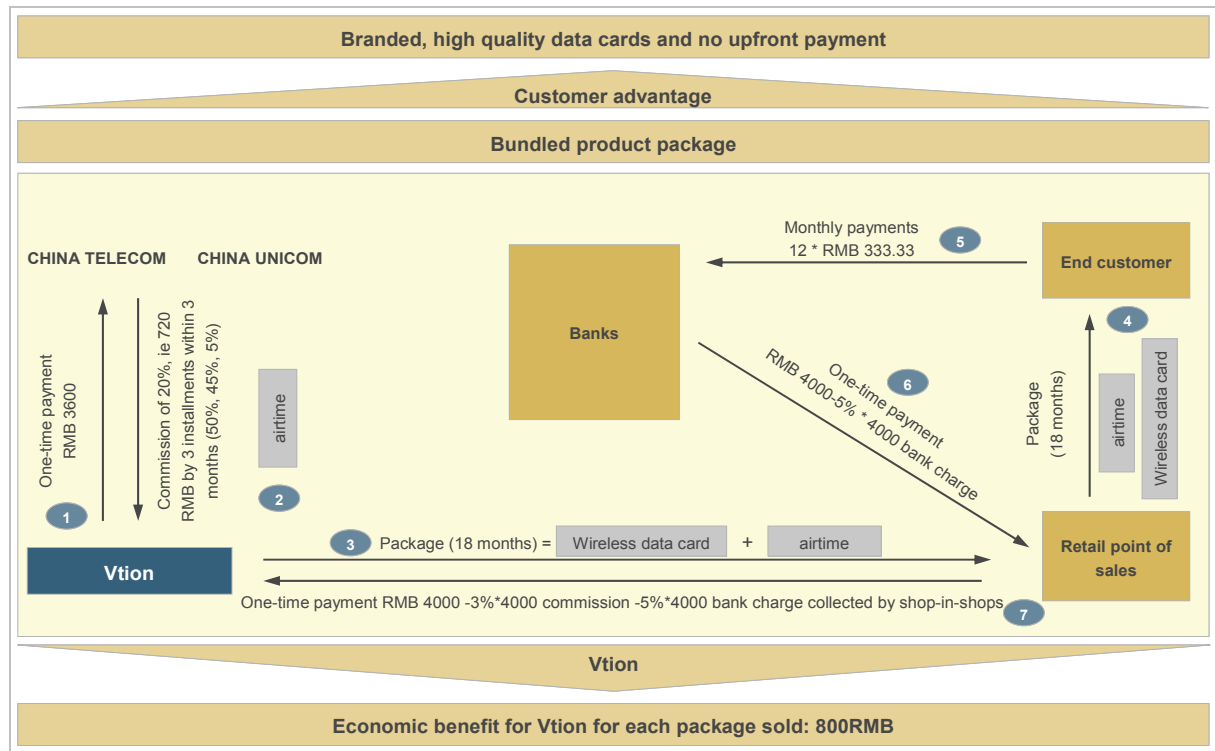
Act as Mobile Virtual Network Operator (MVNO)

Expected economic benefit to Vtition per VNO pack: RMB800 (~€80)

Together with China Telecom and at a later stage with China Unicom as well as selected banks¹¹, Vtition will start selling its data cards through independent sales agencies along with an 18-month mobile internet contract. The customer does not have to pay for the hardware upfront. Instead he pays a monthly bill, which covers both the hardware cost as well as network usage. This is a novel approach in China, where end users have been used to purchasing hardware upfront and then signing on for a data contract with an operator. Vtition expects an economic benefit for each package sold of about RMB800 (~€80). Vtition plans to offer VNO (= Virtual Network Operator) packages to shop-in-shops located in operators' branches as well as to retailers.

¹⁰ National Population and Family Planning Commission of China (NPFPC)

¹¹ China Construction Bank, China Merchants Bank, Bank of China and China Minsheng Banking Corp., Ltd.



Source: Vtton

How the VNO model works

Under the new VNO model with China Telecom, Vtton buys mobile data access, for which it pays RMB3,600 upfront to the operator per contract. In return it receives a sales commission of 20% or RMB720 in three monthly installments (RMB360, RMB324 and RMB36) as compensation for its hardware over a period of six months. Vtton then delivers one of its wireless data cards bundled with the SIM (or UM in the case of CDMA) to retail. Upon sale to the end customer, the retailer receives a one-time payment of RMB3,800 (RMB4,000 bundle value less 5% bank service charge for their pre-financing of the deal). The end customer typically pays 12 monthly installments of RMB333.33 to the bank for a total of RMB4,000.

Advantage for retail partner

The advantage for the retail partners is that they can offer a service not just a piece of hardware. Because of the arrangement with the bank, they immediately collect the life time value of the bundle less a 5% service charge. The retailer gets to retain 3% of the bundle value or RMB120 and passes along the rest of the payment it received from the banks to Vtton (RMB3,680 i.e. the initial RMB4,000 less the 5% bank charge, less the 3% retail incentive). The economic benefit of RMB800 accruing to Vtton is a combination of the RMB720 commission and the RMB80 profit from selling the bundle it purchased for RMB3,600 from the operator for RMB3,680 to the retailer.

Timing of cash in for Vtton

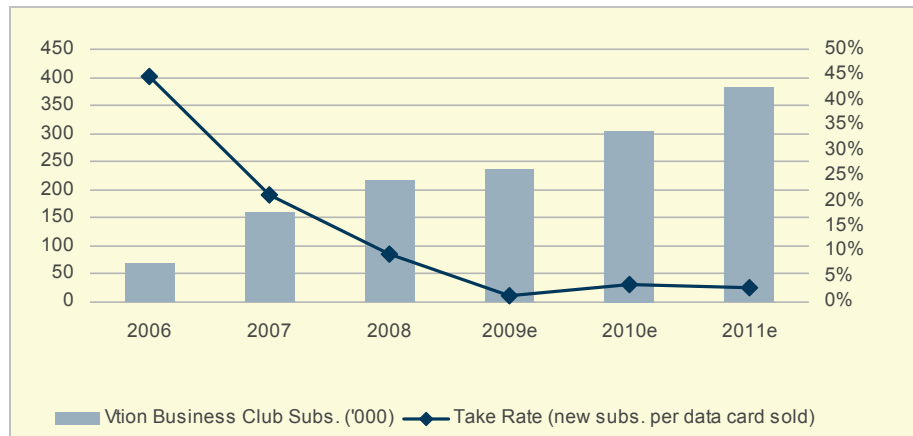
Upon sale and activation of a VNO pack, Vtton recognizes RMB720 in revenues. From a cash flow perspective it receives RMB360 in the second month after the VNO bundle has been sold from the operator, followed by a payment of RMB324 in the fourth month and RMB36 in the sixth. Vtton receives the RMB3,680 payment per contract from the retail partner under its standard collections terms.

Vtton could generate 10-12% of total sales from VNO model in 2010

Vtton could generate about 12% of its total sales in 2010 from this model. Initial sales under the VNO model started on a trial basis in August 2009 with China Telecom. China Unicom may follow in late 2009, the planned launch date of its W-CDMA network. Consumers will effectively get the opportunity to pay for a data card in installments, which lowers the upfront cash amount necessary. The advantage for Vtton is to lock in the price for its hardware and to differentiate its offering in the market.

Value added online services: Vtion Business Club

<p>Vtion business club has attracted >231k paying users since its launch in Jan. 2006</p>	<p>In January 2006 Vtion launched its “Business Club” branded data service (http://www.mbevip.com) provided through a separate domestic company, Fujian Vtion Telecom Information Service Co. Ltd. (“Fujian Vtion”), owned by Mr. Chen Guoping and Mr. He Zhihong, Vtion Group’s CEO and CTO. Since then it has signed up >231k users, who pay a monthly charge of RMB20 (~€2). The use period is one year (i.e. RMB240). When customers connect to the internet via their wireless data card for the first time, they automatically land on Vtion Business Club’s home page, where they can register for trial service. Vtion targets business users and government officials, who tend to be less price sensitive than consumers. Vtion’s hardware sales package contains information on the service as well as a golden club card for registration. Clients can sign up for a range of services, some free of charge, others pay per use. According to management, in H1 2009 the Business Club contributed about 6% to Vtion’s sales or about €1.3m. Available services which are largely provided through co-operation partners include the following:</p>
<p>Virus scanning and e-fax</p>	<p>This feature protects users from computer viruses when they go online using their Vtion wireless data card. Electronic-fax allows users to send and receive faxes from their laptop.</p>
<p>Faster download speeds</p>	<p>Internet accelerator: This service strips websites to their core elements in order to accelerate data throughput. Vtion hosts popular websites to increase availability. This leads to a positive user experience as it shortens perceived download times.</p>
<p>Cooperation with Chinese hotel reservation site Ctrip</p>	<p>Vtion has teamed up with Ctrip, a Chinese online travel portal, which allows users to book hotels online, buy air tickets and compare travel-related prices. Vtion receives a small revenue share contribution from Ctrip for each transaction done via its website. However, so far the amounts have been negligible and our forecast does not reflect an assumption on affiliate marketing revenues – even though such revenue streams could materialize in the future.</p>
<p>Online translation service</p>	<p>This tool allows Business Club members to have texts translated by sending the document concerned to an affiliated translation bureau.</p>
<p>Specific 3G services planned to be introduced by year-end 2009</p>	<p>By the end of 2009 Vtion plans to introduce a range of additional services specifically harnessing the higher wireless data speeds made possible by the introduction of 3G to increase the Business Club’s relevance to its members and encourage them to renew their subscriptions while keeping the annual subscription charge stable at RMB240. New services will include the following</p>
<p>Smart phone book</p>	<p>Members can upload the phone book and contact details on their mobile phone to safeguard them. This offering is relevant at a time when millions of users are expected to upgrade their 2G phones for a 3G one. Thanks to this tool users will not have to enter contact information manually again.</p>
<p>Web conferencing</p>	<p>This is a simple to use web conferencing tool optimized for use on a laptop computer with wireless access. Vtion is partnering with a Shanghai-based technology provider.</p>



Source: Oppenheim Research

Different network generations will co-exist in China for years expanding the life span for mobile accelerator

An important value proposition of Vtion's business club has been its internet accelerator, which optimizes data throughput and makes for a better user experience, even on a 2.5G network such as CDMA 1x. This competitive advantage could come under threat once 3G networks become ubiquitous in China. However, the most likely scenario is that 3G network coverage will start in large cities. It will take time for high quality 3G coverage to arrive in smaller towns and in the countryside. Hence 2.5G networks such as CDMA 1x and GPRS/EDGE will likely prevail for several years. Operators have significant costs sunk into these networks and will seek to capitalize on them. Nevertheless, the launch of 3G seems to have led to a lull in net new users for Vtion's Business Club. Consequently we have lowered our assumption on net new users per data card sold to a low single digit to try to avoid overstating the case.

