TELECOMMUNICATIONS

A Research Publication by DZ BANK AG

ecotel communication[3)6)]

Reuters: E4CG.DE **Bloomberg:** E4C GY

Year *	Sales		Adj. IFRS-Earnings per sh.		Cash flow per share		PER	PCF	Dividend per share
	EUR '000		EUR		EUR				EUR
2010	98,300.0	(–)	0.00	(–)	0.85	(–)	–	3.9	0.00
2011e	79,095.0	(–)	0.37	(–)	1.19	(–)	13.7	4.2	0.00
2012e	77,790.2	(–)	0.52	(–)	1.31	(–)	9.6	3.8	0.25
2013e	78,391.6	(–)	0.74	(–)	1.46	(–)	6.8	3.4	0.30

* Fiscal year end December – In brackets: Figures from the last publication

Start of coverage with "Buy" recommendation and target price of EUR 7 per share

» Ecotel Communications AG is a nationwide operating telecommunications group with the **business focus on corporate clients**. Besides this core business Ecotel operates a subdivision with reseller products and a New Business segment for fast-growing innovative services.

» Over the past five quarters Ecotel has stabilised the business by means of **gradual migration** of its pre-selection customers to the so-called full access line. This has largely stopped subscriber wastage, increased margins, reduced dependence on Deutsche Telekom, and strengthened customer allegiance. Also worthy of note is that the management has managed to halve the company's debt in just twelve months.

» The operational **prospects** have meanwhile **brightened up** significantly. For the **period 2011-13** we expect **EBITDA** of **EUR 6.5m, EUR 7.0m and EUR 8.0m** compared to EUR 4.9m in 2010. These increases are being driven by higher gross profit margins in the main area of business, the elimination of migration costs, and optimisation of processes. Due to continued debt reduction and the falling depreciation trend earnings after taxes can be expected to rise by an overproportionate factor. In addition to this we expect Ecotel to be **completely debt-free in Q4 2012** and to resume payment of **dividends in 2013**.

» Based on our optimistic forecasts all valuation models indicate an undervaluation for the Ecotel share. We put our **target price** at **EUR 7** per share. Our **investment recommendation** is therefore **Buy**.

Selected Companies	Price on 27 Sep 2011		PER 11e	PER 12e	EV / EBITDA 11e	EV / EBITDA 12e	EV / Sales 11e	Re-com.
ecotel communication	**5.00**	**EUR**	**13.7**	**9.6**	**4.0**	**3.1**	**0.32**	↑
QSC	2.15	EUR	12.8	8.7	4.0	3.3	0.70	↓
United Internet	13.00	EUR	16.8	13.6	9.6	7.6	1.50	↑
Mox Telecom AG	5.35	EUR	–	–	–	–	–	–
freenet	8.81	EUR	4.9	5.5	4.4	4.4	0.50	↑
Median for all peer group companies			**12.8**	**8.7**	**4.4**	**4.4**	**0.70**	–

↑ = Buy, → = Hold, ↓ = Sell, ● = not rated, n/a = not appropriate
Sources: DZ BANK, I/B/E/S, FactSet

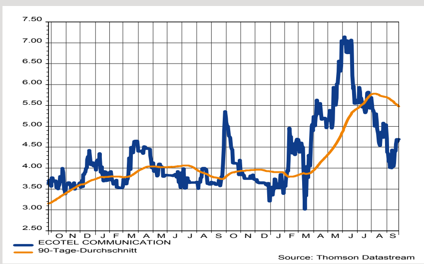
EQUITIES

Company Report
28 Sep 2011

Buy

Closing price 27 Sep 2011 (in EUR):	5.00
Fair value:	7.00
Risk classification:	5
Financial ratios 2011e:	
Book value per share (in EUR):	5.31
Equity ratio (in %):	47.3
Net margin (in %):	2.4
ROE (in %):	8.8
Dividend yield (in %):	0.0
Free cash flow (EUR m):	4.0
Net debt (EUR m):	4.4
Number of shares (million units):	3.9
Market cap (in EUR '000):	19,500.00
Free float (in %):	21.6
SIN:	585434
ISIN:	DE0005854343
Datastream:	D:E4CX

Next Newsflow:
Q3 figures at Nov 15



Author: Joeri Sels, Analyst

DZ BANK
Bank on Germany

INITIATION OF COVERAGE

Investment Summary

Ecotel? Who are they? There are those who haven't heard of them, others who don't like them. There have been important reasons for this in the past. The deterrents included the continuous shrinkage of the customer base, the heavy pressure on margins, various write-downs, the high acquisition-related debt, and not least the potential stock surplus resulting from the bankruptcy of a key investor. Naturally these circumstances also made a cautious capital market policy advisable.

Over the last three to five quarters, almost unnoticed by the investment community Ecotel has freed itself from its operational and balance sheet chains. With the so-called "migration to full access" the group is deploying a weapon which is preventing erosion of customers and sales, increasing margins, reducing dependence on Deutsche Telekom, and strengthening customer allegiance. At the same time the management has managed at breathtaking speed to reduce debt and to find a new major shareholder.

The company's operational prospects have also brightened up substantially. For the period 2011-13 we forecast EBITDA of EUR 6.5m, EUR 7.0m and EUR 8.0m respectively, compared to EUR 4.9m in 2010. These increases are being driven by higher gross profit margins in the core business, the gradual elimination of once-off migration costs, and savings through optimisation of processes. Because Ecotel will continue in future to scale down its debt as a matter of priority and the size of write-downs is falling, earnings after taxes should rise at a clearly overproportionate rate. In concrete terms we expect annual net income of EUR 1.2m in 2011, EUR 2.0m in 2012, and EUR 2.9m in 2013. In our projection Ecotel is debt-free in Q4 2012 and starts paying dividends again in 2013.

On the basis of our optimistic earnings and cash flow forecasts all our valuation methods indicate an undervaluation of the Ecotel share. We therefore start coverage of the company with a Buy recommendation and a target price of EUR 7 per Ecotel share. Despite the generous valuation upside of 40%, due to the extremely thin trading liquidity investors should acquire Ecotel stocks very cautiously.

In view of the moderate cyclicality of the business and the limited leverage, in our profile analysis we have classified Ecotel as being a more than averagely crisis-resistant investment. The investor is putting his money into an entrepreneur-led boutique with advanced operational turnaround. In the longer term a competitor could try to acquire Ecotel.

Structure

INITIATION OF COVERAGE

1 The company

In the section of our study covering the company we first of all present an overview of the various business areas of Ecotel. Subsequently we explain the relevant markets, the strategic plans and the financial profile of the company. Finally we present the executive bodies and the most important shareholders of the company.

1.1 Business areas and subsidiaries

The business of the Ecotel Group is divided into three legs. These three legs also contain the various brands and subsidiaries.

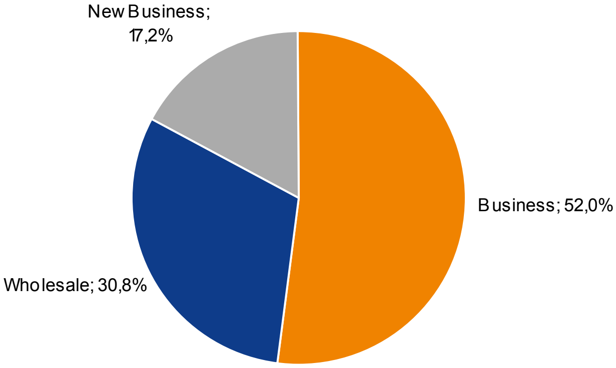
THE THREE LEGS OF THE ECOTEL BUSINESS MODEL

Source: Ecotel

The Business Client division

The Business Client division is by far the most important source of sales and earnings. In this segment, also known as the “B2B” or corporate client business, Ecotel supplies around 30,000 business clients with an integrated portfolio of voice, data, and mobile telephony products. Ecotel generates more than half of its sales and just under 75% of gross income in this subdivision.

ECOTEL SALES BY BUSINESS AREA IN Q2 2011

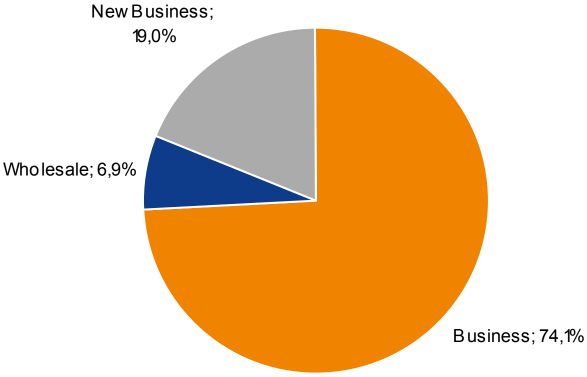


Source: Ecotel Quarterly Report

The “Resellers” subdivision

In the “Resellers” – or “Wholesale” – field of business Ecotel markets upstream products to other telecommunications companies and to providers outside of the sector. Naturally the margins are very low in this market segment. Ecotel therefore only generates about 7% of group gross income in this subdivision, while 31% of total sales are accounted for by this field of business.

