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IPO

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Executive summary

Sector : Automation Technology IPO: BXS

Reuters ticker : NA

Bloomberg ticker : NA

Year end Dec. 31	Revenues 1,000 EUR	Recurring Net income 1,000 EUR	EPS EUR	CFPS EUR	P/E	P/CF	EV/EBITDA
1998	21,312	414	0.11	0.34	NM	NM	NM
1999	46,974	1,503	0.38	0.84	71.9	32.0	46.7
2000E	97,199	4,016	0.76	1.20	35.7	22.5	17.5
2001E	123,947	5,343	1.01	1.46	26.9	18.5	13.8
2002E	156,173	7,590	1.43	1.89	18.9	14.3	10.5

Source: Artesia estimates

(1) Multiples are based on a price of EUR 27 per share/5.2 m shares outstanding post-money

Company profile

IPTE is a European-based one-stop solution provider to the electronic manufacturing business. The group supplies turn-key solutions for the production, test and handling automation of Printed Circuit Board and offers Electronic Manufacturing Services such as product assembly and confection of cables and wires.

IPTE sells its systems to customers in a number of industries, including telecom, automotive, computer & peripherals, consumer & industrial electronics. IPTE targets both OEMs and contracting manufacturers.

Track record

IPTE was founded in 1992 by five individuals who gained experience with Philips. Backed by an in deep knowledge of the electronic manufacturers' need for automation, the management focuses on world-leading automation technology and has succeeded to turn the company into a partner for Fortune 500 companies. Key customers include Philips, Alcatel, Siemens, Nokia, Ericsson, Motorola, Panasonic, Flextronics,....

IPTE has historically been growing at a compound annual growth rate of 97%. It generated revenue of EUR 47 m in FY 1999 and employs 617 people of whom more than 250 are engineers.

Acquisitive strategy

Expansion has been fuelled by very strong internal growth and accelerated by acquisitions, which allowed IPTE to broaden its product offering from test to automation equipment and further to contract manufacturing and to extend its geographic reach in an industry where global presence is becoming increasingly important.

Key drivers for growth are present

We expect that the bright market outlook for mobile data and related telecom applications, for automotive electronics and PCs, the strong trend towards outsourcing and the shift of the manufacturing sector toward greater automation, will continue to propel strong double-digit sales growth in the years ahead.

Valuation

The results of our DCF and peer group analysis reveal a valuation range of EUR 125 m to EUR 140 m or EUR 23.4 – EUR 27 per share, assuming EUR 25 m is raised in a financing. The final issue price will depend on the outcome of a book building procedure among institutional and retail investors.

Use of proceeds

IPTE considers the IPO as a powerful trigger for further world wide expansion. Besides the creation of a war chest for future acquisitions, the proceeds of the IPO will serve to partially reimburse credit facilities and to fund working capital.

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1. INFORMATION ON THE IPO

Total number of shares before capital increase	: 4,000,000
Shares issued following a pre-IPO loan conversion	: max. 281,697
Number of new shares to be placed	: max. 1,194,396
Number of existing shares to be placed (excl. Greenshoe)	: max. 542,339
Shares Greenshoe	: 260,510
Dividend entitlement	: from January 1, 2000
Price fixing	: book-building procedure (institutional and retail)
Subscription period	: May 3 – 12, 2000
Publication of definitive price	: May 16, 2000
First day of listing	: May 22, 2000
Stock Exchange	: Brussels
Stock exchange segment	: Spot market
Underwriting syndicate	: Artesia Bank and KBC Securities

2. SHAREHOLDER STRUCTURE

IPTE raised 4.95 EUR in July, 1999 through a subordinated loan with warrants, subscribed by investment company NIB CAPITAL Private Equity and Artesia Bank. The proceeds were used for the acquisition of Connect Systems (price paid was EUR 9.9 m), a Belgium based contract manufacturer. The loan will be converted into ordinary shares at IPO time, creating maximum 281,697 shares.

Following the capital increase and the sale of existing shares, the CEO Huub Baren will remain the largest single shareholder, with a minimum of 34,55% of the shares.

Prior to the IPO, IPTE issued 200,000 warrants for its employees and for a selected group of the management. Each warrant entitles the holder to purchase one new share at an exercise price of 20 EUR, exercisable between 1/1/2004 and 3/3/2010.