Companies that provide telecommunications services face restrictions on foreign ownership in China

For regulatory reasons (restrictions of ownership of telco service companies in China) the company structure of Vtion Business Club had to be set up differently than of Vtion Group: Vtion Group has outsourced its business for data service solutions by transferring the ownership of the website www.mbevip.com to Fujian Vtion, which is a related party owned by Mr. Chen Guoping and Mr. He Zhihong, Vtion Group's CEO and CTO. It is controlled by Vtion Group through service agreements. Based on these service agreements, Fujian Vtion operates the website www.mbevip.com and provides data services solutions to members of the business club. Vtion Group receives 90% of the revenues of Fujian Vtion for related technology support and other services.

Competition

Chinese competitors

Heterogeneous market calling for consolidation; opportunities to capture market share for established players with strong ties to operators

There are over 80 brands for wireless data cards available in various provinces. Most small players appear to have a low-end image selling via independent retailers. As discussed, the launch of 3G networks is of critical importance to the three mobile operators in China. They will not compromise on quality because a poor user experience would reflect negatively on them at a time when competition among operators for 3G users is increasing. Large players including Huawei and ZTE focus on telco equipment and mobile phones. Mobile data cards are only a fraction of their business and hence not a top priority for them. Competition is rife in the wireless data card market. We expect several of the smaller players to drop out of the race over the coming quarters. Already today three players dominate the Chinese market – Vtion among them. We do not expect significant new entrants.

Huawei

Founded in 1988, Huawei has become the world's third largest telco equipment vendor globally with a 17% market share in wireless networks in Q2 '09.¹² It employs more than 37,000 people and has deployed solutions in over 100 countries. Its strategic focus is on telco equipment, where it competes against the likes of Ericsson, Nokia Siemens Networks and Alcatel-Lucent on a global scale. In 2008 Huawei generated 75% of its revenues or about €12.5bn from outside China.

Huawei's position in wireless data cards

Huawei is the leading vendor of data cards in China with an estimated market share of 30%. It became the first Chinese supplier to sell data cards in the US. In Europe it has been particularly successful with Vodafone, where it replaced Novatel Wireless as a key supplier in 2008. Relative to the size of its core business, wireless data cards are a fringe activity. Huawei's terminal portfolio is comprised of mobile broadband terminals, mobile phones, convergent terminals, and videoconferencing terminals. In total it shipped 25m broadband terminals in 2008¹³; however, it is unclear whether this number refers to data cards only. The data card business is part of the terminal business unit. In 2008 Huawei shipped 20m CDMA phones, making it the third largest vendor. It also sold 37m fixed-wireless terminals and 38m xDSL terminals (we assume this means customer premise equipment). In 2008 Huawei looked in vain for a private equity partner to take a 49% stake in its terminal business. At the time some potential investors were reported to deplore a lack of transparency.

Huawei CAGR 2004-2009e: 51%

in US\$ bn	2004	2005	2006	2007	2008	2009e
Sales	3,827	5,982	8,504	12,840	18,329	>30.0
yoy	n.a.	56%	42%	51%	43%	64%
Op. profit	689	837	595	1,248	2,374	n.a.
in % of sales	18%	14%	7%	9.7%	13.0%	
Net profit	624	681	512	957	1,151	n.a.
in % of sales	16.3%	11.4%	6.0%	7.5%	6.3%	
Op. CF	396	708	743	1,044	946	
op. CF / op. profit	57.5%	84.5%	124.8%	83.7%	39.8%	
Return on net assets	31%	30%	20%	28%	24%	
Net financial position				1,604	1,132	
Net WC / sales				13.4%	19.3%	

Source: Huawei, Oppenheim Research

¹² Market research firm Dell'Oro quoted in Reuters article, 13 August 2009

¹³ Huawei Annual Report 2008, p. 22

ZTE

ZTE (www.zte.com.cn) is one of China's largest home-grown telco equipment vendors. Listed on the Hong Kong and Shenzhen stock exchanges (0763.HK; 000063.SZ), it has a market capitalization of €6.4bn employing 61,350 people last year. In 2008 61% of ZTE's sales came from outside China. In that year it almost doubled its share of the global wireless equipment market to 5%. Having won about 30% of Chinese 3G network tenders at the start of the year, it is on track to extend its global market share during 2009. It has a US\$15bn credit line from China Development Bank, which it intends to use for customer financing for projects outside China. ZTE is also the world's sixth largest mobile phone vendor with ambitions to become #3 in five years' time.

ZTE claims global #2 spot in wireless data cards

In wireless data cards ZTE claims to have moved to global #2 for 2008 when it sold over 10m units (+426% yoy). In H1 '09 ZTE's data card shipments increased by 366% yoy to >7m units. For 2009 it is aiming for 30% global market share in wireless data cards. 40% of its H1 '09 data card revenues were generated in North America, Europe and Japan. Germany's T-Mobile, Japanese carrier Willcom, Telenor of Norway and Greek carrier Cosmote have all been big customer wins for its USB modem and data cards. It supplies data cards to all three operators in China. ZTE's data card business is run by Zhang Yadong.

in EUR m	2004	2005	2006	2007	2008	2009e	CAGR '06-'09e
Sales	2,063	2,120	2,320	3,340	4,358	6,037	24%
yoy	13%	3%	9%	44%	31%	39%	
Op. profit	170	180	113	185	320	369	
in % of sales	8.2%	8.5%	4.9%	5.6%	7.3%	6.1%	
Net profit	124	127	77	120	163	244	
in % of sales	6.0%	6.0%	3.3%	3.6%	3.7%	4.0%	
Op. CF	141	0	-175	-33	295		
op. CF / op. profit	82.6%	-0.1%	-154.7%	-17.7%	92.3%		
Net financial position					91		
Net WC / sales					26.7%		

Source: ZTE, (HK accounts), Bloomberg, Oppenheim Research

International competitors

Novatel, Sierra, Option not active in China

There are three listed pure plays in the global market for wireless data cards: Option Wireless Technology, Sierra Wireless and Novatel Wireless. They are relevant comparables as they address the same product space as Vtion. However, none of them has a comparable position in China – the dominant driver for Vtion's expected growth over the coming years.

Business model of international peers under threat from Chinese vendors with structurally lower cost base

We believe that, unless they change their business model, particularly Option and Novatel Wireless will continue to suffer badly from tough competition from Huawei and ZTE. All three of them have net cash positions, so they are not threatened to go out of business in the short term; however, we fail to see how they will ever be able to compete in terms of price against the Chinese. This is why they have been trying to move towards embedded and M2M modules, but for the lion's share of their revenues they still depend on wireless data cards. Making the transition will be a difficult task and some may fall by the wayside. This is also why they do not serve well as comparisons for valuation purposes. We believe there are good reasons why Vtion deserves to trade at a premium to these companies.

Option Wireless Technology B.V.

Option (www.option.com; Reuters: OPIN.BR) has a broad portfolio of mobile data cards, embedded wireless modules, fixed wireless solutions and software. Founded in 1985 it has become a leading vendor of wireless data cards. For the last four quarters to June 30, 2009 it reported sales of €222.5m. It sells its products via more than 90 mobile operators and has built a global distribution network. Like Vtion, it

bundles software into its hardware to increase customer stickiness. In contrast to Vtion, Option emphasizes embedded deals with laptop makers as its most promising distribution channel going forward.

In June 2007 Option acquired a fully equipped laboratory and a team of 50 engineers from BenQ Mobile GmbH (formerly Siemens Mobile). This team has been charged with developing embedded solutions for broadband cellular connectivity solutions for mobile internet devices (an emerging product category between PDA and laptop PCs). Option has outsourced manufacturing to contract manufacturers including Jabil since January 2002. Option has a significant part of its fixed cost (R&D, admin...) in Europe. Not only does this impact its cost structure, it also means it has been negatively affected by the weakening of the US\$. Option has a patchy track record on guiding the market and has missed its own forecasts on more than one occasion.

Novatel Wireless

Novatel Wireless (Reuters: NVTL.O) is particularly strong in the North American market for wireless data cards and wireless modules. Its international sales, which used to account for 37% of total sales in H1 2008, have collapsed to just 6% in H1 2009 or about US\$66m to US\$9m (down 86% yoy). In our view this reflects strong competition on price by Huawei and ZTE. As we point out in our discussion of purely Chinese cost structures, this pain is unlikely to let off for the non-Chinese players whose business model we see under threat for this very reason. Novatel has significant customer concentration in this region with its largest two customers accounting for 69% of H1 2009 revenues, down from 72% in H1 2008. Headquartered in San Diego, California, Novatel operates a major R&D center in Canada. So far it has only limited distribution reach in Asia; Novatel Wireless supplies HSDPA/UMTS data cards to two operators in Hong Kong: Smartone-Vodafone and 3 (Hutchinson). We believe so far, these have been buying only very minor quantities of data cards from Novatel. So far it seems it has no presence in mainland China. Novatel Wireless outsources component procurement, manufacturing, assembly, testing, quality control, fulfillment and delivery to LG Innotek, in South Korea (subsidiary of LG Group) and Inventec Appliances Corp., in China. Additionally it uses Mobiltron for distribution and fulfillment in EMEA.

Sierra Wireless

Sierra Wireless (Reuters: SWIR.O) is headquartered in Vancouver with regional offices in San Diego, San Francisco, London and Hong Kong. At the end of 2008 it employed 542 people. For the last 12 months (to 30 June '09) it reported sales of €516m and an adjusted operating profit of €-11.4m, a margin of 2.2%. Through the acquisition of Airlink in May 2007 for €22m, Sierra Wireless has entered the market for M2M modules in addition to its core business in data cards. In Q2 '07 77% of its revenues came from data cards, 17% from embedded wireless modules and 4% from its budding M2M activity. Most of its manufacturing is outsourced to Flextronics in China. It also uses a Flextronics site in Hungary for configuring products for the European market. In early October 2007 Sierra Wireless raised about €55m in a rights issue to cover working capital needs and for potential acquisitions. Towards the end of 2008 it acquired Wavecome in France, an M2M specialist that used to be quoted on the Paris stock exchange for €218m.