GROSS INCOME OF ECOTEL BY BUSINESS AREA IN Q2 2011



Source: Ecotel Quarterly Report

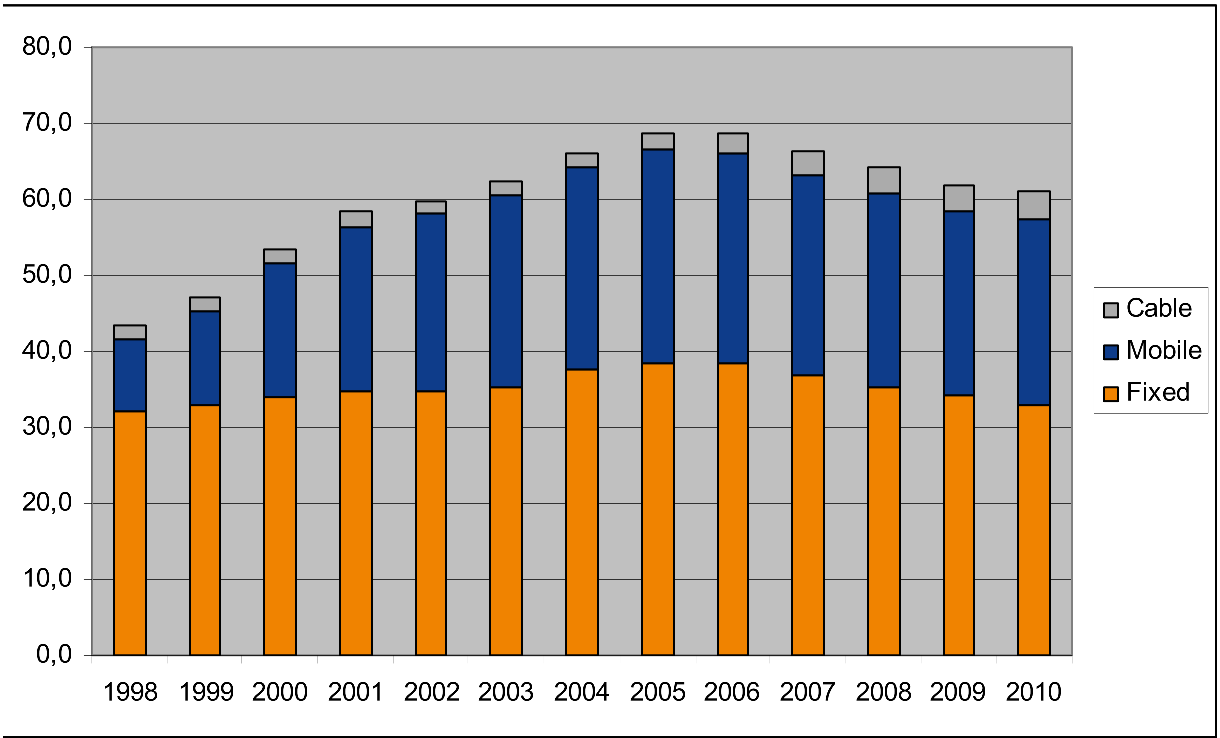
The “New Business” segment

In the “New Business” segment, in which media company Nacamar and retail client subsidiary Easybell are consolidated, Ecotel currently produces 17% of group sales and 19% of group gross income. The current Nacamar was formed from the former Tiscali Business GmbH and is 100%-owned by the Ecotel Group. The subsidiary sells a wide range of streaming, hosting and video solutions to business clients. Radio and television content are processed for the internet and supplied to users live or on demand via the Web. Ecotel only has a 51% stake in Easybell. The company supplies narrow- and broadband services to retail clients.

1.2 Market and strategy

Ecotel operates exclusively in Germany. The telecommunications market is shrinking in this country, and a fierce price war is still being waged. In addition the sector is dominated by technological innovations and regulatory challenges. All these factors co-determine the corporate strategy of Ecotel.

TELECOMMUNICATIONS MARKET IN GERMANY BY SEGMENT (EUR BN)

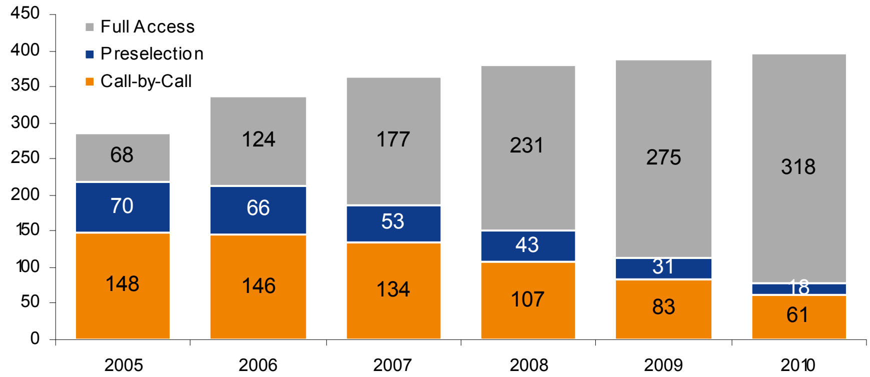


Source: Market analysis of 2010 by the Association of Telecommunications and Value-added Services Providers (VATM)

The market has been contracting since 2006

The above chart shows that the German telecommunications market has been contracting since 2006. Moreover the chart makes it clear that sales in the fixed network market are falling at a disproportionately high rate.

GROWING MINUTE VOLUME IN THE GERMAN FIXED NETWORK MARKET IN MILLIONS P.D.



Source: VATM market analysis 2010

Volumes still growing slightly

While the German fixed network market is contracting in terms of value, volume growth continues. The minute count increased by 2% respectively in 2009 and 2010. Nevertheless, this growth is being driven exclusively by the steep rise in the number of modern full accesses, while telephone minutes, which are generated by the old "pre-selection" and "call-by-call" means of connection, are in a state of total collapse. Thus according to the Association of Telecommunications and Value-added Services Providers (VATM), pre-selection traffic fell by 28% in 2009 and by 42% in 2010.

Prices per minute in Germany down by around 95%

Since the liberalisation of the German fixed network market in 1998 prices per minute have fallen by around 95%. Although a very low level has now been reached, prices are still in gentle decline.

Repeated regulatory harassing fire

Technological changes and regulatory decisions also determine the strategy of Ecotel. Thus the president of the German regulatory authority must repeatedly decide whether and at what price reseller companies like Ecotel receive access to new types of infrastructure, and even if the regulator allows network access this certainly does not mean that the co-operation partner investing in infrastructure will quickly set up a fault-free and fully-functioning interface.

<u>Strategic building blocks of Ecotel</u>

- More intensified focus on the small companies target group
- Securing the customer base by means of migration to full access
- Long-term positioning as an ICT provider
- Inclusion of SIM cards in a D-Network in the product offering
- Further growth in earnings and profitability

Focus on small corporate clients

In view of the challenges outlined Ecotel aims to concentrate even more on the small companies target group. In the past the company has marketed itself as a solutions provider for small and medium-sized enterprises and by selling tailor-made services, building personal contact with its customers, and exhibiting product flexibility, for example in respect of invoicing, it has acquired a good reputation.

Migration to full access is by far the most important project

By far the most significant operational project of Ecotel continues to be migration of the customer base from the pre-selection connection to the full access. After technical conversion of a subscriber to the full access Ecotel generates somewhat higher sales and a significantly higher margin. At the same time, experience shows that the company can expect a much lower cancellation rate. In July 2011 Ecotel had completed the lion's share of the migrations and had just under 3,700 sales-generating full accesses.

Long-term "cloud" speculation

Because Deutsche Telekom's competitors are gaining barely any new customers in the saturated and fragmented telecommunications market, the strategy of many providers aims at increasing sales with the existing customer base by means of an extended product range. Ecotel, too, plans to improve its customer base in the longer term. In concrete terms the management is considering positioning itself as an integrated information and telecommunications company and marketing standardised Ecotel office packages, for example. By means of decentralised supply of software, within a few years Ecotel could develop into a so-called "cloud" group.

More growth in mobile business by selling SIMs using a D-network

Mobile telephony has traditionally been of no great importance to Ecotel. Its share of sales in 2010 was only 3%. Indeed, the previous business was exclusively based on use of the E-Plus network. In order to occupy the "mobile internet" segment and be in a position to offer improved network quality in mobile telephony, over the next few quarters Ecotel plans also to market SIM cards in a D-Network.

Needless to say the company's strategic initiatives and measures also aim to increase corporate earnings. However, we see this less as a strategic objective, but rather as a consequence of strategic action. We go into detail on the subject of profitability in the section entitled "Financial forecasts".

1.3 Financial profile

Equity ratio 47%

We rate Ecotel's balance sheet as being rock-solid. In June 2011 the group reported total equity of EUR 20.8m. With a balance sheet total of EUR 44.6m the equity ratio is 47%. In addition we should point out that Ecotel has generated a surplus in the last five quarters, with the profitability trend being slightly upward, subject to fluctuations.

Customer base is the most important asset

At EUR 17.6m, intangible assets were the largest single item on the asset side in June. According to the company EUR 11.6m was accounted for by goodwill. In relation to total equity these figures are not unusual for a reseller which maintains almost no infrastructure and whose main value is in its customer base, from which cash surpluses are generated.

Exceptional write-down risks do not jeopardise the solid balance sheet

As things look at present, with just one exception the Ecotel management sees no requirement for exceptional write-downs. This exception is the "New Business" subdivision, in which Ecotel consolidates its "Nacamar" media subsidiary. Following the unexpected termination of the contract of an important customer in Q2 2011 the company management is trying by means of intensified new client acquisition to make up the shortfall in sales and earnings in order to prevent a further partial write-down. Nevertheless it cannot be ruled out that the auditors will insist on a further impairment at year-end. However, we would not consider the solid condition of the balance sheet to be at risk in this scenario. Only EUR 3.1m of the goodwill is accounted for by Nacamar, and the customer base of Nacamar is in the books at EUR 2.3m. Because only one customer – albeit a very important one – has left Ecotel, we estimate the maximum exceptional write-down risk at around EUR 2m.

Net debt very manageable

At the 2011 interim stage Ecotel had adequate liquidity of EUR 6.9m. With debts of EUR 11.4m, net liabilities were EUR 4.5m. In view of the EBITDA of EUR 6-7m we consider this to be acceptable, especially as the EBITDA trend is positive and the free cash flow conversion can be described as good. Ecotel itself promotes it has a net debt position of just EUR 2m. The difference consists exclusively of a EUR 2.5m tranche of a KfW loan (Reconstruction Loan Corporation) which due to certain contractual parameters is of near-equity character.

Target: debt elimination by the end of 2012

In the past Ecotel has reduced its debt at a tremendously rapid rate. By means of generation of high operating free cash flows on the one hand and focused working capital management on the other, the board managed to more than halve net debt in the group in the space of just four quarters! Besides this the management has set itself the target of paying off liabilities in full by the end of 2012.

Normalised free cash flow currently around EUR 3m

By our estimates Ecotel currently generates normal free cash flow, that is to say not counting extraordinary factors and working capital deferrals, of EUR 3m per annum. The assumptions for this calculation are shown in the table below.

CALCULATION OF CURRENT NORMALISED FREE CASH FLOW P.A. IN EUR M

Item	Low estimate	High estimate
EBITDA	6,0	6,5
Interest	-0,4	-0,4
Tax	-0,5	-0,5
Other	-0,5	-0,5
CF	**4,6**	**5,1**
Capex	-1,8	-1,8
FCF	**2,8**	**3,3**

Source: DZ BANK estimates

We rate the company's financial situation as being very healthy!

Overall we rate the financial situation of Ecotel as positive. The company has a very solid balance sheet as well as good and increasing profitability with moderate debt, which will fall rapidly over the next few quarters.