Table 1: The company's shareholder structure prior to and after the IPO

Shareholder	Stake pre-IPO	Stake after loan conversion prior to IPO	Stake after IPO*	Stake after exercise warrants
Huub Baren	51,00%	47,64%	34,55%	33,33%
Management, private investors	49,00%	45,76%	25,34%	24,44%
NIB CAPITAL Private Equity	0,00%	5,76%	2,98%	2,87%
Artesia Bank	0,00%	0,82%	0,64%	0,62%
Free float	0,00%	0,00%	36,47%	35,19%
Personnel	0,00%	0,00%	0,00%	3,52%

* based on max. dilution terms for the shareholders prior to IPO and after exercise of greenshoe

There is a lock-up period of 180 days for the existing shareholders.

3. INVESTMENT APPRAISAL

The automation partner for the next millennium

IPTE is a leading designer and producer of turn-key automated manufacturing and test solutions for the electronics industry. IPTE has proven to be a customer-oriented quality supplier of engineering solutions for today's manufacturing automation, which is affirmed by the business from major international corporations. IPTE has built long term relationships with for instance Philips, Motorola, Alcatel, Nokia, Flextronics, Siemens,...

Tremendous growth opportunities in test and production automation

All the drivers for a buoyant future are present. First of all, there is a robust demand for electronic products, especially handsets and PC's. Secondly, IPTE group capitalises on the growing trend towards outsourcing of production and testing. Finally, the penetration levels of final assembly and test automation are still low. There is plenty of potential for growth.

These favourable market conditions translated in strong order bookings in the first quarter of 2000.

Total turn-key solutions with one partner

The acquisition of Connect Systems in 1999 enhanced IPTE's position as a global player in the subcontracting business. The products offered are highly complementary: in many cases, IPTE sells both automation systems and subassemblies to the same customer. In this way, IPTE provides one-stop shopping to its customers, which increases the probability of greater account penetration through a wider range of service offerings.

Balanced sectoral customer mix

Thanks to strong relationships with leading OEMs, IPTE is well positioned to leverage the underlying growth of these companies. In addition, the diversified customer portfolio makes IPTE less susceptible to the downturn of a specific company or product, and hence lowers the risk profile. Industry diversification is also important to avoid overexposure to a certain segment of the market.

Management expertise and industry vision

Strong management is important at a time of global expansion, rapid growth and increasing significance of strong relationships with top-tier OEMs. We believe that the management of IPTE, which has an accumulated experience of over 150 years, has a clear vision of where the industry is headed. This is demonstrated by the impressive growth record, which we expect to continue in the future. It is obvious however that managing growth will be a major challenge in the years ahead.

Establishing a world-wide presence

IPTE realises more than 75% of its turnover abroad, and has achieved a global reach with presence in Europe, the Americas and Asia. In January 2000, IPTE received the "Royal Export Award" from the Belgian Office for Foreign Trade in recognition of its export efforts.

Attractive investment opportunity

Investing in IPTE is a way to participate in the growth of leading technology companies without becoming dependent on a single sector. In view of the favourable growth perspectives and earnings opportunities, the IPTE share offers attractive price appreciation potential.

4. SWOT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> █ One-stop-shopping provider with a superior product portfolio █ Diversification of customer base █ Geographical reach █ Blue chip clientele █ Solid financial position █ Track record of growth █ Management expertise and industry vision 	<ul style="list-style-type: none"> █ Financial margins are feeble compared to those of its largest competitor JOT █ Streamlining of organisation is required
Opportunities	Threats
<ul style="list-style-type: none"> █ Significant growth potential in automation process and end user applications Important player in the consolidation process █ Healthy long term prospects for PCB industry █ Standardisation of projects can improve profitability 	<ul style="list-style-type: none"> █ Managing growth and meet customer requirements as a result of rapid rise in the inflow of orders (risk of delay) █ Recruitment of skilled personnel might prove an obstacle to growth █ The dynamics of technological development might cause certain products to become obsolete faster █ Inability to find suitable acquisitions may negatively affect the growth profile although there are several opportunities today

5. COMPANY PROFILE

KEY MILESTONES

1992	Foundation of Integrated Test Engineering : start with engineering and assembly of full-automated test systems for the electronics business. This activity was formerly been done by the engineering department of OEMs.
1995	Set up of sales office ITE UK
1997	Set-up of sales offices ITE USA and ITE France, engineering department ITE Germany
1998	<ul style="list-style-type: none"> █ Take-over of AOT (Philips Industrial Activities' test automation business in Hasselt, Belgium) █ Take-over of the assets of (in litigation) PTS (Production Technology Systems), a former Grundig engineering department (Fürth, Germany) specialised in PCB production systems. The activities were incorporated in IPE (Integrated Production Engineering) █ Set-up of sales offices ITE Asia Pacific and ITE Nordic
1999	Acquisition of Connect Systems International (Kampenhout, Belgium), a contract manufacturer for the electronics industry.
2000	Flotation