Financials

Revenue forecast model

	2008	H1 '09	Q3	Q4e	H2 '09e	2009e	2010e	2011e	2012e	2013e
Desktop PC shipments	26.3					25.3	25.8	27.7	29.3	30.9
PC penetration rate w. data cards							0.4%	0.6%	0.8%	1.0%
Data cards for PC use							0.10	0.17	0.23	0.31
New notebooks sold per year	13.3					17.5	23.9	32.9	45.4	58.7
change absolute	3.9					4.2	6.4	9	12.5	13.3
change yoy	41%					32%	37%	38%	38%	29%
Cumulated number of notebooks	30.3					43.5	58.0	77.6	105.5	140.3
Data cards in new notebooks (in m. units)	2.38					6.66	8.13	10.20	13.17	14.68
change yoy	49%					180%	22%	26%	29%	11%
Incremental data card sales (in m. units)	0.78					4.28	1.46	2.07	2.97	1.51
Data cards per new notebook sold	18%					38%	34%	31%	29%	25%
Penetration of installed notebook par	17%					24%	30%	32%	30%	27%
Replacement sales							1.60	2.38	4.00	6.0
Total data card market, China (units m.)						6.66	9.83	12.75	17.40	20.98
Vtition data cards sold p.a. (in m. units)	0.61	0.50	0.62	0.54	1.16	1.67	2.46	3.19	4.35	5.25
change yoy	41%					174%	48%	30%	37%	21%
Vtition market share	25.5%					25.0%	25.0%	25.0%	25.0%	25.0%
Vtition data cards sold	0.607	0.505			1.160	1.665	2.458	3.187	4.350	5.246
change yoy	41%	66%			284%	174%	48%	30%	37%	21%
Assumption: notebooks and data cards are used on average for three years										
Sources: Analysis International (2009), Vtition, Oppenheim Research										
Data cards shipped (in '000 units)										
CDMA	345.65	126.11	0.65	0.15	0.80	126.91				
EDGE	261.22	105.10	0.45	0.15	0.60	105.70				
CDMA EV-DO (3G)	0.00	206.82	358.39	321.61	680.00	886.82	1,275.00	1,500.00	1,750.00	2,000.00
TD-SCDMA (3G)	0.00	9.00	68.32	52.68	121.00	130.00	150.00	300.00	450.00	550.00
WCDMA (3G)	0.00	57.93	197.62	160.38	358.00	415.93	1032.80	1386.80	2150.10	2,696.00
Total	606.87	504.95	625.43	534.97	1,160.40	1,665.35	2,457.80	3,186.80	4,350.10	5,246.00
2.75G (CDMA1x and EDGE)	100%	46%	0%	0%	0%	14%	0%	0%	0%	0%
3G+ (W-CDMA, HSPA, EV-DO)	0%	54%	100%	100%	100%	86%	100%	100%	100%	100%
ASP (in EUR)										
2G		36.0			30.0	36.0				
3G		38.0	40.0	40.0	40.0	39.6				
Blended ASP (in EUR) data cards	58.2	37.1	41.3	38.5	40.0	39.1	36.0	33.0	29.7	26.1
Annual decline in ASP (yoy)	0%					-33%	-8%	-8%	-10%	-12%
Sales from Datacards in China (in m. EUR)	35.3	18.7	25.8	20.6	46.4	65.1	88.5	105.2	129.2	137.1
change yoy						84%	36%	19%	23%	6.1%
share of CDMA EV-DO cards sold under VNO model						2%	8%	10%	12%	13%
share of W-CDMA cards sold under VNO model						2%	12%	13%	13%	14%
Total nbr. of VON contracts ('000)			1.5	20.8	20.8	20.8	235.6	333.7	485.5	630.5
in % of total cards sold				3.9%	1.8%		9.6%	10.5%	11.2%	12.0%
VNO service revenues (in EUR m)			0.1	0.8	0.8	0.8	10.4	15.7	24.4	34.0
change yoy							1148%	51%	56%	39.1%
in % of total sales						1.2%	10.2%	12.7%	15.7%	19.6%

Source: Vtition, Oppenheim Research

Adjustment to IDC's laptop forecast in '10e and '11e

The key driver for Vtition's top line is unit sales of wireless data cards multiplied by an assumed average selling price (ASP). Card shipments critically depend on sales of notebook computers. Sales of data cards to desktop PCs lacking a broadband connection could become another market segment but one that we expect to be rather less important and hence we exclude it from our revenue projection model. We use IDC Research's forecast of laptop sales in China to 2013e with one minor change: Given market indications of accelerating laptop and netbook shipments in China (see discussion in the "market" section of this report) we have brought forward 1m laptop shipments from 2011e to 2010e vs. IDC's forecast. However, we leave their cumulated unit forecast for 2009e to 2011e unchanged so the only difference is in timing of shipments.

<p>Replacement sales additional driver for 3G card shipments in '09 as users upgrade from 2.5G to 3G</p>	<p>We assume that for 36% of laptops sold in 2009 a wireless data card will be purchased, which results in a total market size for data cards of 6.36m units (+167% yoy). As a reality check we also look at the implied penetration with wireless data cards for the total installed laptop base in China, which should reach 24% by year end 2009. To arrive at this figure we assume that laptops and data cards sold will remain in use for three years even if they change hands via the second hand market in the meantime.</p>
<p>Data traffic from laptop users drives update of mobile broadband more than smart phones</p>	<p>The most important driver for the jump in card shipments in 2009 is the first time introduction of 3G wireless broadband in China from May 2009. As we discussed in the section on the Chinese market above, we expect increasing competition among mobile operators as they go after mobile broadband users. Experience from other markets around the world shows that the initial uptake of mobile 3G data volumes is via laptop usage rather than smartphones. We also believe that in the first year of 3G in China there is a particularly strong incentive for existing mobile data card users to upgrade, so the growth rate is bolstered by replacement sales.</p>
<p>Lower take rates in 2010 as initial replacement sales fade</p>	<p>For 2010 we assume a decrease in the take rate of wireless data cards per new notebook PC sold to 34% (i.e. with about every third laptop sold) reflecting a tapering off of the initial replacement wave. This results in a total market size for data cards in China of 8.13m units. For 2011 we apply a take rate of 31%, which leads to a total market size of 10.2m units. This means according to our forecast on a cumulated basis the market for wireless data cards in China will total 24.4m units for the period 2009e to 2011e – this is Vtion's addressable market over our detailed forecasting period to 2011e.</p>
<p>We assume 25% stable market share for Vtion</p>	<p>We assume stable market share for Vtion of 25% over these three years, which is down 0.5% from the level achieved in 2008 and down from a peak of 26.8% in 2007. We would note that both Huawei and ZTE have significantly larger resources at their disposal. If Vtion became too aggressive in terms of market share, these two players would have the means to retaliate. On the other hand there are still around 80 different brands of wireless data cards available in various provinces. There are indications that the market has started to consolidate in H1 2009. As mobile operators launch their 3G networks, they are particularly anxious to ensure a favorable user experience and hence they are less likely to take risks with less experienced suppliers. As a case in point, according to newspaper articles, even a national brand such as Lenovo has discontinued its line of mobile data cards earlier this year. Market share gains of Huawei and ZTE will more likely come at the expense of smaller players than that of Vtion because all three mobile operators are state-owned companies and as such need to have at least three suppliers per product category. Note that Vtion has been named "top qualified supplier" to China Telecom and China Unicom and is listed as "strategic partner" of China Mobile.</p>
<p>We assume declining ASP</p>	<p>We assume ASP erosion from €41.3 in Q3 '09 to €38.5 mainly due to a decline in the RMB against €. For the coming two years we project ASP to decline 8% p.a. followed by price declines of 10% and 12% respectively. Vtion's management actually makes a case for stable or even increasing ASPs. They argue that initially operators are focused on promotional activities especially geared towards the existing fixed line customers of China Telecom and China Unicom, for which they need products with entry level pricing. They believe that, particularly under the Virtual Network Operator model, they will be able to increase the share of higher value data cards that carry a higher ASP. However, in our experience ASPs in hardware business have a nasty habit of trending down more often than up. Even though there are arguments in favor of rising ASP, we believe there are similarly strong arguments in favor of an acceleration of price erosion and hence for our base case we stick to the assumption of a continued steady fall in prices.</p>

Important price elasticity At the current early stage in the market, we believe the price elasticity on hardware is significant, i.e. a drop in prices should trigger important volume increases. Hence a faster than forecast drop in ASP would very likely be accompanied by higher volumes. The exact balance is hard to forecast.

Price times volume model Multiplying our total unit market forecast by Vtion's assumed 25% market share and the ASP we arrive at our forecast for sales from data cards which account for the lion's share of Vtion's overall sales.

VNO activity launched mid-August In August 2009 Vtion started to implement its VNO offering on a limited basis, which we have described in detail already. As we pointed out, Vtion's management is anticipating revenues of €80 per VNO pack sold. We subtract our ASP forecast from the €80 to arrive at the incremental sales value per VNO pack and to avoid double counting. We project an earlier start with China Telecom followed by an uptick in VNO shipments on China Unicom's network with a time lag. We assume that 3% of all CDMA EV-DO and W-CDMA cards shipped in H2 '09e will be sold as part of a VNO pack implying 20,800 cards will be sold as part of a VNO pack in Q4 (Q3: 2,218). The resulting contribution to sales is €0.8m rising strongly to €10.4m for FY 2010e thanks partly to the base effect of comparing 4.5 months of sales in a start-up phase to a full year of VNO shipments.

	2008	H1 '09	Q3	Q4e	H2 '09e	2009e	2010e	2011e	2012e	2013e
Number of Vtion Business club C	216.3	223.9	229.7	238.6	238.6	238.6	351.7	451.7	554.6	701.5
change yoy	50%	14%	12%	10%	10%	10%	47%	28%	23%	26%
net adds qoq (absolute)	72.0	7.6	5.8	8.9	14.7	22.3	113.1	100.0	102.9	146.9
Total members ('000)	216.3	223.9			238.6	238.6	351.7	451.7	554.6	701.5
Net take rate in % of new card	11.9%	1.5%	0.9%	1.7%	1.3%	1.3%	4.6%	3.1%	2.4%	2.8%
Average No. of subs.	195.6	220.1	226.8	234.1	231.2	227.4	295.1	401.7	503.1	628.0
Annual usage fee (RMB)	240	120	60	60	120	240	240	240	220	220
Distribution incentive	35%	50%	50%	50%	50%	50%	40%	30%	20%	20%
Sales	29.3	13.2	6.8	7.0	13.9	54.6	70.8	96.4	110.7	138.2
cash-in	16.20					5.34	27.15	24.00	22.64	32.31
deferred revenues	-13.14					-62.38	-106.07	-178.47	-266.52	-372.38
FX EUR/RMB	0.096	0.092	0.107	0.099	0.103	0.099	0.092	0.092	0.092	0.092
Sales from Vtion Biz Club (in E	2.8	1.2	0.7	0.7	1.4	2.7	2.6	2.7	2.0	2.5
Biz Club in % of total sales	7.2%	5.7%	2.7%	3.1%	2.9%	3.9%	2.6%	2.2%	1.3%	1.5%

Source: Oppenheim Research

We use conservative assumptions for Vtion Business Club After a year of strong growth for users to Vtion's Business Club in 2008, it seems as though Vtion is experiencing some user churn with the first time introduction of 3G. While user numbers jumped by 50% in 2008 to 216,300, from January 1 to the end of September, only 13,400 new members signed up. Maybe this is because these users perceive less of a need for the internet accelerator product under a 3G environment. Until user growth picks up again, we prefer to run our forecast model with the much lower take rates implied by H1 2009 net additions i.e. net new adds of 1-2% per data card sold. We calculate an average number of members for each period under consideration, which we then multiply with the RMB20 monthly charge to arrive at our revenue forecast from Vtion Business Club less an assumption on the incentive fee paid to sales agent.