1.4 The executive bodies

CEO Zils

The Ecotel Group is led by an experienced management trio. Peter Zils is CEO of the company and takes care of strategy, business development and organisation. Mr Zils is a graduate in communication engineering and founded Ecotel in 1998. With a stake in the capital of more than 25% he is the largest individual shareholder in the company.

CFO Seidl

Since 2006 Bernard Seidl has headed up the finance and investor relations functions in the Ecotel Group. Following his electrical engineering degree course Mr Seidl acquired an MBA at the University of California and held responsible positions with Arthur D. Little, Telefonica and Siemens before finally joining the Ecotel board of management.

CSO Theis

Achim Theis has been responsible at board level for Ecotel's marketing and sales since 2001. Mr Theis is a graduate in business management and previously worked for BGW Produkt + Idee GmbH, Trendmöbel Handels GmbH, and Thyssen Steel.

Board remuneration in 2009 and 2010 totalled around EUR 0.8m and thus amounted to 8-9% of group personnel costs.

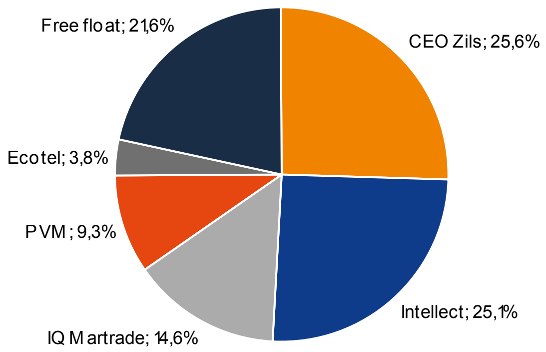
Large supervisory board

The supervisory board of Ecotel consists of six members. Since the end of 2007 Johannes Borgmann has headed up the supervisory body, and Mirko Mach has been deputy chairman since the middle of 2007. Brigitte Holzer and Dr. Thorsten Reinhard have been members of the supervisory board since as long ago as 2006. Dr. Norbert Bensel joined the controlling body in 2010 and Sascha Magsamen in July 2011.

1.5 The shareholders

The share capital of Ecotel consists of 3.9m freely transferable shares. The Prime Standard-listed shares are currently quoted at around EUR 4.90. The market capitalisation of the company thus amounts to EUR 19m.

SHAREHOLDER STRUCTURE OF ECOTEL



Source: Ecotel Quarterly Report

Many anchor investors among the shareholders

For many years the shareholder structure of Ecotel has featured several anchor investors, who have for a long time accounted for a large share of the company's equity. The largest individual shareholder, CEO Zils, owns 25.6% of the group. In addition to this Intellect Investment & Management Ltd. holds just over a quarter of the company's stock. Intellect is an investment vehicle based in the British Virgin Islands under the management of a Fin named Andrey Morozov. Just under 15% of the Ecotel capital is accounted for by IQ Martrade Holding und Managementgesellschaft mbH. IQ Martrade is an industrial holding company based in Düsseldorf. PVM Private Values Media currently holds 9.3% of the Ecotel shares. The mastermind at PVM is Sascha Magsamen, who among other things is a director of Impera Total Return and in addition sits on the supervisory board of Ecotel. We assume that PVM acquired its Ecotel shares very cheaply. This is because the block of shares previously belonged to investment management company AvW Beteiligungsverwaltung in Austria, which had got into serious financial difficulties and in May 2010 even had to file for bankruptcy.

2 The migration to full access

100% of the future improvement in gross income stems from the migration project

The migration to full access, that is to say the changeover from a pre-selection connection to a full access, is by far the most important operational project within the Ecotel Group. We estimate that almost 100% of the increase in group gross income from 2010 to 2012/13 can be attributed to this venture. This is firstly because in the Business Client division product groups such as Value-added Services, Housing and Mobile Telephony are either too small in terms of volume or are not growing. On the other hand, in the other two segments, Wholesale and New Business, we anticipate neither an increase in margins nor growth.

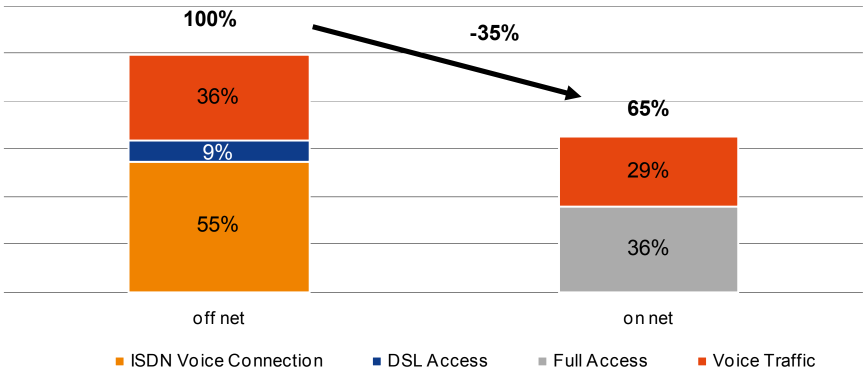
Reasons for the great importance of migration to full access for group gross income

- Significant improvement in gross income due to full access migration
- No increase in gross income from other B2B products
- No revenue growth or margin expansion in other subdivisions

Procurement advantage of 35% with full access

The main reason for the great importance of the migration programme is the margin improvement that can be achieved from the changeover from a pre-selection connection to a full access. According to the company itself it enables Ecotel to realise a procurement advantage of the order of 35%. However, we assume that the company passes on part of this to its customers in the form of a discount. We estimate that with a typical pre-selection customer Ecotel achieves a margin of 35-40%, whereas with a full access this is likely to be around 50%. According to company data the cost of migration, which Ecotel books directly in the profit and loss account, is EUR 50-100 per changeover.

IMPROVEMENT IN PROCUREMENT COSTS WITH FULL ACCESS CONTRACTS



Source: Ecotel

However, the increased profit margin is not the only advantage resulting from the change in access type, as can be seen from the table below. A considerable difference results from the fact that a pre-selection customer not only has a contract with the pre-selection provider, but at the same time also rents a telephone line from Deutsche Telekom. This means that the sales generated with a given customer are shared between two companies and that this customer "belongs" to both companies. With a full access the provider collects the full revenues and has 100% control over the customer. This explains why Ecotel generates a higher ARPU with the full access, while the churn, that is to say the cancellation rate, is lower in this customer group.

Full access has additional advantages for Ecotel

DIFFERENCES BETWEEN PRE-SELECTION AND FULL ACCESS

Item	Preselection	Full access
Revenues	Moderate	High
Margin	High	Very high
Duration contract	Partly	Always
Customer ownership	Partly	Full
Churn	High	Low

Sources: various

Up to July 2011 Ecotel had activated about 9,000 full accesses. In addition the company has an order book for the changeover of an additional 4,000 accesses which for the most part should be completed in the second half of this year. Ecotel estimates that in 2012 a total of 2,000 further accesses will be ordered by pre-selection customers and technically executed. Based on this fundamental data Ecotel had completed some 60% of the migration project as at July.

60% of the migration completed in July

<u>Factors taken into account in gross income forecasts for Business Client division</u>

- Unchanged procurement economies with full access versus pre-selection
- Partial passing-on of advantages to the customers
- Continued but slower reduction in number of pre-selection customers
- Continuing new client acquisition
- Improvement of margin for data products from 2012
- Stabilisation of the Housing & Hosting business
- Stimulus to growth in mobile telephony from contract with a D-network

Assumptions for our forecasts

Our forecast of the future gross income of Ecotel's Business Client segment is based on the assumption that the company completes the migration to full access in 2012 as planned, maintains the generous procurement economies, and continues to pass on part of the latter to customers. Furthermore let us assume that Ecotel also loses pre-selection customers in future and gains new full access customers.

Our forecasts from 2012 also include Ecotel improving its margin somewhat in the data business by means of renegotiations, the number of customers in the Housing and Hosting product group stabilising, and the sale of products in a D-network boosting the mobile telephony business.

3 Financial forecasts and outlook for Q3

We anticipate stable B2B sales from 2013...

In the chart below we have set out our sales and gross income forecasts for Ecotel's three fields of business. In the past the important Business Client division was severely affected by the erosion of revenues from classical pre-selection customers. Until the end of 2009 Ecotel had no way of putting a stop to this subscriber wastage. With the development of the technical ability to convert pre-selection connections into full accesses this situation changed, and the migration project is now so advanced that customer migration can to a large extent be viewed as having been stopped. At the same time the negative sales trend has thus come to a standstill. Therefore B2B sales should no longer fall in 2013 and the subsequent years.

…with a gross profit margin of 45-46%

We anticipate a target margin for 2012/13 of 45-46%. This is only just above the gross profit margin that we believe Ecotel will achieve as early as within the current financial year. Our forecast for the margin is upward because Ecotel still has part of the migration to full access ahead of it and because the company is counting on improved procurement conditions in the data business area from 2012 due to renegotiations.

SALES AND GROSS INCOME OF ECOTEL BY BUSINESS AREA IN EUR M

Segment	Item	2009	2010	2011e	2012e	2013e
B2B	**Revenues**	48,2	44,8	41,3	40,5	40,5
	Gross Income	17,9	17,5	18,0	18,2	18,4
	Margin	37,1%	39,1%	43,6%	45,0%	45,5%
Wholesale	**Revenues**	34,4	38,7	25,3	25,3	25,3
	Gross Income	1,2	1,3	1,4	1,4	1,4
	Margin	3,5%	3,4%	5,4%	5,4%	5,4%
New Business	**Revenues**	16,1	14,8	12,5	12,0	12,6
	Gross Income	3,6	4,1	4,2	3,6	3,8
	Margin	22,4%	27,7%	33,9%	30,0%	30,0%

Sources: DZ BANK forecasts, Ecotel

Wholesale revenues should develop solidly in future

Ecotel's sales in the Wholesale segment totally collapsed in 2011. This was for the most part due to regulatory decisions, but had no effect on gross income in this segment. We take the sales generated in Q2 as a basis for our forecasts for the coming quarters and in addition to this we project the very low margin into the future. In view of the extremely high intensity of competition and the commodity nature of the product there is no reason to assume that there will be any change to the weakness of margins in this subdivision in future.

Temporary weakness in the New Business segment to be expected

The New Business subdivision is currently producing mixed performance. On the one hand the retail client business operated in the Easybell participation is running well. On the other hand Nacamar is suffering from the loss of an important customer in the second quarter. While the Ecotel management is optimistic about finding a replacement by means of new client acquisition, at this juncture our planning is more conservative and we forecast a fall-off in sales and gross income in 2012. We then anticipate a slight recovery in 2013.