AREAS OF BUSINESS

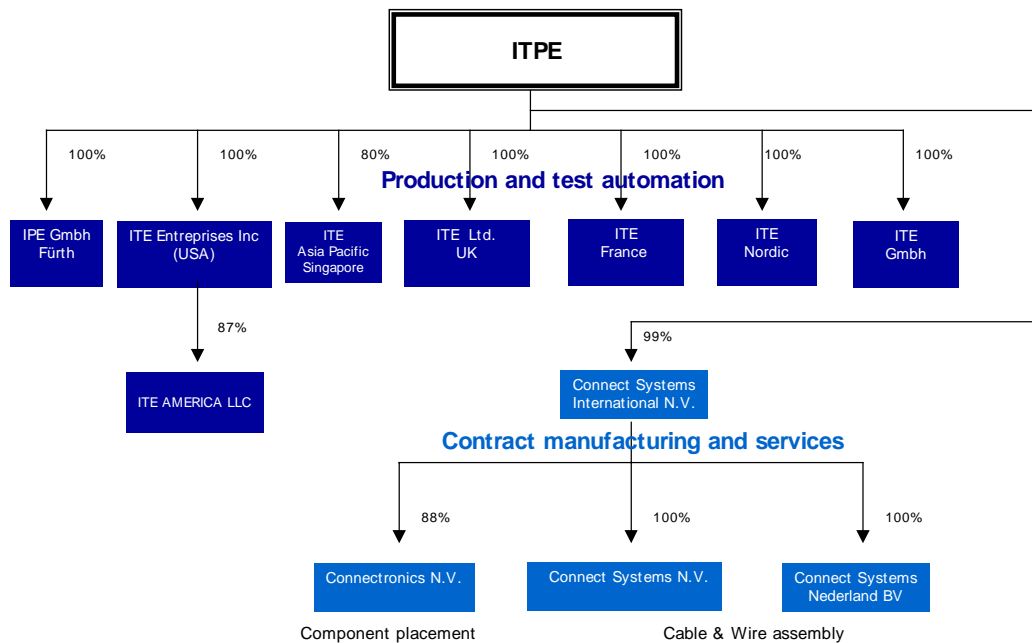
IPTE positions itself as a leading European company in the fields of **development and the manufacturing of PCB test and production automation equipment**, and **electronics subcontracting**.

The core competencies of the group are:

- Test automation
- Production automation
- Cable and wiring assembly
- Component placement on PCBs

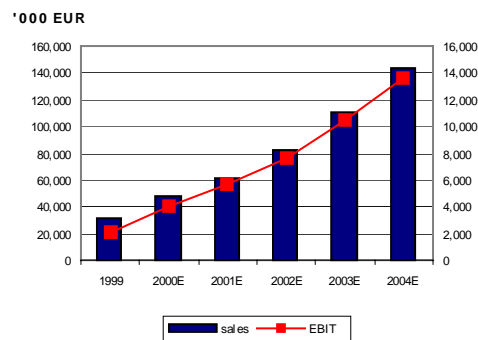
The first two are done by ITE/IPE, assembly and component placement are covered by Connect Systems. Revenues and headcount are about equally split between ITE/IPE and Connect Systems.

Fig. 1 : IPTE organisational chart



BUSINESS LINE PRODUCTION AND TEST AUTOMATION

Fig. 2 : Sales and EBIT ITE/IPE (1999 – 2004)



Source : Artesia estimates

ITE/IPE deliver turn-key solutions for production and test automation. The lines have a modular structure. This means that different modules can be combined with each other. On average, standardised modules account for 60%.

The production facilities are located in Houthalen (Belgium), Fürth (Germany) and Luton (UK).



Product range

ITE/IPE has three product groups:

- in-line and off-line test systems
- board handling equipment
- end of line production and assembly systems.

In-line Test Systems

An in-line test system is composed of a test handler and test measurement equipment :



A test handler is a device which automatically connects a printed circuit board with the electronic testing equipment. The biggest advantage of an automatic in-line test handler over manual testing is throughput. Real time test data allows the production system to respond rapidly to product defects.