We model a declining gross margin For each revenue stream thus forecast – data cards, Business Club, Virtual Network Operation (VON) – we assign a gross margin. For the data card business we assume a decline from 40.1% gross margin in 2008 to 30.6% for FY '09e (implying a decline in H2), which we model to decline further to 28.5% for 2010 and 26.5% for 2011. This reflects the aforementioned fall in ASP but also price pressure in the market that may call for discounts and other incentives for retail that may dilute gross margins. This could be partly offset by in-sourcing some technology licensing and development by switching variable cost into fixed cost and profiting from economies of scale as volumes continue to grow.

	2008	H1 '09	Q3	Q4e	H2 '09e	2009e	2010e	2011e	2012e	2013e
Total Vtion Sales (in EUR m)	39.2	21.1	26.6	22.2	48.9	70.0	101.5	123.5	155.7	173.6
change yoy	35%					79%	45%	22%	26%	12%
Gross profit data cards	13.4	6.0	8.5	5.9	14.4	20.4	25.4	28.0	32.3	32.91
Gross margin	38.0%	32.0%	32.9%	28.6%	31.0%	31.3%	28.7%	26.6%	25.0%	24.0%
Gross profit Business Club	2.5	1.0	0.5	0.6	1.1	2.1	2.1	2.2	1.7	2.0
Gross margin	88.0%	85.7%	72.4%	81.8%	76.7%	79.0%	80.0%	81.0%	82.0%	80.0%
Gross Profit VON / other	0.2	0.1	0.0	0.3	0.3	0.4	4.0	5.6	8.2	10.5
Gross margin	18.0%	8.4%	26.3%	33.5%	34.8%	20.3%	38.7%	35.6%	33.4%	31.0%
Gross profit	16.1	7.1	9.1	6.8	15.8	23.0	31.5	35.7	42.1	45.5
Gross profit margin	41.0%	33.8%	34.0%	30.5%	32.4%	32.8%	31.0%	28.9%	27.1%	26.2%

Source: Oppenheim Research

Business Club with highest gross margin: >80%

For the Business Club we apply 80% gross margin to our 2009 forecast rising to a peak of 92% in 2012e as Vtion reduces discounts to retail partners. End users who join the Business Club pay a fee of RMB240 for 12 months' service. Vtion uses sales agents to promote and sell Business Club memberships. To attract and incentivize them they currently receive a revenue share or discount of about 50% of the service fee. Vtion recognized deferred revenue taking into account the aforementioned discounts; and recognized monthly revenue by amortizing the deferred revenue within 12 months. Therefore, such a discount is not part of the deferred or selling expense; this method is in accordance with IFRS revenue recognition rules.

Aiming for 1m members – our forecast is much more conservative

As 3G matures in China, Vtion plans to add new features to its Business Club thereby increasing its attractiveness which means fewer incentives will be necessary to attract and retain members. Therefore, management expects to decrease discounts to sales agents over time to around 40% in 2010 and 30% in 2011. However, as long as the number of members remains under 1m, Vtion plans to offer discounts to sales agents.

Revenue share from partners could develop into affiliate marketing model

On the other hand some of its third party content and service partners are expected to enter revenue share or sales commission agreements if Vtion's Business Club helps develop their business (example: Members book plane tickets and hotel rooms via C-Trip but from the Business Club's home page).

40% gross margin for Virtual Network Operation (VNO) model

For the VON revenue stream we assume 40% gross margin for FY '09e which we forecast to decline to 38.7% in 2010e and 35.6% in 2011e. Looking at the sample calculation for this business model, we conclude that it should be more profitable. However, since the business is only just about to be launched, we prefer to be more cautious and to upgrade our margin assumption as we get more clarity on progress. Note that pure service providers that cater to niche customer segments in mobile telephony in Germany – for instance Drillisch – generate gross margins in the low 20s on this activity. The actual margin will critically depend on Vtion's ability to sell higher value data cards to VNO clients (which is what management intends to do).

Resulting gross margin development

Bringing all of the above together, the top line and gross margin picture that emerges is one of sound double digit top line growth, with about two percentage points a year drop in the gross margin. Note that some of Vtion's international peers – most notably Sierra Wireless - have tried to stabilize their gross margins by moving into the machine to machine modules market, which tends to carry gross margins closer to 50%. This could be one strategic option for Vtion too. However, management has not singled this out as one of the potential uses for targeted IPO proceeds and hence we have to assume that this is not high on the agenda (for now).

Increase in S&M expenses reflects build up of direct distribution

We also assume rising sales and marketing expenditures both in absolute terms as well as relative to sales. This reflects investments in getting the VNO business model off the ground as well as the prospect of entering additional provinces or to intensify marketing efforts in specific areas. The company plans to invest €2m in a marketing

	<p>campaign. Under IFRS this will be partly capitalized and hence some of the associated cost will initially show up in the cash flow statement rather than the P&L.</p>
<p>R&D expenses booked under "admin."</p>	<p>We also assume rising administration charges as the overall company structure needs to keep pace with growth. Note that R&D expenses have been booked under administration so far. Given that management is evaluating the cost effectiveness of in-sourcing certain R&D and testing, expect the admin line to go up (please refer to the detailed financial statements below for details of our forecast).</p>
<p>Vtion to benefit from reduced tax rate over course of forecasting period</p>	<p>As a foreign owned company, Vtion is currently benefiting from tax exemption. For our model we have assumed that this will remain so in 2008. From 2009 we have modeled a 12.5% effective tax rate, which is 50% of the official rate. Again this is thanks to Vtion's status as a foreign owned company. It should be noted that tax reform is under discussion in China and thus needs to be reappraised periodically.</p>
<p>Our model excludes expected cash-in from planned IPO</p>	<p>We have not modeled the cash in from the planned IPO. Since we do not know how big the net proceeds will be, nor how quickly management will be able to invest them into growing the business, we feel it does not add value for us to speculate on interest income from hypothetical IPO proceeds. In any case nobody would invest in the business for it to benefit from interest income.</p>
<p>Net working capital to sales peaks at 58.3% at the end of '09 in our model</p>	<p>The most important aspects with regards to the balance sheet structure are net working capital and the build-up of both fixed and intangible assets that we expect. Indications from July are that the aggressive ramp of 3G cards will gain momentum in H2. This trend will be further exacerbated by the launch of the VNO model under which Vtion will pre-pay mobile data rate plans and data cards. It has earmarked roughly €20m in the use of proceeds for this purpose alone in addition to which management budgets about €6m to bolster net working capital for its "normal" card business. We are modeling net working capital to peak at 58.3% of sales at the end of 2009.</p>
<p>Step up in R&D spending for additional services and higher operating leverage</p>	<p>Management has also stated its intention to invest in technology licenses, to build up its R&D capacity (read: lab and testing facilities) and to invest in a navigation portal for one of its operator customers (we assume the associated development efforts will at least partly have to be capitalized as work in progress under IFRS. This explains the rise in fixed and intangible assets in our balance sheet forecast (see below for details).</p>

Quick review of Q3 results

Exceptionally strong

Vtion Technology EURm	Actual	Q3 '09 SOP (e)	Q2 '09	Q3 '08	Change	FY 09/10	
						SOP (e)	guidance
# cards sold ('000)	625.4	624.6	n.a.	236.9	264%	1,665.2	
ASP (in EUR)	41.2	41.3	n.a.	n.a.		39.1	
Sales	26.6	26.6	14.0	10.6	150%	69.8	66-70
Gross profit	9.1	8.5	31.5	4.1	119%	22.8	
<i>in % of sales</i>	34.0%	31.9%	224.3%	38.8%		32.6%	
EBITDA	8.3	8.4		3.5	138%	22.0	
<i>in % of sales</i>	31.2%	31.6%		32.8%		31.5%	
EBIT	8.2	7.5	3.4	3.3	147%	20.0	19-20
<i>in % of sales</i>	30.9%	28.2%	24.5%	31.2%		28.7%	29.0%
Net profit	8.5	6.6	3.0	3.3	157%	17.5	
EPS	0.74	0.68	0.19	0.29	155%	1.10	

Sources: Vtion Wireless, Oppenheim Research

Vtion discloses monthly card shipments and ASP

Vtion had pre-announced monthly cards shipped and ASP per month in € terms (beware RMB-€ exchange rate), which means Q3 sales for its hardware business were known. EBIT and net profit beat our estimates. The bottom line benefited from higher EBIT mainly driven by higher gross margin and - to a lesser extent - from a one time positive tax item which related to losses incurred in conjunction with Vtion's first attempt at going public in 2007. Following the successful IPO, these losses carried forward now had to be brought onto the balance sheet in the form of deferred tax assets (they related to Vtion's holding company in Germany).

Impact of Chinese national holiday following 60th anniversary

In October, Vtion shipped 148k cards reflecting China's national holiday in October, which means shops remain closed for the better part of a week and a higher level of activity in September with promotional activity ahead of festivities. Adjusting for this, Vtion is trending on about 200k cards a month (our estimate for Q4 is 536k i.e. 200k for November and December each). ASP in October remained stable at RMB400. Because the EUR has appreciated against the Reminbi, this implies ASP of €39.7 (SOPe Q4: €38.2) at the average CNY/EUR rate of 10.08.

82% of receivables <90 days

Owing to strong growth especially towards the end of Q3, Vtion experienced a significant build up of net working capital. Trade receivables more than doubled from €15.5m to €34.2m. 82% of these or €28.1m have an age profile of <90 days. Note that 75% of Vtion's sales are directly to mobile operators in China which are well capitalized and cash generative.

Increase in inventory in line with company planning

Inventory more than doubled from €6.4m at the end of Q2 to €13.9m at the end of September. Vtion operates on a rolling two month forecast. Based on an ASP around €39 and shipments of 350k data cards, inventory levels are in line with company guidance and our expectations.