SELECTED PROFIT AND LOSS FIGURES AND FORECASTS FOR ECOTEL IN EUR M

P&L Item	2009	2010	2011e	2012e	2013e
Revenues	98,7	98,3	79,1	77,8	78,4
Gross Income	22,7	22,9	24,7	24,2	24,6
EBITDA	4,9	4,9	6,5	7,0	8,0
EBIT	-2,2	1,5	2,9	3,9	5,2
Net result	-2,2	0,0	1,2	2,1	2,9

Sources: DZ BANK forecasts, Ecotel

Future EBITDA trend clearly positive

Aggregation of the revenues and gross income from the three legs shows that stability is to be expected at group level over the next few years. Meanwhile we foresee a consistently upward trend for EBITDA. This is due firstly to the fact that from 2012 the once-off costs in connection with the migration to full access will fall off sharply. On the other hand Ecotel is planning to make savings by means of process optimisation. Both factors will contribute to a fall in cash costs in 2012/13. Our EBITDA forecasts imply EBITDA margins of approximately 8%, 9% and 10% for the period 2011-13 and are therefore in line with the medium-term management guidance, which includes a steady improvement in the EBITDA margin up to 10% in 2013.

EBIT is likely to grow by an overproportionate factor

Under normal circumstances EBIT should grow by a greatly overproportionate factor in the period 2011-13. The main reason for this is the falling depreciation trend. Naturally the thesis assumes that there is no further valuation adjustment on Nacamar. The time series of the net earnings should increase even more steeply. Among other things this is supported by the financial result, which is improving each year due to debt reduction.

Our forecast: Ecotel is debt-free in Q4 2012 on a net basis

In our projection Ecotel tends to generate increasing free cash flows over the next few years, all of which the company uses to reduce liabilities. On a net basis Ecotel should be debt-free in five to six quarters. At that point there will be nothing standing in the way of a resumption of dividend payments.

Dividend of at least 25 cents to be expected from 2013

In our model we assume distribution of a dividend of 25 cents per share for 2012, payable in 2013. In the subsequent years the dividend increases by 5 cents each year. These are extremely conservative assumptions. Ecotel could also start dividend payments at 30 or 40 cents, and nor would it be a problem to begin distribution a year earlier. However, we would remind readers that the company management has announced a target of eliminating the company's debt in full as quickly as possible. We are therefore making cautious assumptions at this juncture.

Stock buybacks possible, but difficult

Stock buybacks are possible in the future as well. As a rule, such buybacks are superior to a dividend distribution due to taxation aspects. However, the extremely small free float market capitalisation speaks against buying own shares. Firstly, the management would have to mandate a bank to examine if Ecotel could effectively buy the stock with the desired volume at the capital market.

Q3 FORECASTS FOR ECOTEL IN EUR M

Item	Q3 11e	Q2 11	% change	Q3 10	% change
Revenues	19,3	19,8	-2,6%	24,6	-21,6%
Gross income	6,0	6,1	-1,6%	5,5	9,2%
EBITDA	1,6	1,7	-5,6%	1,0	60,4%
Net result	0,4	0,1	309,4%	0,0	n.m.

Source: DZ BANK estimates, Ecotel figures

Q3 EBITDA expected at same level as Q2

On 15 November Ecotel plans to present its figures for the third quarter of 2011. We expect a further small and probably final sequential fall in sales of 3% to EUR 19.3m and EBITDA of EUR 1.6m, thus 60% above the previous year's level. We forecast earnings after taxes and minorities at EUR 0.4m. In organic terms our forecast is almost in line with the second quarter. We would remind readers that in Q2 Ecotel had to take an exceptional write-down of EUR 0.4m.

4 Company valuation

In the valuation part of our study we carry out a multiples analysis, compare Ecotel with other telecommunications companies, and discuss the parameters and the result of a DCF valuation.

All the valuation methods indicate an undervaluation

The various different methodological approaches all indicate an undervaluation of the Ecotel share. We are setting our target price at EUR 7.00 per share. Thus the Ecotel share has valuation upside of just over 40%. At the same time our share price target is well short of the fair value calculated by our DCF model. We consider this to be appropriate, because in our opinion the DCF method gives distorted results in the current capital market phase.

Recommendation Buy with a target price of EUR 7

In view of our target price the investment recommendation is Buy. However, due to the extremely thin trading liquidity of the Ecotel share investors should acquire Ecotel stocks very cautiously.

Ecotel has better than average crisis-resistance

In accordance with our profile analysis we are rating Ecotel as having better than average crisis-resistance. Both the low cyclicality of the business and the limited leverage favour this classification.

4.1 Multiples analysis

Multiples for Ecotel all low

In the table below we have compiled a selection of valuation multiples for Ecotel. Based on most key ratios the Ecotel share is extremely attractively valued.

SELECTED VALUATION MULTIPLES FOR ECOTEL

Valuation metric	2011e	2012e	2013e
EV/EBITDA (Static)	3,4	3,2	2,8
EV/EBITDA (Dynamic)	3,4	2,7	1,9
PER	15,8	9,4	6,6
P/Equity-FCF	6,2	5,7	4,9

Source: DZ BANK forecasts

Both EV multiples...

In particular the multiples based on the enterprise value point to a large undervaluation of the Ecotel share. The low level of the static EV/EBITDA ratio of 3.4x is highlighted by the dynamic EV/EBITDA multiple, which takes into account that the enterprise value falls over the course of time at the rate of FCF production: it is just 1.9x in 2013!

EXPECTED GROWTH RATES FOR ECOTEL

YoY growth	2012e	2013e
EBITDA	7,9%	13,9%
Profit after tax	67,4%	43,9%
FCF	9,3%	15,3%

Source: DZ BANK forecasts

...and equity multiples indicate an undervaluation

Equity-based multiples also indicate an undervaluation of the Ecotel share. Investors should not be deceived by a quick glance at the PER in 2011. On the one hand investors must take into account that an exceptional write-down in the second quarter had a negative impact on this ratio. Not counting this effect the PER would be 11.9 instead of 15.8. On the other hand this PER does not take into account the fact that we expect earnings growth of some 55% p.a. for 2012/13.

4.2 Peer group discussion

There is no genuine reference group

In the case of Ecotel we forego a comprehensive peer-group analysis. The main reason for this is that there is no publicly-listed company which adequately compares with Ecotel.

QSC and Versatel are no peers…

We would remind readers that Ecotel is a fixed network reseller specialised in small companies with a market capitalisation of EUR 19m. In terms of product range and customer focus QSC and Versatel are most similar to Ecotel, but these companies are network operators and their stockmarket value is around EUR 300m. In addition, a few months ago a majority stake in Versatel was bought by financial investor KKR and it has one of the largest debt-equity ratios in the sector. All these arguments militate against comparison with Ecotel.

POTENTIAL PEER GROUPS FOR ECOTEL

Peer Group 1	Peer Group 2	Peer Group 3
QSC	Freenet	Mox Telecom
Versatel	Drillisch	Bob Mobile

Source: DZ BANK considerations

...nor are Freenet or Drillisch…

An attempt to find telecommunications companies with similar capital intensity leads automatically to Freenet and Drillisch. These groups are also dedicated resellers. Nevertheless, we do not want to compare them with Ecotel, because both groups generate almost 100% of their revenues in mobile telephony with retail clients, whereas Ecotel provides corporate clients with fixed network services. In addition to this the market capitalisation of the companies is EUR 1.1bn and EUR 400m respectively.

...and nor are Mox or Bob Mobile!

Our search for listed companies in the telecommunications sector similar in size to Ecotel leads us to Bob Mobile and Mox Telecom, each of which have a market capitalisation of approximately EUR 25m. However, even here, looking at the differing business objectives we would prefer not to make a comparison: Bob Mobile is active throughout Europe in mobile telephony and gaming and Mox Telecom is now a globally active calling card supplier.

Generally speaking care should be exercised in a peer-group analysis

In the absence of comparable companies a comparison of multiples makes little sense. An at least reasonably homogeneous group would be just one requirement to begin the analysis. Even if there were a peer group, statements about a presumed over- or undervaluation of the Ecotel share would have to be viewed with great caution, and this for two reasons. Firstly the peer-group analysis provides no answer to the question as to whether the sector as a whole is over- or undervalued, and secondly comparison of the individual valuation ratios is in some cases extremely misleading, as peculiarities relevant to the valuation distort the multiples for almost all of the companies. For example, the profit and loss account of Freenet is negatively affected by acquisition-related write-downs until 2013, and these reduce earnings after taxes by 50-60%. In addition we estimate that 25% of the reported EBITDA of QSC is generated from sales which are unaccompanied by any payment inflows and which do not therefore contribute to cash flow.

Proportionate free cash flows...

In order to give interested investors at least a rough picture of the relative valuations of German telecommunications companies, for the companies analysed by us we have determined the ratio of market capitalisation to our estimated proportional equity-free cash flow. In our opinion this valuation ratio is best suited, subject to additional consideration of the medium-term FCF trend, to revealing misvaluations.

...are best suited to a comparative valuation

Equity-FCF multiples are immune to inflated EBITDAs, exceptional write-downs of all types, and distortions resulting from losses carried forward. The proportional variant of this key ratio also takes into account minority interests. These are of great significance with Ecotel: only 51% of the Easybell participation belongs to Ecotel and in 2012 it will contribute a forecast 20% share to reported EBITDA and 30% to (non-proportional) free cash flow.

RELATIONSHIP BETWEEN MARKET CAPITALISATION AND PROPORTIONAL EQUITY FCF IN 2012

Company	DTAG	KD	UI	FN	QSC	VS	ECO
P/EqFCF (Proportional)	6,5	12,1	12,4	5,6	13,4	6,1	6,7
Medium term FCF trend	Falling	Climbing	Climbing	Stable	Stable	Falling	Stable

Source: DZ BANK forecasts

Result: Ecotel looks attractively valued

The table above shows that the multiples correlate very strongly with our medium-term FCF trend forecast. Thus with the high multiple of United Internet and Kabel Deutschland the capital market is discounting the fact that the cash flows of both companies will also rise steeply in the mid- and long-term. The stock market similarly values QSC with a double-digit FCF multiple. Nevertheless, we are convinced that the company cannot increase its profitability in the medium term. For this reason, too, we therefore recommend that investors sell the QSC share. Ecotel can best be compared with Freenet: the multiple is too low given the assumed medium-term cash flow stability.