Test handlers are typically placed at two points in the production line. The first station is located after the component placement and soldering phase when so-called **in-circuit testing** is performed: the soldering quality and the performance of each individual component are measured. The second testing station is located in final assembly, where a **functional test** is performed.

Test measurement equipment : IPTE has formed strategic partnerships with leading producers of test and measurement instruments, the so-called ATE (automated test equipment) manufacturers, whose test equipment is combined with the automation unit and executes a sequence of measurements. This also means that existing test equipment can be integrated into an IPTE system.

In-circuit test equipment suppliers are Genrad, Agilent (formerly Hewlett-Packard), Teradyne, ITA, IFR and Digital Test. The main suppliers of functional test equipment are Agilent, Fluke, Rohde & Schwarz and Tektronix.

ITE/IPE also produces test application hardware including fixtures, a product application specific bed of needles, and test application software.

Board handling units

IPTE board handlers are the building blocks of production automation for the electronics industry, and they link the various processes of the production line. Board handlers include the following units :



End of line Production automation technology

- Conveyors
- Buffers
- Turn units
- Flip units
- Loaders and unloaders

Board handling modules are used throughout the entire electronics industry. They are highly standardised and no longer require intense R&D investments.

As a result of considerable product development efforts, the group has developed a modular solution for the assembly and handling of special and odd-form components (OCP) and for the in-line separation of printed circuit boards (depanelizer).

The **Odd component placer (OCP)** was developed in 1999. Although the number of special components on PCBs is getting smaller, they cannot be eliminated. The increased product variety and the shortening of product lifetimes require one single way to automate these processes in a cost-efficient, flexible production cell. The OCP meet this need since it is developed for the picking and mounting of legged components of different sizes and forms.

The **SpeedRouter depaneling system**, also developed in 1999 is a fully automatic cutting and milling system for high speed separation of panelized printed circuit boards. It is the world's first routing/depaneling system to feature the use of cutting disks, for straight cuts, in addition to routing bits, for contour.



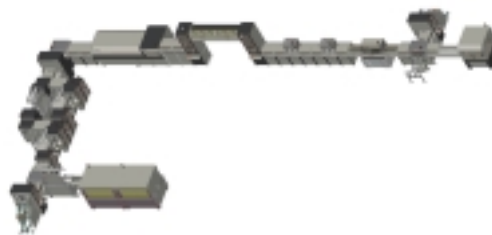
This device meets the high production rates of today's modern production lines and warrants precision in the separation of miniaturised components. It can be used for either in-line or off-line operation.

IPTE has recently won the Vision Award on the account of the Speedrouter. This award is attributed in the US to companies presenting an innovative technology in the field of PCBs.

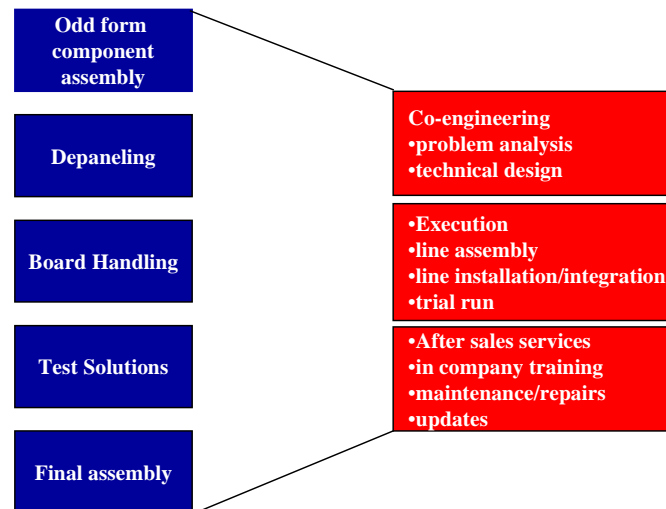
New areas to automate give additional boost

ITE/IPE started in 1999 with the development of **final assembly and test cells**. This product extension enables IPTE to extend its product offering with the packaging of final products. On April 13, 2000, IPTE announced its largest contract for automation systems to date. The contract regards the delivery of three final assembly lines during fiscal year 2000. The customer is a European mobile manufacturer. One line has a production capacity of 3 m GSMs a year. The total deal is valued at EUR 8.2 m.