Vtion Technology EURm	FY 09 (e)			FY 10 (e)		
	Old	New	Change	Old	New	Change
# cards sold ('000)	1,591	1,665	4.7%	2,030	2,458	21.1%
ASP (in EUR)	37.7	39.1	3.7%	36.0	36.0	0.0%
Sales	64.7	70.0	8.3%	84.4	101.5	20.2%
Gross profit	21.4	23.0	7.0%	26.5	31.5	18.8%
<i>in % of sales</i>	33.2%	32.8%		31.4%	31.0%	
EBITDA	20.6	21.9	6.3%	23.6	27.4	16.1%
<i>in % of sales</i>	31.9%	31.3%		28.0%	27.0%	
EBIT	18.6	19.9	7.0%	20.9	24.7	18.1%
<i>in % of sales</i>	28.8%	28.5%		24.8%	24.4%	
Net profit	16.2	19.1	18.3%	18.3	22.0	20.0%
EPS	1.01	1.20	18.3%	1.15	1.38	20.0%
FCF	-9.1	-18.1	-99.4%	10.6	9.7	-8.0%
Net financial position	12.5	46.6	273.1%	23.1	64.3	178.7%

Source: Oppenheim Research

Following its successful IPO, Vtion is fully financed for rapid growth

On the back of stronger Q3 results as well as changes to our market forecast (we include a separate line for replacement sales taking the assumption that a data card will be replaced once every three years) we have changed our estimates vs. the IPO research report. Note also that the IPO research was a pre-money model (see the jump in the net financial position in the table above which reflects the cash in from the IPO). Provided shipments remain on track we tend to think Vtion might actually slightly exceed the upper end of its FY guidance. Upside would be driven from higher gross margin. The greatest sensitivity in our model is with regards to ASP. Vtion has stated that it is already in negotiations to bring down its bill of material going forward. For our model we have assumed that it will need to pass on any cost reductions to its customers rather than driving up its own gross margin. Working capital changes will critically depend on how quickly Vtion can ramp its VNO model. Remember that it will have to pay operators upfront for the right to access their networks. The faster the pick up in VNO contracts the more quickly working capital needs will rise. Following the successful IPO, Vtion is fully financed even if end user response should be significantly stronger than we are projecting.

Profit & Loss Statement

Vion Wireless Technology AG (in EUR m)	H1 '08	Q3 '08	Q4 '08	H2 '08	2008	Q1	Q2	H1 '09	Q3 '09	Q4 '09e	H2 '09e	2009e	2010e	2011e	2012e	IFRS 2013e
Sales	18.852	10.645	9.68	20.324	39.176	7.09	14.04	21.134	26.60	22.271	48.868	70.002	101.455	123.508	155.656	173.612
change yoy	93.8%	-11.40	-6.52	-5.163	-23.09	-3.997	-10.004	-14.00	149.8%	130.1%	140.4%	78.7%	44.9%	21.7%	26.0%	11.5%
COGS	7.448	4.127	4.516	8.642	16.090	3.095	4.038	7.133	9.051	6.770	15.821	22.954	31.491	35.712	42.126	45.468
Gross profit	39.5%	38.8%	46.7%	42.5%	41.1%	43.6%	28.8%	33.8%	34.0%	30.4%	32.4%	32.8%	31.0%	28.9%	27.1%	26.2%
in % of sales	-0.614	-0.325	-0.432	-0.758	-1.371	-0.210	-0.349	-0.558	-0.458	-0.470	-0.928	-1.486	-2.942	-3.705	-4.981	-6.08
Selling and distribution expenses	-3.3%	-3.1%	-4.5%	-3.7%	-3.5%	-3.0%	-2.5%	-2.6%	-1.7%	-2.1%	-1.9%	-2.1%	-2.9%	-3.0%	-3.2%	-3.5%
in % of sales	-1.045	-0.479	-1.057	-1.535	-2.580	-0.391	-0.380	-0.771	-0.507	-0.554	-1.061	-1.832	-3.855	-4.817	-6.382	-7.47
Admin.	-5.5%	-4.5%	-10.9%	-7.6%	-6.6%	-5.5%	-2.7%	-3.6%	-1.9%	-2.5%	-2.2%	-2.6%	-3.8%	-3.9%	-4.1%	-4.3%
in % of sales	-0.003	-0.001	-0.078	-0.079	-0.082	-0.001	-0.015	-0.016	-0.007	-0.048	-0.055	-0.071	-0.304	-0.371	-0.623	-0.87
Other operating expenses	0.0%	0.0%	-0.8%	-0.4%	-0.2%	0.0%	-0.1%	-0.1%	0.0%	-0.2%	-0.1%	-0.1%	-0.3%	-0.3%	-0.4%	-0.5%
in % of sales	OPEX	-1.662	-0.805	-1.567	-2.372	-4.033	-0.744	-1.345	-0.972	-1.072	-2.044	-3.389	-7.102	-8.893	-11.986	-14.410
in % of sales	-8.8%	-7.6%	-16.2%	-11.7%	-10.3%	-8.5%	-5.3%	-6.4%	-3.7%	-4.8%	-4.2%	-4.8%	-7.0%	-7.2%	-7.7%	-8.3%
Other operating income	0.210	0.138	0.197	0.335	0.545	0.059	0.118	0.177	0.152	0.048	0.200	0.377	0.355	0.398	0.400	0.420
EBIT	5.997	3.459	3.146	6.605	12.602	2.553	3.412	5.965	8.231	5.746	13.977	19.942	24.745	27.217	30.541	31.478
in % of sales	31.8%	32.5%	32.5%	32.5%	32.2%	36.0%	24.3%	28.2%	30.9%	25.8%	28.6%	28.5%	24.4%	22.0%	19.6%	18.1%
Financial income	0.195	0.063	0.013	0.077	0.272	0.085	0.040	0.125	0.167	0.254	0.421	0.546	0.870	0.950	1.000	1.050
Financial expenses	-0.222	-0.197	-0.062	-0.259	-0.481	-0.015	-0.009	-0.024	-0.022	-0.014	-0.036	-0.060	-0.470	-0.524	-0.500	-0.385
EBT	5.969	3.325	3.098	6.423	12.392	2.622	3.444	6.066	8.376	5.985	14.361	20.428	25.145	27.643	31.041	32.143
in % of sales	31.7%	31.2%	32.0%	31.6%	31.6%	37.0%	24.5%	28.7%	31.5%	26.9%	29.4%	29.2%	24.8%	22.4%	19.9%	18.5%
Tax	0.000	0.000	0.000	0.000	0.000	-0.309	-0.415	-0.724	0.166	-0.748	-0.582	-1.306	-3.143	-3.455	-7.760	-8.036
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	-11.8%	-12.1%	-11.9%	2.0%	-12.5%	-4.1%	-6.4%	-12.5%	-12.5%	-25.0%	-25.0%
Net profit	5.969	3.325	3.098	6.423	12.392	2.313	3.029	5.342	8.542	5.237	13.779	19.121	22.002	24.188	23.281	24.107
change yoy	96.5%	31.2%	32.0%	4.9%	35.3%	31.6%	21.6%	-10.5%	156.9%	69.1%	114.5%	54.3%	15.1%	9.9%	-3.8%	3.6%
in % of sales	31.7%	31.2%	32.0%	31.6%	31.6%	32.6%	21.6%	25.3%	32.1%	23.5%	28.2%	27.3%	21.7%	19.6%	15.0%	13.9%
Adjustments					0.0							0.0	0.0			
No. of shares year end	11.48	11.48	11.48	15.98	15.98	15.98	15.98	15.98	15.98	15.98	15.98	15.98	15.98	15.98	15.98	15.980
weighted average No. of shares	11.48	11.48	11.48	15.98	13.73	15.98	15.98	15.98	11.48	15.98	13.73	15.98	15.98	15.98	15.98	15.980
EPS	0.29	0.27	0.27	0.41	0.90	0.14	0.19	0.33	0.74	0.33	1.00	1.20	1.38	1.51	1.46	1.51
change yoy					-1.4%				32.6%	15.1%	15.1%	32.6%	15.1%	9.9%	-3.8%	3.6%

Sources: Vtion, Oppenheim Research

Balance Sheet

Vtion Wireless Technology AG (in EURm)	2006	Q2	2007	Q2	2008	Q2	Q3	2009e	2010e	IFRS	2012e	IFRS	2013e
Inventories	1.617	2.583	2.307	1.491	4.882	6.395	13.892	14.700	18.262	19.761	23.348	24.653	
in % of TTM sales	16.2%	17.6%	8.0%	3.9%	12.5%	15.4%	24.2%	21.0%	18.0%	16.0%	15.0%	14.2%	
Trade receivables	2.647	7.059	10.134	15.055	6.366	15.541	34.230	35.001	42.611	49.403	56.036	60.417	
in % of TTM sales	26.5%	48.2%	34.9%	39.5%	16.2%	37.5%	59.6%	50.0%	42.0%	40.0%	36.0%	34.8%	
Other receivables and prepayments	0.977	1.386	1.109	7.056	6.738	5.122	7.451	4.200	5.000	5.450	6.450	7.450	
Amounts due from related parties	0.242	0.848	0.040	0.040	1.429	0.942	0.924	0.942	0.942	0.942	0.942	0.942	
Cash and cash equivalents	1.574	5.859	12.224	16.182	30.336	29.717	19.477	49.937	55.826	66.266	76.813	92.484	
Current assets	7.056	17.734	25.814	39.824	49.752	57.717	75.974	104.780	122.641	141.823	163.589	185.946	
PP&E	0.111	0.120	0.180	0.353	0.493	0.516	0.475	3.293	6.508	8.435	9.162	8.789	
Intangibles	0.050	0.561	0.585	0.544	0.752	0.703	1.326	7.102	7.402	6.897	5.692	3.787	
Deferred tax assets							1.185	1.185	1.185	1.185	1.185	1.185	
Non-current assets	0.161	0.681	0.764	0.898	1.245	1.219	2.986	11.580	15.095	16.517	16.039	13.761	
Total assets	7.217	18.415	26.578	40.721	50.997	58.937	78.960	116.361	137.736	158.340	179.629	199.707	
control	0.000	-0.002	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
Short-term financial liabilities	1.751	4.108	5.180	4.049	5.897	5.800	0.000	4.251	4.223	2.195	1.195	0.195	
Trade payables	0.512	4.896	4.736	4.333	2.373	6.042	18.931	8.400	12.175	14.821	18.679	20.833	
in % of TTM sales	5.1%	33.4%	16.3%	11.4%	6.1%	14.6%	33.0%	12.0%	12.0%	12.0%	12.0%	12.0%	
Other payables and accruals	0.871	1.683	3.262	3.209	3.323	2.925	8.100	4.720	4.450	4.250	4.250	4.250	
Amounts due to related parties	0.000	3.084	3.002	3.354	3.802	3.738	4.136	0.000	0.000	0.000	0.000	0.000	
Income tax payable	0.142	0.000	0.000	0.000	0.000	0.393	0.968	0.650	0.000	0.000	0.000	0.000	
Current liabilities	3.275	13.771	16.180	14.944	15.397	18.899	32.135	18.021	20.848	21.266	24.124	25.278	
Share capital	2.934	0.042	10.000	11.480	11.480	11.480	11.480	15.980	15.980	15.980	15.980	15.980	
Capital surplus	0.253	0.833	0.000	8.133	7.617	7.617	7.617	47.142	47.142	47.142	47.142	47.142	
Retained earnings	0.753	3.781	0.771	6.537	13.163	18.505	27.046	32.285	50.462	70.250	88.209	106.496	
Foreign exchange differences	0.002	-0.011	-0.373	-0.373	3.340	2.436	0.682	2.933	3.304	3.702	4.174	4.811	
Shareholders equity	3.942	4.645	10.398	25.777	35.600	40.038	46.825	98.340	116.888	137.074	155.505	174.429	
Total liabilities and equity	7.217	18.416	26.578	40.721	50.997	58.937	78.960	116.361	137.736	158.340	179.629	199.707	
TTM sales	10.003	14.643	28.999	38.125	39.176	41.458	57.409	70.002	101.455	123.508	155.656	173.612	
Net working capital	3.858	4.449	5.552	16.061	12.290	18.091	28.542	40.781	49.248	55.544	62.906	67.436	
in % of TTM sales	38.6%	30.4%	19.1%	42.1%	31.4%	43.6%	49.7%	58.3%	48.5%	45.0%	40.4%	38.8%	
Net financial position	0.065	-0.486	4.082	8.819	22.065	21.121	16.265	46.628	52.545	65.013	76.560	93.231	
Net cash per share								2.9	3.3	4.1	4.8	5.8	
Equity ratio	54.6%	25.2%	39.1%	63.3%	69.8%	67.9%	59.3%	84.5%	84.9%	86.6%	86.6%	87.3%	
Capital employed	4.019	5.130	6.316	16.958	13.535	19.310	31.528	52.362	64.344	72.061	78.945	81.198	