4.3 DCF

Fair value on DCF basis is EUR 10 per Ecotel share

When we fed the Ecotel data into our DCF model for the first time we were very surprised by the result. Under the assumption of a beta of 1.7 and a perpetuity growth rate of 0% the model calculated a fair value of EUR 10 per Ecotel share. We made no additional extraordinary assumptions. The exit EBITDA margin in the projection is 10% and is thus in line with the level we already expect for 2013. We do not change the capital intensity either: the capex-to-sales ratio remains a constant 2.3%.

Assumptions in our DCF model

- Beta of 1.7
- Perpetuity growth rate of 0%
- Exit EBITDA margin of 10%
- Capex-to-sales ratio stable at 2.3%

After double-check: no model errors

We checked the DCF arithmetic twice and found no errors. Based on the given framework of assumptions the result of EUR 10 is correct. The significant deviation from the current stock exchange price of EUR 4.90 indicates either a massive undervaluation of the share or that our key assumptions are incorrect.

Explanations for the extreme deviation of the DCF fair value from the stock price

- Fall in DAX by 2,000 points in just two months
- Fall in capital market interest rates from 3% in July to below 2%
- Extremely thin trading liquidity in the Ecotel share
- Long-term fear of high pre-selection exposure

Our experience: DCF fair values are seldom reached even in "normal" stock exchange periods

First of all we have for many years experienced that fair values calculated by analysts using the DCF method are not reached even in "normal" stock exchange periods. This is possibly due to the fact that the method also involves forecasting the more distant future, which in objective terms is more uncertain. Future risks which are not identifiable today are not registered by the model.

Transfer union, northern euro or DM 2?

Just at the moment we are experiencing anything other than a normal capital market phase. The European debt crisis recently turned into a financial and currency crisis, and in the next few months the markets and politicians will presumably decide whether we in Europe are heading for a fiscal and transfer union, division of the monetary area into northern and southern segments, or total collapse of the euro.

Fall in the DAX by 2,000 points in two months...

The capital markets have already partially anticipated the consequences of these historical changes. For example the DAX fell by 2,000 points in just two months. This is also of relevance to the valuation of Ecotel. This is because due to the implosion of the indices almost all German shares are currently quoted well short of the fair values determined for them by the analysts.

...and fall in capital market interest rates from 3% to below 2%

A further crisis-related aspect has an influence on the interpretation of the results of DCF analyses: namely that German capital market interest rates have fallen dramatically since July. Thus the yield on German government bonds with a ten-year maturity has fallen from 3% to less than 2%. This circumstance is also relevant, because each DCF model is based among other things on the return on a risk-free investment. In other words the latest slide in interest rates has lifted the fair values in the DCF models without there being any substantial change in the FCF forecasts.

The fall in German interest rates is the harbinger of a recession and a reflection of the lack of investment alternatives in southern Europe

The coincidence of the fall in the DAX and the rise in the German bond market is striking. Whenever long-term interest rates fall, shareholders are usually pleased, because companies can obtain refinancing on better terms. However, in actual fact the recently fallen interest rate betrays something else. On the one hand it is a harbinger of a full-blown recession which will not stop at the frontiers of the European Mediterranean countries. On the other hand it is an expression of frightened southern Europeans who no longer dare to buy or hold their own countries' bonds. The last set of circumstances is especially important, because it indicates that the fall in interest rates in this country could be just a temporary phenomenon. Depending on the respective Europe scenario, at the end of the day Germany is likely to have to stump up for the debts of many or all of the countries. If this insight becomes established, the German bond market will lose its current scarcity status and the way will be clear for a risk-adequate interest rate in a European context.

Low trading liquidity is also negatively affecting the quoted price

The extremely low trading liquidity is also negatively affecting the price of the Ecotel share. The free market capitalisation is only EUR 4m. Not infrequently only a few hundred shares are being traded each day, and anyone wishing to sell a thousand shares can usually only achieve it at a considerable discount. The bid-ask spread is often 10%. Incidentally the general financial crisis strengthens our free float argument. This is because in the current stock exchange period investors are looking not only for safety but also for high liquidity.

High pre-selection exposure is a risk

A further reason for the large differential between DCF fair value and stock exchange price could be the operational business area of Ecotel itself. We can imagine that some capital market participants are afraid of the high pre-selection exposure and are therefore not confident that the company is capable of stable cash flow production in the longer term. We have addressed the problem in our study and have justified why we do indeed expect stabilisation in the relevant B2B segment.

DCF also indicates undervaluation of the Ecotel share

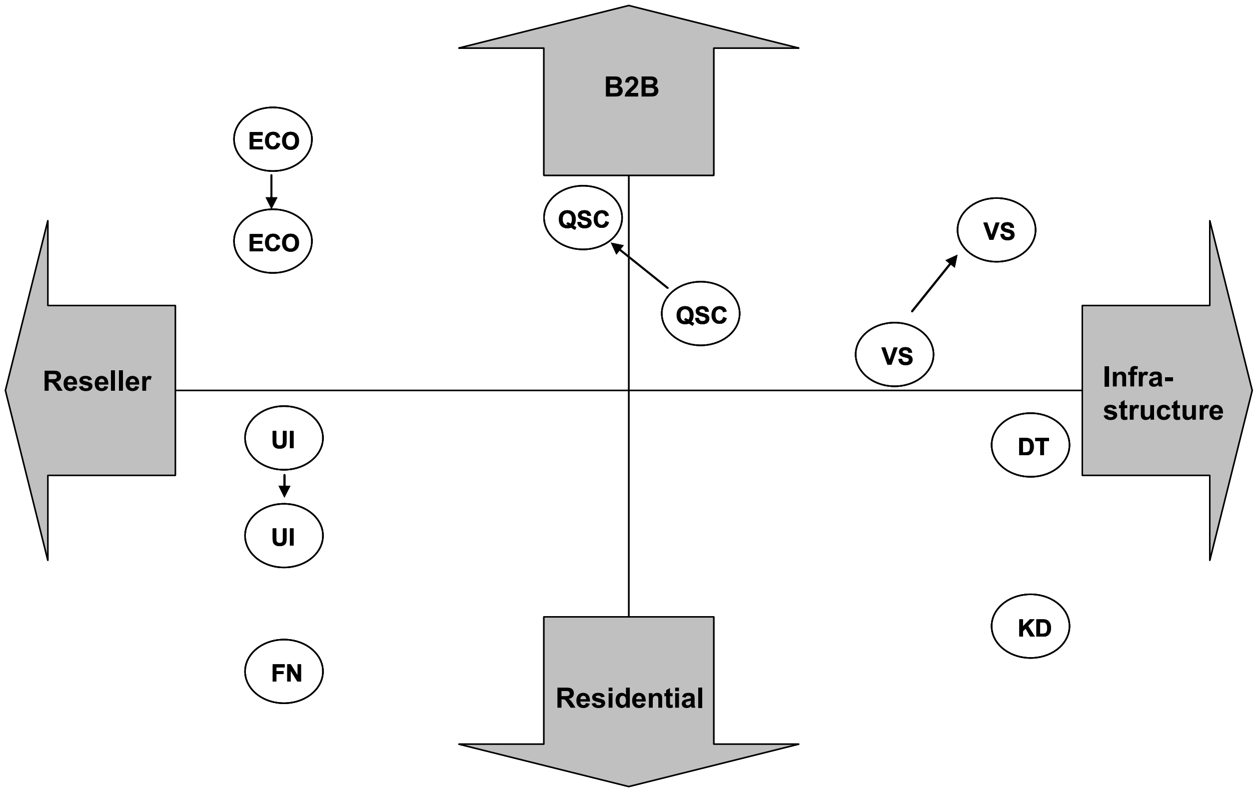
We have explained why the DCF method delivers very distorted results in the present state of the capital market. Nevertheless, in our opinion the bear market and the liquidity argument only explain a large part of the gap between the DCF fair value and the current share price. The remaining part, as we see it, simply indicates the current undervaluation of the company.

4.4 Profile analysis

Ecotel is a unique combination of "asset-light" and B2B focus

Ecotel is the only company in the German telecommunications market which primarily supplies small companies without an infrastructure of its own. The Ecotel board of management repeatedly emphasises that with its two network nodes in Frankfurt and Düsseldorf the company maintains a minimal amount of infrastructure. Compared with the groups which in the past have invested hundreds of millions or even billions of euros in networks in Germany, we most certainly see Ecotel as a dedicated reseller and in respect of capital intensity we compare it with United Internet and Freenet.