Sources: Vtion, Oppenheim Research

Cash Flow Statement

Vtion Wireless Technology AG (in EURm)	2006	2007	H1 '08	H2 '08	2008	H1 '09	Q3 '09	H2 '09e	9m '09	Q4 '09e	2009e	2010e	2011e	IFRS 2012e	IFRS 2013e
EBT	2.461	9.143	5.969	6.423	12.392	6.066	8.375	14.361	14.441	5.987	20.428	25.145	27.643	31.041	32.143
Adjustments for:							0.000			0.000					
Amortization of intangible assets	0.011	0.055	0.050	0.039	0.090	0.049	0.041	1.251	0.090	1.210	1.300	1.400	2.400	3.400	4.400
Allowance for doubtful trade receivables	-0.017	0.053	0.000	-0.028	-0.028	0.002	-0.002	-0.030	0.000	-0.028	-0.028	-0.028	-0.028	-0.028	-0.028
Depreciation of PP&E	0.027	0.038	0.025	0.042	0.068	0.055	0.025	0.645	0.080	0.620	0.700	1.285	1.750	2.750	3.750
gain/loss on disposal of PP&E	0.001	0.010	0.001	0.006	0.007	0.014	0.002	-0.014	0.015	-0.015	0.000	0.000	0.000	0.000	0.000
Interest	0.070	0.095	0.028	0.182	0.209	-0.071	-0.076	0.071	-0.147	0.147	0.000	0.000	0.000	0.000	0.000
Foreign exchange differences	-0.067	-0.309	-0.004	1.007	1.003	-0.377	-0.523	0.377	-0.900	0.900	0.000	0.000	0.000	0.000	0.000
Operating cash flow before WC changes	2.486	9.086	6.069	7.672	13.742	5.737	7.842	16.662	13.579	8.820	22.399	27.801	31.765	37.163	40.265
Working capital changes:															
Inventories	-0.505	-0.690	-1.959	-0.616	-2.575	-4.602	-4.408	-5.216	-9.010	-0.808	-9.818	-3.561	-1.499	-3.587	-1.305
Trade receivables	-1.317	-7.540	-4.956	8.724	3.768	-9.175	-18.689	-19.460	-27.864	-0.771	-28.635	-7.610	-6.792	-6.63	-4.381
Other receivables and prepayments	-0.364	-0.132	-3.067	-0.860	-3.927	4.706	-5.418	-2.168	-0.713	3.251	2.538	-0.800	-0.450	-1.000	-1.000
Amounts due to related parties	-0.189	0.201	0.000	-3.184	-3.184	0.487	0.018	0.000	0.505	-0.018	0.487	0.000	0.000	0.000	0.000
Trade payables	-0.320	4.224	-0.246	3.664	3.419	3.572	7.088	2.455	10.660	-4.633	6.027	3.774	2.646	3.858	2.155
Other payables, provisions and accruals	0.861	2.250	-0.597	0.747	0.150	-0.399	5.176	1.795	4.777	-3.380	1.397	-0.270	-0.200	0.000	0.000
Amounts due to related parties	0.014	0.672	0.359	1.368	1.728	-0.064	0.395	0.064	0.331	-0.331	0.000	0.000	0.000	0.000	0.000
Income tax payable	0.000	0.000	0.000	0.000	0.000	0.393	0.575	-0.393	0.968	-0.968	0.000	0.000	0.000	0.000	0.000
Foreign exchange differences	-0.140	-0.070	0.051	0.743	0.794	-0.485	-0.237	0.485	-0.722	0.722	0.000	0.000	0.000	0.000	0.000
Cash generated from / (used in) operations	0.526	8.001	-4.345	18.259	13.915	0.170	-7.659	-5.775	-7.489	1.884	-5.605	19.335	25.470	29.800	35.734
Interest received	0.033	0.217	0.140	0.131	0.272	0.098	0.049	0.448	0.147	0.399	0.546	0.870	0.950	1.000	1.050
Interest expenses	-0.103	-0.312	0.000	0.000	0.000	0.000	0.000	-0.060		-0.060	-0.060	-0.470	-0.524	-0.500	-0.385
Income tax paid	-0.403	0.014	0.000	0.000	0.000	-0.308	-0.399	-1.534	-0.706	-1.135	-1.841	-3.793	-3.455	-7.760	-8.036
Foreign exchange differences	0.012	0.003	0.000	0.019	0.018	0.013	0.041	-0.013	0.055	-0.055	0.000	0.000	0.000	0.000	0.000
Net cash generated from operating activities	0.065	7.922	-4.205	18.410	14.205	-0.027	-7.967	-6.934	-7.994	1.033	-6.960	15.941	22.441	22.540	28.363
Purchase of land use rights	0.000	-0.510	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Purchase of intangible assets	-0.052	-0.099	-0.011	-0.188	-0.199	-0.010	-0.685	-7.640	-0.695	-6.955	-7.650	-1.700	-1.895	-2.195	-2.495
Purchase of PP&E	-0.068	-0.122	-0.201	-0.142	-0.344	-0.101	0.006	-3.399	-0.095	-3.405	-3.500	-4.500	-3.677	-3.477	-3.377
Other	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Foreign exchange differences	0.003	0.022	0.000	-0.017	-0.017	0.014	-0.057	-0.014	-0.043	0.043	0.000	0.000	0.000	0.000	0.000
Cash flow from investing activities	-0.117	-0.710	-0.212	-0.347	-0.560	-0.097	-0.736	-11.053	-0.833	-10.317	-11.150	-6.200	-5.572	-5.672	-5.872
Capital injection	0.039	0.000	9.513	-0.416	9.097	0.000	0.000	43.160	0.000	43.160	43.160	0.000	0.000	0.000	0.000
Amounts due to related parties	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-3.802	0.000	-3.802	-3.802	0.000	0.000	0.000	0.000
Increase in short-term bank loans	1.226	3.429	-1.122	-4.058	-5.180	0.000	0.000	-1.646	0.000	-1.646	-1.646	-0.028	-2.028	-1.000	-1.000
Interest paid	0.000	0.000	-0.194	-0.117	-0.312	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Dividend paid	-1.499	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-3.824	-4.400	-5.321	-5.820
Foreign exchange differences	0.077	0.077	0.025	-0.781	-0.756	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Cash flow from financing activities	-0.157	3.506	8.222	-5.372	2.849	0.000	0.000	37.711	0.000	37.711	37.711	-3.852	-6.428	-6.321	-6.820
Net change in cash and cash equivalents	-0.209	10.719	3.805	12.690	16.495	-0.124	-8.704	19.724	-8.827	28.428	19.601	5.889	10.440	10.547	15.671
Cash at the beginning of period	1.925	1.574	12.224	15.969	12.224	30.336	29.717	29.717	30.336	19.475	30.336	49.937	55.826	66.266	76.813
Foreign exchange differences	-0.142	-0.069	-0.060	1.677	1.618	-0.495	-1.539	0.000	-2.034	2.034	0.000	0.000	0.000	0.000	0.000
Cash at the end of the period	1.574	12.224	15.969	30.336	30.336	29.717	19.475	49.441	19.475	49.937	49.937	55.826	66.266	76.813	92.484
FCF	-0.051	7.212	-4.417	18.062	13.645	-0.124	-8.704	-17.987	-8.827	-9.283	-18.110	9.741	16.869	16.868	22.491