CUSTOMER FOCUS AND CAPITAL INTENSITY

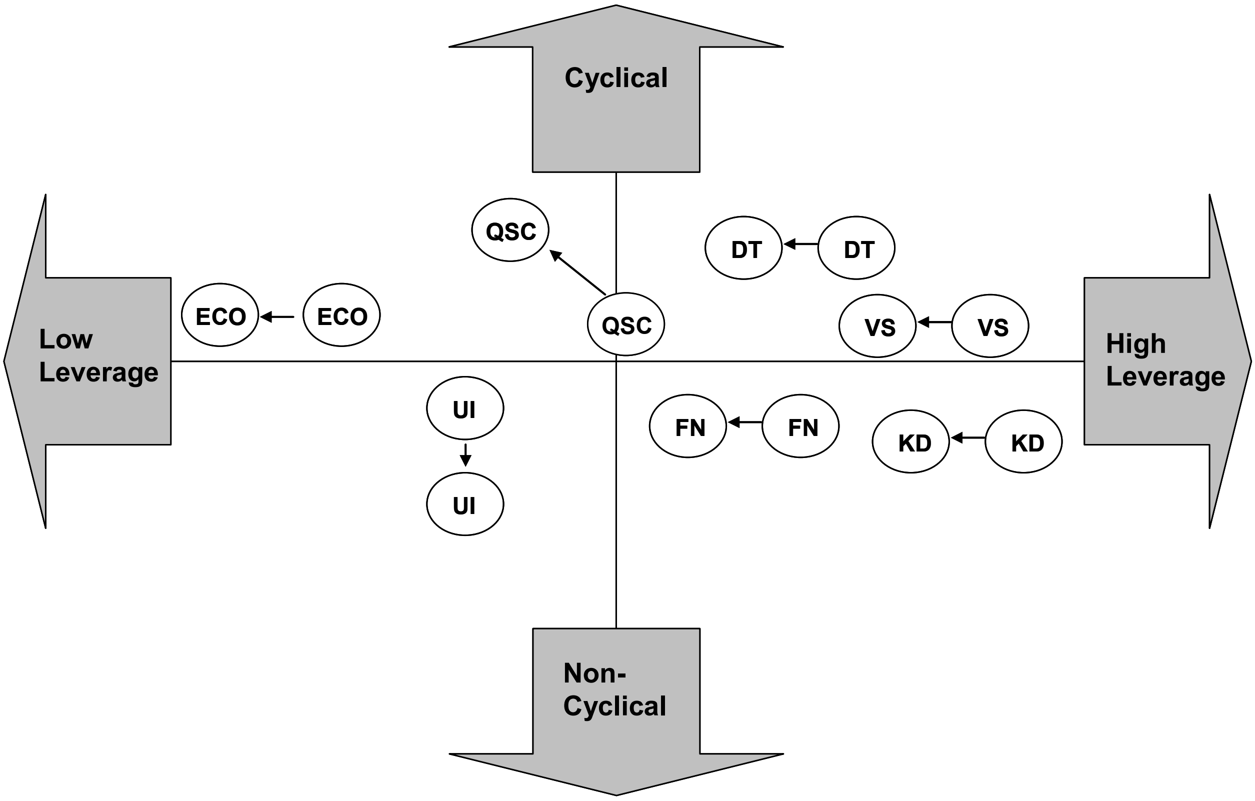


Source: DZ BANK considerations

Starting from a low level, retail client business is becoming more important

We have seen with interest how differently the customer focus of the German telecommunications groups is developing. Thus it is already foreseeable that the corporate client business of QSC will come to be even more important. This is due on the one hand to a sharp structurally-related fall-off in the remaining call-by-call and pre-selection business, and on the other hand to the acquisitions in the Hosting business area. The importance of the B2B segment is increasing at Versatel, too, because sales to private DSL households are falling steadily. It is noticeable that the focus of Ecotel is different. It is true that supplying small companies continues to be the core business for the time being, but with the considerable success of Easybell the exposure to retail clients has increased significantly just recently. We observe a similar trend in respect of the tremendously rapid growth of the new Mobile Telephony segment of United Internet.

CYCLICALITY AND LEVERAGE



Source: DZ BANK considerations

Ecotel has the lowest debt level in the peer group

Of all the publicly-listed telecommunications groups in Germany Ecotel has the smallest debt ratio. Just a year ago QSC would have been in first position, but following the takeovers of IP Partner and INFO AG the Cologne-based network operator is now moderately indebted once again. Kabel Deutschland and Versatel are the companies with the highest relative debt.

Cyclicality "moderate"

In our study entitled "The Evolution of Cyclicality" of March 2009 we rated the telecoms sector as low-cyclical and late-cyclical overall. Nevertheless, dependent on the product and customer focus we have established differences within the sector in the level of susceptibility to the economic cycle. Thus we have explained why corporate clients react more quickly to a changing rate of macroeconomic growth than private households. Furthermore our investigation revealed that mobile telephony is more cyclical than the fixed network business. These inter-relationships explain why in the above chart all the companies are located close to the abscissa: there are no telecommunications companies in Germany that concentrate on mobile telephony services for business clients and no more companies listed on the stock exchange which specialise in fixed network services for retail clients.

Ecotel has better than average crisis-resistance

Our profile analysis shows that as an asset-light company focused on business clients in Germany Ecotel occupies a unique position. In addition, in view of its moderate cyclicality and low leverage the company appears to us to be well equipped for a scenario in which the global financial crisis intensifies and the global economy slides into a recession.

4.5 Acquisitions and market consolidation

The strategy of Ecotel is primarily focused on stabilisation and growth of its organically generated gross income. In the short term we consider neither disposals of business units nor acquisitions to be likely.

No divestments to be expected...

Divestments do not make much sense, because synergies most certainly exist between the three segments. Media company Nacamar would be the simplest to remove from the group, but after the unexpected loss of the most important customer Ecotel is first of all trying to find new customers in order to compensate for the loss of sales and earnings.

...and acquisitions just as unlikely

Nor do we anticipate any significant acquisitions in the coming 1-2 years. The share price of Ecotel is below the fair value, so a capital increase hardly comes into consideration. A credit-financed takeover is just as hard to imagine, given that the objective of the Ecotel management is to fully eliminate the company's debt and thus restore its ability to pay dividends.

Takeover of Ecotel possible, but not likely

We are just as hesitant to believe in the possible takeover of Ecotel by another telecommunications company. This is not because Ecotel per se is not an attractive acquisition target; on the contrary we would argue that the company has increased its acquisition value following its successful stabilisation of its business and its heavier concentration on premium-quality full access connections. Besides this we rate the company valuation as attractive from the point of view of an acquiring company. Rather, for various reasons the potential bidders currently have little appetite for acquisitions by our estimates.

Four potential acquiring companies identified

Among the potential buyers we count Vodafone and Telefonica as well as QSC and Versatel, thus network operators which already have a corporate client business in Germany and are not geographically limited to the major cities like Colt Telecom or British Telecom Deutschland. Even now Ecotel is co-operating closely with Vodafone and the fixed network subsidiary Arcor. With an acquisition Arcor could expand its Business Client segment, increase its gross profit margins without any great risks, and realise synergies in the areas of costs and taxes. The acquisition rationale of Telefonica, QSC and Versatel would look similar. All the potential buyers would move closer to their aim of achieving critical mass in the corporate client segment and could exploit synergies.

Individual reasons against an acquisition initiative by QSC...

Despite the advantages of amalgamation of homogeneous business areas we do not currently foresee a takeover. There are many reasons for this. With the acquisitions of IP Partner and INFO AG, QSC has laid the foundation for a new strategic focus and is driving forward the transformation from dedicated telecommunications provider to software group. It is not so much that the acquisition of an additional business client base would counteract this new strategy, but the management of the Cologne-based company must first of all concentrate on integrating the acquired units and developing the products and interfaces made possible by the planned “cloud cross-selling”.

...Telefonica...

According to newspaper reports the integration of Hansenet at Telefonica Deutschland is certainly not progressing smoothly. In addition the Spanish economy is threatening to slide into a recession over the next few quarters, and Spain is by far the most significant market for Telefonica. In view of this we do not believe that the German subsidiary of the Spanish incumbent will get the green light for a further fixed network acquisition.

...Versatel...

A few months ago KKR acquired Versatel and shortly afterwards announced further acquisitions with a view to making the company larger and stronger. Nevertheless, we understood the announcements to mean that KKR is aiming for greater fibre-optic exposure and is therefore on the lookout for additional city carriers than customer bases.

...and Vodafone

Vodafone is a globally active mobile telephony group in which the fixed network business is only of marginal interest. The parent company cannot be truly satisfied with the repurchase of the Arcor minority in 2008. The once loudly proclaimed target of a 20% share of the German DSL market has become an elusive prospect. Furthermore, in May 2010 Vodafone spent roughly EUR 1.4bn on German mobile telephony frequencies. In view of these facts we very much doubt that head of Germany Joussen will receive permission from his British boss for a further acquisition in the fixed network segment.

Result: takeover of Ecotel unlikely in the near future

Our buyer screening leads us to the conclusion that Ecotel is unlikely to be an acquisition target in the near future. We therefore also see no reason to add an acquisition premium to our target price for the Ecotel share.

4.6 Risk analysis

Normal risk profile attested

Just like every other company in the telecommunications sector Ecotel is also exposed to a wide range of operational, regulatory, financial, strategic and market risks. We have studied in detail the risks listed in the 2009 and 2010 annual reports and allocate Ecotel a “normal” profile in respect of the range and severity of the risks. In particular we have not discovered any risks that could jeopardise achievement of the operational management guidance as seen from today’s perspective. Moreover, we would add that Ecotel has greatly reduced its overall risk through stabilisation of gross income and massive debt reduction.

Impairment in respect of Nacamar would represent disruptive newsflow

The largest short-term individual risk as we see it is a potential impairment in the “New Business” segment. A further exceptional write-down on Nacamar would certainly be disruptive newsflow, but in the absence of any effect on cash flow would have hardly any impact on the fair value per share.

Second wave of erosion among pre-selection customers unlikely

The greatest longer-term individual risk is in respect of the stability of the pre-selection customer base. However, we consider the scenario of a further wave of migration among the pre-selection customers to be unlikely. On the one hand in the course of the progressive migration to full access over the next few quarters Ecotel can “secure” several thousand more customers. The remaining pre-selection customers, who should then primarily be located in rural regions, can hardly be reached with new products or new technologies. The latest LTE mobile telephony generation would be best suited to this. However, we do not believe in use of the new technology in the Business Client segment, in any case not for substitution of the fixed network connection.

AT A GLANCE

Company profile
ecotel communications is a telelcoms company operating nationwide and with the focus on corporate customers. On top of this core business, ecotel also runs a wholesale segment as well as a "New business" segment, where strongly growing business units are consolidated.

Basis for investment recommendation
In the recent quarters Ecotel managed to stabilise the business, while at the same time reducing debt significantly. The future prospects are bright. We forecast strong earnings growth in the years to come. This outlook is not yet reflected in the current share price level.