Sources: Vtion, Oppenheim Research

Glossary of technical terms

3G	Third generation wireless networks that offer higher data transfer speeds thus enabling new services including transfer of large files such as video, music, pictures etc.
CDMA	Code Division Multiple Access is a second generation mobile technology that was developed by Qualcomm. It captures about 20% of the world market vs. close to 80% for GSM. CDMA is mainly used in the North America, South Korea, China and Japan. It is losing ground in South America and India as key operators there have decided to switch to GSM instead to benefit from its greater economies of scale.
CDMA2000	A technical specification for the provision of enhanced capacity for voice under the CDMAOne standard with a maximum data rate of 2 Mbps, comprising particular specifications such as 1xRTT (radio transmission technology), 1xEVDO (data only version) and 1xEVDV (voice and data version). It is the 3G version of CDMA.
EDGE	Enhanced Data GSM Environment is a faster version of GSM and the next step up from GPRS. EDGE is designed to deliver data at rates up to 384 Kbps and enable the delivery of multimedia and other broadband applications to mobile phone and computer users. The EDGE standard is built on the existing GSM standard, using the same time-division multiple access frame structure and existing cell arrangements. It was first introduced in 2001. Most GSM/GPRS existing networks can be EDGE enabled through a software upgrade. In particular it does not call for the establishment of additional cell sites and hence is an economic alternative to providing data speeds approaching those of 3G in areas which have comparatively low mobile usage i.e. where it would be challenging to make a justifiable return on investment when investing in a new 3G network. China Mobile is about to take its EDGE network live nation wide. We expect it to complement a step wise roll-out of its TD-SCDMA network calling for dual mode handsets and data cards.
GPRS	General Packet Radio Services (GPRS) is a packet based wireless communication service that promises data rates from 56 up to 114 Kbps and continuous connection to the Internet for mobile phone and computer users. The higher data rates allow users to take part in video conferences and interact with multimedia Web sites and similar applications using mobile handheld devices as well as notebook computers. GPRS is based on GSM and complements existing services such circuit switched cellular phone connections and SMS. GPRS is an evolutionary step toward Enhanced Data GSM Environment (EDGE) and Universal Mobile Telephone Service (UMTS or W-CDMA as it is also known).
GSM	Global system for mobile communications is a second generation digital cellular phone system that captures 80% of the world market. It originated in Europe but is used world wide. It is deployed in well over 170 countries and uses a TDMA (time division multiple access) propagation scheme (as opposed to code division in CDMA) i.e. "slots" for a voice communication or exchange of data are allocated according to time slots limiting the absolute amount of parallel connections to the number of available time slots.
HSDPA	HSDPA (High-Speed Downlink Packet Access) is a packet-based mobile telephony protocol used in 3G UMTS radio networks to increase data capacity and speed up transfer rates. HSDPA, which evolved from the WCDMA standard, provides download speeds at least five times faster than earlier versions of UMTS, allowing users of HSDPA networks a broader selection of video and music downloads. HSDPA specifies data transfer speeds of up to 14.4 Mbps per cell for downloads and 2 Mbps per cell for uploads. In practice, users are more likely to experience throughput speeds of 400-700 Kbps, with bursts of up to 1 Mbps. In the US, AT&T has a 3G/HSDPA network called BroadbandConnect. It competes with Verizon

Wireless and Sprint, which use a different 3G technology for broadband called EV-DO. One of the primary differences between HSDPA and EV-DO networks is that HSDPA allows mobile handsets to transmit voice and data simultaneously (possible in EVDV cf. CDMA above).

HSUPA HSUPA provides improved up-link performance of up to 5.76 Mbit/s theoretically. For instance in Singapore, mobile operator Starhub announced a 1.9 Mbit/s HSUPA service as part of its new MaxMobile plan in 1 Aug 2007. HSUPA is the evolution of UMTS and thus is part of the GSM family of standards just as its predecessor HSDPA.

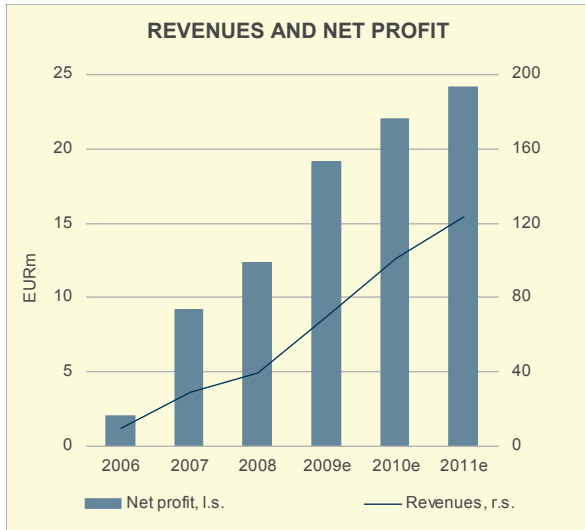
MVNO Mobile Virtual Network Operator – a company that buys airtime in bulk from an existing network operator and resells it to its own end customers with whom it may entertain a direct billing relationship. This is a model that has seen significant traction in saturating markets of Western Europe to address special user groups such as migrant workers with offers targeted to their needs possibly in their vernacular.

TD-SCDMA Time division synchronous code division multiple access, a 3G technology developed in China to support voice and data transmission. By developing their own standard, Chinese equipment manufacturers aim to reduce onerous license payments to European and US holders of relevant intellectual property rights. China also hopes to export TD-SCDMA (to start with other Asia countries). China Mobile has built the world's first and so far only wireless network using TD-SCDMA in eight cities in which the Olympic summer games will be held in August 2008. Chinas two fixed-line carriers, China Telecom and China Netcom, also build one each in two more cities taking the number of cities covered so far to ten. TD-SCDMA uses TDD, in contrast to the FDD scheme used by W-CDMA. By dynamically adjusting the number of timeslots used for downlink and uplink, the system can more easily accommodate asymmetric traffic with different data rate requirements on downlink and uplink than FDD schemes. Since it does not require paired spectrum for downlink and uplink, spectrum allocation flexibility is also increased. Also, using the same carrier frequency for uplink and downlink means that the channel condition is the same on both directions, and the base station can deduce the downlink channel information from uplink channel estimates, which is helpful to the application of beamforming techniques. TD-SCDMA also uses TDMA in addition to the CDMA used in WCDMA. This reduces the number of users in each timeslot, which reduces the implementation complexity of multiuser detection and beamforming schemes, but the non-continuous transmission also reduces coverage (because of the higher peak power needed), mobility (because of lower power control frequency) and complicates radio resource management algorithms. The "S" in TD-SCDMA stands for "synchronous", which means that uplink signals are synchronized at the base station receiver, achieved by continuous timing adjustments. This reduces the interference between users of the same timeslot using different codes by improving the orthogonality between the codes, therefore increasing system capacity, at the cost of some hardware complexity in achieving uplink synchronization.

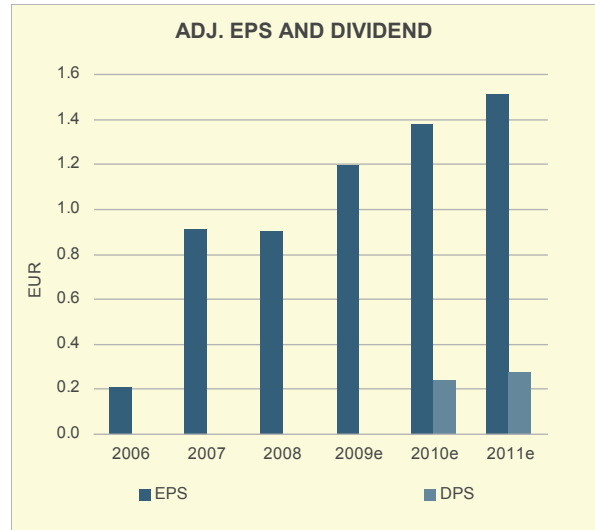
VNO Please refer to the entry under "MVNO".

W-CDMA Wideband CDMA also known as Universal Mobile Telecommunications Service (UMTS) in Europe is a third-generation 3G broadband packet-based transmission of text, digitized voice, video, and multimedia at data rates up to 2 megabits per second. UMTS offers a consistent set of services to mobile computer and phone users, no matter where they are located in the world. UMTS is based on GSM. It is also endorsed by major standards bodies and manufacturers as the planned standard for mobile users around the world. In countries where UMTS is available computer and phone users can be constantly connected to the Internet wherever they travel and, as they roam (travel from country to country), will have the same set of capabilities. Until UMTS is fully implemented, users can use multi-mode devices that switch to the currently available technology (such as GSM 900 and 1800) or GPRS/EDGE where

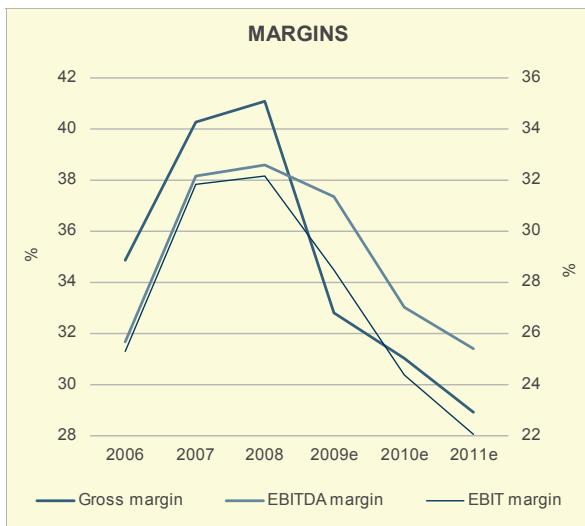
UMTS is not yet available. Previous cellular telephone systems were mainly circuit switched, meaning connections were always dependent on circuit availability. A packet switched connection uses the Internet Protocol, meaning that a virtual connection is always available to any other end point in the network. UMTS also makes it possible to provide new services like alternative billing methods or calling plans. For instance, users can choose to pay-per-bit, pay-per-session, flat rate, or asymmetric bandwidth options. The higher bandwidth of UMTS also enables other new services like video conferencing or IPTV. UMTS may allow the Virtual Home Environment to fully develop, where a roaming user can have the same services to either at home, in the office or in the field through a combination of transparent terrestrial and satellite connections.



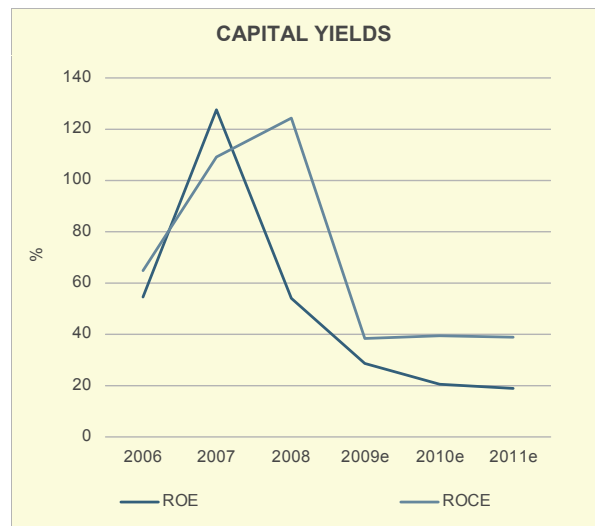
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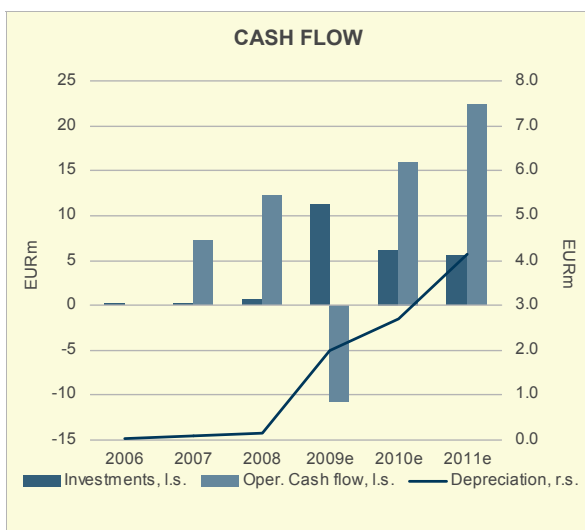
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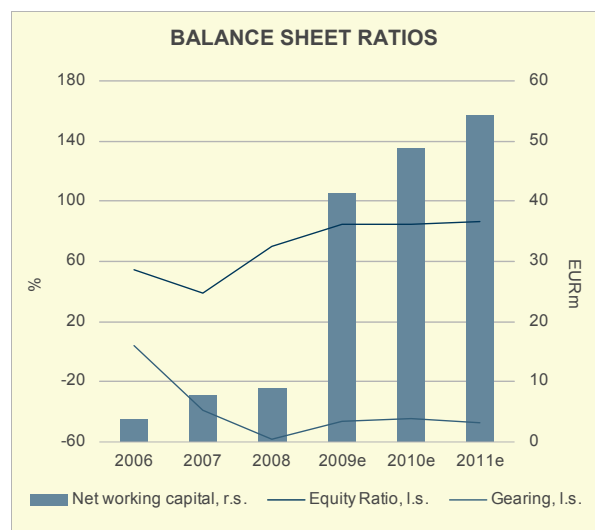
Source: Oppenheim Research