Price sensitive current issues
- Stabilisation of the business
- Margin expansion
- Dividend

Opportunities and risks

Opportunities	**Risks**
Better than expected business development	Impairment on Nacamar
Dividend earlier than expected	High Pre-selection exposure
Consolidation	

PROFIT AND LOSS ACCOUNT

Euro m	**2010**	**2011e**	**2012e**	**2013e**	**2014e**	**2015e**
Sales	**98.3**	**79.1**	**77.8**	**78.4**	**78.4**	**78.4**
Change in inventory/Own work	0.1	0.0	0.0	0.0	0.0	0.0
Total output	**98.4**	**79.1**	**77.8**	**78.4**	**78.4**	**78.4**
% against prev. year		-20%	-2%	1%	0%	0%
Cost of materials	-75.4	-55.4	-54.6	-54.8	-54.8	-54.8
Personnel expenses	-9.4	-9.2	-9.0	-8.8	-8.8	-8.8
Other operating income	1.0	1.0	1.0	1.0	1.0	1.0
Other operating expenses	-9.7	-9.0	-8.2	-7.8	-7.8	-7.8
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**4.9**	**6.5**	**7.0**	**8.0**	**8.0**	**8.0**
For information: EBITDA adjusted	4.8	6.3	7.0	8.0	8.0	8.0
Depreciation	-3.4	-3.6	-3.1	-2.8	-2.6	-2.4
thereof on goodwill	0.0	-0.2	0.0	0.0	0.0	0.0
Operating profit (EBIT)	**1.5**	**2.9**	**3.9**	**5.2**	**5.4**	**5.5**
For information: EBIT adjusted	1.5	3.1	3.9	5.2	5.4	5.5
% against prev. year		106%	27%	32%	4%	3%
Interest paid / received	-0.8	-0.4	-0.3	-0.2	-0.1	-0.1
Profit before tax	**0.7**	**2.5**	**3.6**	**5.0**	**5.2**	**5.4**
For information: EBT adjusted	0.7	2.7	3.6	5.0	5.2	5.4
% against prev. year		282%	35%	38%	5%	4%
Income taxes from continuing operations	-0.4	-0.7	-1.1	-1.5	-1.6	-1.6
Tax rate	57%	30%	30%	30%	30%	30%
Net profit from continuing operations	**0.3**	**1.7**	**2.5**	**3.5**	**3.6**	**3.8**
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	**0.3**	**1.7**	**2.5**	**3.5**	**3.6**	**3.8**
Profit or loss attributable to minority interest	-0.3	-0.5	-0.5	-0.6	-0.6	-0.6
Profit or loss attributable to shareholders	**0.0**	**1.2**	**2.0**	**2.9**	**3.0**	**3.2**
thereof from continuing operations	0.0	1.2	2.0	2.9	3.0	3.2
thereof from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	3.900	3.900	3.900	3.900	3.900	3.900
IFRS earnings per share, diluted	0.00	0.31	0.52	0.74	0.78	0.82
Adjusted earnings per share, diluted (contin.)	0.00	0.37	0.52	0.74	0.78	0.82
Fiscal year end December						

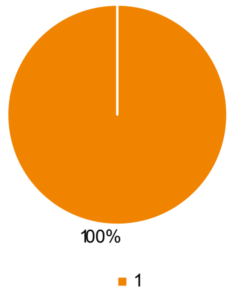
Source: ecotel communication and DZ BANK estimates

RATIOS

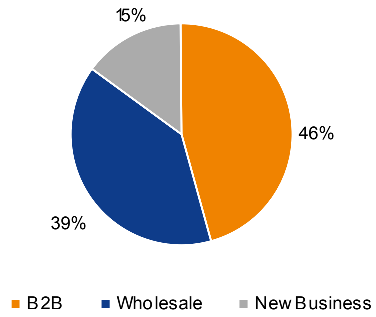
Euro	2010	2011e	2012e	2013e	2014e
Profit and loss ratios					
Total output ('000)	98,400.0	79,095.0	77,790.2	78,391.6	78,391.6
EBITDA margin	4.9%	8.0%	9.0%	10.2%	10.2%
EBIT margin	1.5%	3.9%	5.0%	6.6%	6.8%
Net margin	0.3%	2.4%	3.2%	4.4%	4.7%
Investment ratio	0.0%	2.3%	2.3%	2.3%	2.3%
R&D as % of total output					
Net other operating costs as % of total output	8.8%	10.1%	9.2%	8.6%	8.6%
Net financial income as % of total output	-0.8%	-0.5%	-0.4%	-0.3%	-0.2%
Interest cover	2.5	6.9	12.4	25.7	38.6
Average sales growth next five years	-4.4%				
Average earnings growth next five years					
Profitability ratios					
ROE	1.5%	8.8%	10.4%	12.9%	12.4%
ROCE	5.9%	13.1%	17.5%	24.2%	26.1%
Productivity ratios					
Sales per employee ('000)					
EBIT per employee ('000)					
Balance sheet ratios					
Equity ratio	41.2%	47.3%	52.4%	56.4%	59.8%
Long term debt and equity / Fixed assets	96.7%	110.3%	126.6%	143.0%	159.4%
Liquidity (quick ratio)	95.6%	114.0%	139.8%	167.9%	197.3%
Receivables as % of total output	14.6%	14.6%	14.6%	14.6%	14.6%
Investment (net of GW) / Depreciation		56.3%	58.4%	64.0%	68.6%
Working capital as % of total output	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Net debt ('000)	7,900.0	4,415.5	614.8	-2,895.8	-6,196.7
Net debt complete ('000)	6,800.0	3,315.5	-485.2	-3,995.8	-7,296.7
Figures per share					
Earnings per share, diluted	0.00	0.37	0.52	0.74	0.78
Diluted cash earnings per share	0.85	1.19	1.31	1.46	1.45
Dividend per common share	0.00	0.00	0.25	0.30	0.35
Cash per share, diluted	1.56	2.07	2.53	3.05	3.64
Net debt per share, diluted	2.03	1.13	0.16	-0.74	-1.59
Valuation ratios					
Enterprise value / Sales	0.2	0.3	0.3	0.2	0.2
Enterprise value / EBITDA	4.5	4.0	3.1	2.4	2.0
Enterprise value / EBIT	14.3	8.1	5.5	3.6	3.0
EV/Sales to sales growth		-0.07	-0.06	-0.05	-0.05
PEG ratio - common shares					
Fiscal year end December					

Source: ecotel communication, DZ BANK estimates

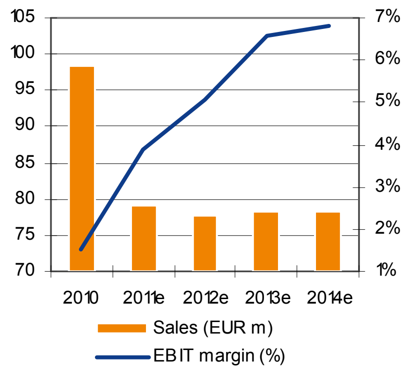
SALES BY REGION 2010



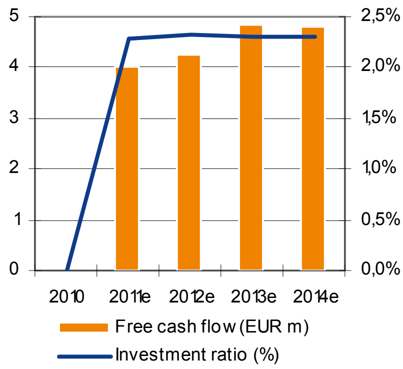
SALES BY BUSINESS SEGMENT 2010



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



IMPRINT

Published by: DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Platz der Republik, 60265 Frankfurt am Main
Board of Directors: Wolfgang Kirsch (Chief Executive Officer), Lars Hille, Wolfgang Köhler, Hans-Theo Macke, Albrecht Merz, Thomas Ullrich, Frank Westhoff
Responsible: Stefan Bielmeier, Head of Research and Volkswirtschaft

TIME CONDITIONS OF ENVISAGED UPDATES AND OF PRICE QUOTATIONS (EQUITIES)

DZ BANK maintains a list of companies for which company-specific financial analyses are published (master list). Comments on events relevant for the share price of all companies on the master list are published. Whether and why such publications are made is subject to the sole discretion of DZ BANK. In addition, extensive research analyses are prepared for stocks on the master list. The identity of companies for which such publications are made is subject to the sole discretion of DZ BANK. In order to comply with the regulations of the Securities Trading Act, it is possible that the publication of financial analyses is restricted at any time without any previous announcement for individual companies in the master list.
The share prices are taken from Datastream, based on the Datastream codes given; they are closing prices in line with the Datastream system.

RESPONSIBLE SUPERVISORY AUTHORITY

Bundesanstalt für Finanzdienstleistungsaufsicht, Lurgiallee 12, 60439 Frankfurt am Main, Germany

RESPONSIBLE COMPANY

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Platz der Republik, 60265 Frankfurt am Main, Germany

RESEARCH ANALYST COMPENSATION

Research analysts are not compensated for specific investment banking transactions. The author(s) of this report receive(s) compensation that is based on (among other factors) the overall profitability of DZ BANK, which includes earnings from the firm's investment banking and other businesses. DZ BANK generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or futures of any companies that the analysts cover.

DZ BANK RESEARCH – ALL COVERED COMPANIES

Buy 73.4%, Hold 10.3%, Sell 16.3%

PERCENTAGE OF COMPANIES WITHIN EACH CATEGORY FOR WHICH DZ BANK, DZ FINANCIAL MARKETS LCC AND/OR RESPECTIVE AFFILIATES HAVE PROVIDED INVESTMENT BANKING SERVICES WITHIN THE PREVIOUS 12 MONTHS

Buy 14.0%, Hold 20.6%, Sell 11.1%

CERTIFICATION

Each DZ BANK research analyst who is involved in the preparation of this research report certifies that:

a) the views expressed in the research report accurately reflect such research analyst´s personal views about the subject securities and issuers; and
b) that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

THE NUMERICAL ANNOTATIONS IN THE TEXT REFER TO THE NUMBERING OF THE NOTES BELOW (1-9)

DZ BANK and/or its respective affiliate(s)

1) beneficially owns 1% or more of any class of common equity securities of the subject company,
2) has managed or co-managed a public offering of securities of the subject company within the past 12 months,
3) beneficially makes a market in, or undertakes the designated sponsor responsibilities of, the subject company. As such, the market maker may have an inventory position, either "long" or "short", in the relevant security and may be on the opposite side of orders executed on the relevant exchange,
4) beneficially has received during the past 12 months compensation for investment banking services from the company, its parent, or its wholly owned or majority-owned subsidiary,
5) holds a trading position, as that term is defined by German law, in shares of the company whose securities are subject of the research,
6) entered into an agreement concerning the preparation of financial analysis with issuers of financial instruments, if these or financial instruments issued by them are the subject of the financial analysis,
7) beneficially expects to receive or intends to seek compensation for investment banking services in the next 3 months from the company, its parent, or its wholly owned or majority-owned subsidiary.
8) The author, or an individual who assisted in the preparation, of the report or a member of their respective households serves as an officer, director or advisory board member of the subject company.
9) The author, or an individual who assisted in the preparation, of the report or a member of their respective households has a direct ownership position in securities issued by the subject company or derivatives thereof.

Further information and compulsory data regarding financial analyses can be found under www.dzbank.de.