Source: Oppenheim Research



Source: Oppenheim Research



Source: Oppenheim Research

Vtion Wireless Technology - P&L (Cost of Sales)					
EURm (Yr. end: 12/31)	2007	2008	2009e	2010e	2011e
Sales	29.0	39.2	70.0	101.5	123.5
Cost of goods sold	-17.3	-23.1	-47.0	-70.0	-87.8
Gross profit	11.7	16.1	23.0	31.5	35.7
Selling costs	-0.9	-1.4	-1.5	-2.9	-3.7
Administrative costs	-1.3	-2.6	-1.8	-3.9	-4.8
Other operating income/expenses (net)	-0.2	0.5	0.3	0.1	0.0
EBITDA	9.3	12.8	21.9	27.4	31.4
EBIT	9.2	12.6	19.9	24.7	27.2
Interest result	-0.1	-0.2	0.5	0.4	0.4
Financial result	-0.1	-0.2	0.5	0.4	0.4
Profit or loss on ordinary activities	9.1	12.4	20.4	25.1	27.6
EBT	9.1	12.4	20.4	25.1	27.6
Taxes	0.0	0.0	-1.3	-3.1	-3.5
Profit / loss for the year (cont. operations)	9.2	12.4	19.1	22.0	24.2
Net profit	9.2	12.4	19.1	22.0	24.2
Adjusted net profit	9.2	12.4	19.1	22.0	24.2
Key ratios and numbers					
EURm (Yr. end: 12/31)	2007	2008	2009e	2010e	2011e
Valuation					
PER			7.5	6.5	5.9
P/BV			1.5	1.2	1.0
Dividend yield %			0.0	0.0	2.7
EV/Sales			1.4	0.9	0.6
EV/EBITDA			4.5	3.4	2.5
Sustainable FCF yield %			-21.8	11.0	21.7
Data per share					
Weighted avg. number of shares	10.00	13.73	15.98	15.98	15.98
EPS (reported)	0.92	0.90	1.20	1.38	1.51
Adj. EPS	0.92	0.90	1.20	1.38	1.51
DPS	0.00	0.00	0.00	0.24	0.28
Book value per share	1.04	2.23	6.15	7.31	8.58
Sustainable FCFPS	0.7	0.9	-0.6	1.1	1.5
Growth rates %					
Sales	189.9	35.1	78.7	44.9	21.7
EBITDA	263.2	36.7	72.0	25.0	14.4
EBIT	264.9	36.4	58.2	24.1	10.0
Net profit	345.0	35.3	54.3	15.1	9.9
adj. EPS	345.0	-1.4	32.6	15.1	9.9
Margins %					
Gross	40.3	41.1	32.8	31.0	28.9
EBITDA	32.2	32.6	31.3	27.0	25.4
EBIT	31.9	32.2	28.5	24.4	22.0
Net profit	31.6	31.6	27.3	21.7	19.6
Expense ratios %					
Depreciation to sales (Cost of sales)	0.3	0.4	2.9	2.6	3.4
Tax rate	-0.2	0.0	6.4	12.5	12.5
Other ratios					
Interest cover	-29.9	-26.5	-365.7	-58.4	-59.9

Vtion Wireless Technology - Cash Flow Statement					
EURm (Yr. end: 12/31)	2007	2008	2009e	2010e	2011e
EBIT	9.2	12.6	19.9	24.7	27.2
Depreciation / amortization	0.1	0.2	2.0	2.7	4.2
Non Cash Items	-0.3	1.3	-1.4	-3.4	-3.1
Change in other assets & liabilities	2.4	-2.2	-1.9	-0.3	-0.2
Change in working capital	-4.1	0.7	-29.9	-8.2	-6.1
Operating Cash Flow	7.2	12.3	-10.8	15.9	22.4
Net financial result	-0.1	-0.2	0.5	0.4	0.4
Cash Flow from operations	7.1	12.1	-10.3	16.3	22.9
Investments in tangible assets	-0.1	-0.3	-3.5	-4.5	-3.7
Investments in intangible assets	-0.1	-0.2	-7.7	-1.7	-1.9
Disinvestments	0.0	-0.0	0.0	0.0	0.0
Cash Flow from investing activities	-0.2	-0.6	-11.2	-6.2	-5.6
Change in financial liabilities	3.4	-5.2	-1.6	-0.0	-2.0
Change in shareholder's equity	0.0	9.1	43.2	0.0	0.0
Dividend payments	0.0	0.0	0.0	-3.8	-4.4
Other/consolidation	0.1	-0.8	0.0	0.0	0.0
Cash Flow from financing activities	3.5	3.2	41.5	-3.9	-6.4
Cash changes from currency movements	-0.1	1.6	0.0	0.0	0.0
Change in cash and cash equivalents	10.3	16.3	20.1	6.3	10.9
Cash and cash equivalents (begin. of period)	1.6	12.2	30.3	49.9	55.8
Cash and cash equivalents (end of period)	12.2	30.3	49.9	55.8	66.3
Ratios and Key Figures					
EURm (Yr. end: 12/31)	2007	2008	2009e	2010e	2011e
Cash Flow from operations	7.1	12.1	-10.3	16.3	22.9
- Capex (tang. + intang. assets)	-0.2	-0.5	-11.2	-6.2	-5.6
Free Cash Flow (equity)	6.8	11.5	-21.4	10.1	17.3
Free Cash Flow (entity)	6.8	11.5	-21.4	10.1	17.3
Adjusted Free Cash Flow (entity)	6.8	11.5	-21.4	10.1	17.3
Sustainable FCF (equity) per share	0.7	0.8	-1.3	0.6	1.1
Ratios					
Operating CF / capex	5,842.1	3,569.0	-307.5	354.3	610.3
Operating CF / net financial debt	-0.1	-0.5	1.5	-1.5	-1.3
Deprecation / capex	38.1	29.9	17.9	43.3	74.5
Maintenance capex / revenues, %	-0.8	-1.4	-1.4	-1.5	-1.4
Net working capital / revenues, %	26.6	22.7	59.0	48.0	44.0
Cash conversion rate	0.8	1.0	-0.5	0.6	0.7

Vtition Wireless Technology - Balance sheet					
EURm (Yr. end: 12/31)	2007	2008	2009e	2010e	2011e
Assets					
Current assets	25.8	49.8	104.8	122.6	141.8
Cash and cash equivalents	12.2	30.3	49.9	55.8	66.3
Trade receivable	10.1	6.4	35.0	42.6	49.4
Other receivables	1.1	8.2	5.1	5.9	6.4
Inventories	2.3	4.9	14.7	18.3	19.8
Fixed assets	0.8	1.2	10.4	13.9	15.3
Tangible assets	0.6	0.8	7.1	7.4	6.9
Intangible assets	0.2	0.5	3.3	6.5	8.4
Prepaid expenses , deferred taxes	0.0	0.0	1.2	1.2	1.2
Total assets	26.6	51.0	116.4	137.7	158.3
Liabilities and Shareholders' Equity					
Total liabilities	16.2	15.4	18.0	20.8	21.3
Short-term liabilities	4.7	2.4	8.4	12.2	14.8
Trade payables	4.7	2.4	8.4	12.2	14.8
Long-term liabilities	11.4	13.0	9.6	8.7	6.4
Long-term financial debt	8.2	9.7	4.3	4.2	2.2
Other long-term liabilities	3.3	3.3	5.4	4.5	4.3
Shareholders' equity	10.4	35.6	98.3	116.9	137.1
Capital subscribed	10.0	11.5	16.0	16.0	16.0
Reserves	0.4	24.1	82.4	100.9	121.1
thereof retained earnings	0.4	24.1	82.4	100.9	121.1
Total equity , liabilities	26.6	51.0	116.4	137.7	158.3
Ratios and Key Figures					
EURm (Yr. end: 12/31)	2007	2008	2009e	2010e	2011e
Balance sheet structure					
Net working capital	7.7	8.9	41.3	48.7	54.3
Net financial debt	-4.0	-20.6	-45.7	-51.6	-64.1
Capital employed (CE)	8.5	10.1	51.7	62.6	69.7
Enterprise value (EV)			98.1	92.2	79.7
Ratios					
Current assets %	97.1	97.6	90.0	89.0	89.6
Long-term assets %	2.9	2.4	8.9	10.1	9.7
Equity ratio %	39.1	69.8	84.5	84.9	86.6
Gearing %	-38.9	-58.0	-46.5	-44.1	-46.7
Net financial debt / EBITDA	-0.4	-1.6	-2.1	-1.9	-2.0
EV / CE			1.9	1.5	1.1
ROCE %	109.1	124.5	38.6	39.5	39.1
ROE %	127.7	53.9	28.6	20.4	19.0

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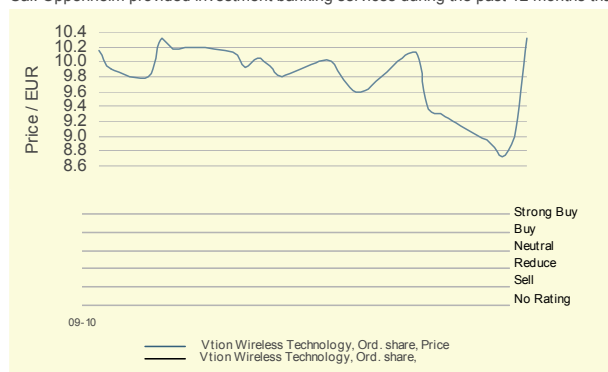
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