DISCLAIMER

1.a) This report has been prepared by DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Germany („DZ BANK") and has been approved by DZ BANK for distribution in Germany and other such locations as noted below. The authoring analysts are employed by DZ BANK.
b) Our recommendations do not constitute any investment advice and consequently, they may not be fully (or not at all) suitable to individual investors, depending on their investment objectives, targeted holding period or the individual financial situation. The recommendations and opinions contained in this report constitute the best judgment of DZ BANK at the date and time or preparation of this document and are subject to change without notice as a result of future events or results. This report is for distribution in all countries only in accordance with the applicable law and rules and persons into whose possession this report comes should inform themselves about and observe such law and rules. This report constitutes an independent appraisal of the relevant issuer or security by DZ BANK; all evaluations, opinions or explanations contained herein are those of the author of the report and do not necessarily correspond with those of the issuer or third parties.
c) This report is being furnished to you solely for your information and may not be reproduced, redistributed or published in whole or in part, to any other person.
d) DZ BANK has obtained the information on which this report is based from sources believed to be reliable, but has not verified all of such information. Consequently, DZ BANK, DZ Financial Markets LLC and/or their respective affiliates do not make or provide any representations or warranties regarding the preciseness, completeness or accuracy of the information or the opinions contained in this report. Further, DZ BANK assumes no liability for damages incurred as a result of distributing and/or using this report and/or which are connected to the utilization of this document.
Any decision to effect an investment in securities should be founded on independent investment analysis and processes as well as other reports including, but not limited to, information memoranda, sales prospectuses or offering circulars rather than on the basis of this report. Whilst DZ BANK may provide hyperlinks to web sites of entities mentioned in this report, the inclusion of a link does not imply that DZ BANK endorses, recommends or approves any material on the linked page or accessible from it. DZ BANK accepts no responsibility whatsoever for any such material, nor for any consequences of its use.
e) This report is not to be construed as and does not constitute a public offer or an invitation to any person to buy or sell any security or other financial instrument. The information in this report does not constitute investment advice. In preparing this report, DZ BANK has not and does not act in the capacity of investment adviser to, or asset manager for, any person.
f) DZ BANK may have investment banking and other business relationships with the company or companies that are the subject of this report. DZ BANK's research analysts

also provide important input into the investment banking and other business selection processes. Investors should assume that DZ BANK, DZ Financial Markets LLC and/or their respective affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this report and that the research analysts who were involved in preparing this material may participate in the solicitation of such business to the extent permitted by applicable law. DZ BANK, DZ Financial Markets LLC and/or one of its affiliates as well as their employees may have positions in the securities or effect transactions in the securities.
g) Research analysts are not compensated for specific investment banking transactions. The author(s) of this report receive(s) compensation that is based on (among other factors) the overall profitability of DZ BANK, which includes earnings from the firm's investment banking and other businesses. DZ BANK generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or futures of any companies that the analysts cover.
2. **Specific information for the United States of America and Canada:** This research report is being provided by DZ BANK to U.S. investors and, in case of equity research, in partnership with Auerbach Grayson and Company, Inc., a U.S. registered broker-dealer ("Auerbach"). It is either being distributed to U.S. investors by Auerbach in accordance with the rules of the Financial Industry Regulatory Authority or directly by DZ BANK in accordance with Rule 15a-6 under the Securities and Exchange Act of 1934. If distributed directly by DZ BANK, the report is only being distributed to, and is only intended to be read by, major institutional investors as that term is defined by Rule 15a-6. Any order for the purchase or sale of equity-securities covered by this report must be placed with Auerbach. You may reach Auerbach at 25 West 45th Street , New York, NY 10036, 212-557-4444.
This research has been prepared outside the United States by analysts who may not have been subject to rules regarding the preparation of reports and the independence of research analysts like those in effect in the United States. The opinions, estimates and projections contained in this report are those of DZ BANK as of the date of this report and are subject to change without notice. The information contained in this report has been compiled by DZ BANK from sources believed to be reliable but no representation or warranty, express or implied, is made by DZ BANK or its affiliated companies or any other person as to the report's accuracy, completeness or correctness. Within the scope of application of the federal laws of the United States or the laws of the individual US states, the above exclusion of representations and warranties takes precedence over the exclusion of liability clause in Section 1, paragraph 4 above. The securities/ADRs discussed in this report are either listed on a US exchange, traded in the US over-the-counter, or traded only on a foreign exchange. Those securities that are not registered in the US may not be offered or sold, directly or indirectly, within the US or to US persons (within the meaning of Regulation S and under the Securities Act of 1933 (the "Securities Act") except pursuant to an exemption under the Securities Act. This report does not constitute an offer with respect to the purchase or sale of any security within the meaning of Section 5 of the Securities Act and neither this report nor anything contained herein shall form the basis of, or be relied upon in connection with, any contract or commitment whatsoever.
In Canada it may only be distributed to persons who are resident in Canada to whom trades of the securities described herein may be made exempt from the prospectus requirements of applicable provincial or territorial securities laws.
3.a) **Specific information for the United Kingdom:** DZ BANK is regulated by the German Financial Services Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) for the conduct of business. However, to the extent that this report is being distributed in the UK, this report may be distributed only to and is directed only at Eligible Counterparties and Professional Clients within the meaning of the FSA Rules (such persons being referred to as "relevant persons"). This report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons.
b) DZ BANK, DZ Financial Markets LLC and/or their respective affiliates expressly exclude all conditions, warranties, representations and terms (whether implied by statute, common law or otherwise) of any kind whether regarding the preciseness, completeness or accuracy of the information or the opinions contained in this report, or otherwise. Further, DZ BANK assumes no liability for direct or indirect damages or loss of any kind, whether arising in or for breach of contract, tort (including negligence), breach of statutory duty, indemnity or otherwise, incurred as a result of distributing and/or using this report. Nothing in this Disclaimer is intended to exclude or limit or shall have the effect of, excluding or limiting, any liability for (i) fraud, (ii) death or personal injury caused by negligence, (iii) breach of terms regarding title implied by s.12 Sale of Goods Act 1979 and/or s.2 Supply of Goods and Services Act 1982, or (iv) any liability to the extent the same may not be excluded or limited as a matter of law. Within the scope of application of the laws of England, this Section 3 b) takes precedence over the exclusion of liability provisions in Section 1d) above.
4. **Specific information for Italy:** This report must only be distributed in Italy to persons as defined in Article 2(1) (e) of Directive 2003/71/EC ("Qualified Investors"). No other persons other than Qualified Investors should read, act, or rely on any information contained in this report. Any activity to which this report relates will only be engaged in with Qualified Investors.
5. **Specific information for Singapore:** This report is distributed by DZ PRIVATBANK Singapore Ltd. (PBSG) and DZ BANK Singapore Branch. Recipients of this report are to contact PBSG (Telephone No.: (65)-6513 8000) and DZ BANK Singapore Branch (Telephone No.: (65)-6438-0060) in Singapore in respect of any matters arising from, or in connection with, this report. If the recipient of this research report is not an accredited investor, expert investor or institutional investor (as defined under Section 4A of The Securities and Futures Act), PBSG and DZ BANK Singapore Branch accept legal responsibility for the contents of the report without any disclaimer limiting or otherwise curtailing such legal responsibility.
The views and opinions in this report are our own as of the date hereof and are subject to change. This report is strictly confidential and is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be
(i) copied, photocopied, duplicated, stored or reproduced in any form by any means or
(ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of PBSG and DZ BANK Singapore Branch.
6. **DZ BANK Research – Recommendation Definitions (Ratings System):**
(Except as otherwise noted, expected performance within the 12 month period from the date of the rating):

Buy:	greater than 5% increase in share price
Hold:	price changes between +5% and -5%
Sell:	more than 5% decrease in share price

7.a) **Note**: - Any fair values / price targets shown for companies discussed in this report may not be achieved due to multiple risk factors, including, without limitation, market volatility, sector volatility, corporate actions, the state of the economy, the failure to achieve earnings and/or revenue projections, the unavailability of complete and accurate information and/or a subsequent occurrence that affects the underlying assumptions made by DZ BANK or by other sources relied upon in the report.
b) DZ BANK may also have published other research about the company during the period covered that did not contain a fair value / price target but that discussed valuation matters. The fair values / price targets shown should be considered in the context of all prior published research as well as developments relating to the company, its industry and financial markets.
c) DZ BANK is not obliged to up-date the research report. Investors must keep themselves informed about on the current course of business and any changes in the current course of business of the issuer.
d) By using this report or by relying on it in any manner whatsoever you agree to be bound by the foregoing limitations. Additional information on the contents of this report is available on request.
e) If any term of this Disclaimer is found to be illegal, invalid or unenforceable under any applicable law, such term shall, insofar as it is severable from the remaining terms, be deemed omitted from this Disclaimer and shall in no way affect the legality, validity or enforceability of the remaining terms.

RATING HISTORY

Recommendation	Date	Price
Buy	28 Sep 2011	5.00 EUR

RESEARCH TEAM TELECOMMUNICATIONS

Christoph Bast		+49 – (0)69 – 74 47 – 36 33	christoph.bast@dzbank.de
Marcus Pratsch		+49 – (0)69 – 74 47 – 15 82	Marcus.Pratsch@dzbank.de
Joeri Sels		+49 – (0)69 – 74 47 – 62 45	Joeri.sels@dzbank.de

INSTITUTIONAL SALES

Germany, Benelux, Scandinavia, Switzerland, Austria, UK	Sandra Münstermann	+49 – (0)69 – 74 47 – 49 90	sandra.muenstermann@dzbank.de

Equity Sales

Germany	Kai Böckel	+49 – (0)69 – 74 47 – 12 28	kai.boeckel@dzbank.de
Benelux, Scandinavia	Heiko Klebing	+49 – (0)69 – 74 47 – 49 95	heiko.klebing@dzbank.de
Switzerland	Petra Bukan	+49 – (0)69 – 74 47 – 4992	petra.bukan@dzbank.de
Austria	Thomas Reichelt	+49 – (0)69 – 74 47 – 6709	thomas.reichelt@dzbank.de
UK	Jonathan Cox Lars Wohlers	+44 - 20 - 7776 – 6075 +49 – (0)69 – 74 47 – 68 34	jonathan.cox@dzbank.de lars.wohlers@dzbank.de

Sales Trading

Sales Trading	Sacha Kaiser	+49 – (0)69 – 74 47 – 4 28 28	sacha.kaiser@dzbank.de

DERIVATIVES SALES

Derivatives Sales	Michael Menrad	+49 – (0)69 – 74 47 – 9 91 95	michael.menrad@dzbank.de

ACCESS TO DZ RESEARCH (CONTACT ANJA.BECK@DZBANK.DE)

Bloomberg	DZAG <GO>
Reuters	"DZ Bank" & RCH <NEWS>

C800e