PCB assembly and test line



The full service concept is illustrated below:



Customers

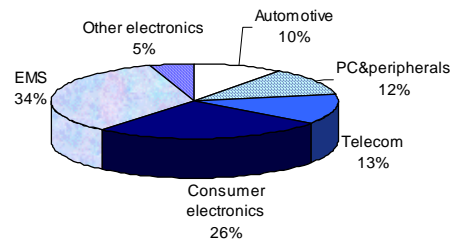
ITE/YPE’s customers are very large OEM and large Electronic Contract Manufacturers with sound financials. Many of them are global leaders in their fields. Last year, Philips and Flextronics represented 20% and 16% of total sales in 1999. Given the project driven nature of the business, these numbers can vary substantially from one year to another. During 1999, 87% of revenues were generated outside Belgium. Europe is the main market for IPTE . According to management the weight of Germany and Austria in total sales is to increase significantly in 2000.

Table 2 : Main international customers

Telecom	PC & peripherals	Automotive	Consumer	Contract Manufacturers
Philips Alcatel Lucent Nokia Ericsson Motorola Sagem Ascom Nortel	3Com Tulip Computers US Robotics Philips Adaptec Western Digital	VDO Car Ford Lucas TRW Becker Bosch Blaupunkt GM Hughes	Philips Bosch Panasonic Blaupunkt Siemens Loewe Bose Thomson LG Electronics	Flextronics Solelectron SCI Celestica Jabil Circuit

Source : IPTE

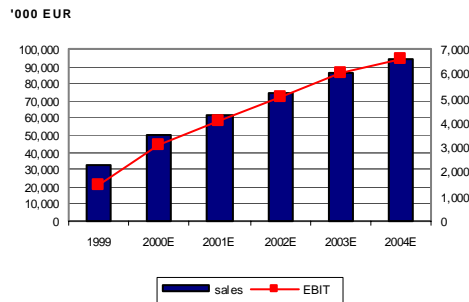
Fig. 3 : Sales breakdown ITE/IPE for 1999



Source : IPTE

BUSINESS LINE ELECTRONICS SUBCONTRACTING

Fig. 4 : Sales and EBIT Connect Systems Int. (1999 – 2004)



Source : Artesia estimates

Connect Systems operates as a contract manufacturing and services company for the electronics industry.

Connect Systems' headquarters are located in Kampenhout (Belgium) with additional production facilities in Ieper (Belgium) and Rijen (Netherlands).

Activities are

- █ the confection of cables and wires,
- █ PCB assembly and testing
- █ production of sub-assemblies and final assemblies.

Various services are offered:

- █ design-in assistance at the product's development stage
- █ PCB assembly : conventional, SMD, BGA, mixed (combining through-hole components and surface mount devices on the same PCB)
- █ nitrogen reflow and wave soldering
- █ in-circuit and functional test at the PCB level
- █ functional test of the final product
- █ interconnection technologies : Fiber optics, Coax, LAN,...

Connect Systems' target market is the production of small to medium batch quantities, typically between 50 and 1 m units.

Customers

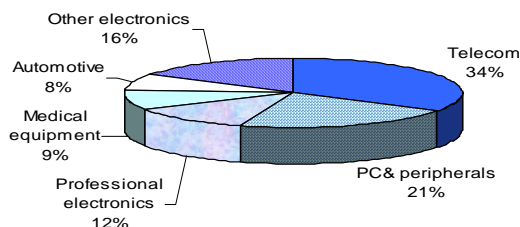
Connect Systems' customers include automotive equipment suppliers, professional equipment and telecom manufacturers in Europe. Xeikon and ITS represented 15% and 8% of the 1999 sales.

Table 3 : Main international customers

Telecom	PC & peripherals	Automotive	Professional	Medical
Ericsson ITS	Philips	New Holland	Xeikon Agfa Gevaert Océ Icos Vision Systems Flextronics	Philips Ripa Systems

Source : IPTE

Fig. 5 : Sales breakdown Connect Systems in 1999



Source : IPTE

SUBSTANTIAL SYNERGIES

ITE/IPE and Systems complementary

Connect are

Both divisions offer different products to a similar clientele that consists of large companies in the automotive components industry as well as the electrical and electronics industry and telecom technology. In this way, the acquisition of Connect Systems has significantly enhanced the group's position as a one-stop-shop provider.

The acquisition creates synergies from a commercial and technical perspective:

- I there are cross-selling opportunities : Connect Systems acts as a supplier of cables and wires in the manufacturing process of automation lines while Connect Systems' PCB assembly division will be fully automated by ITE/IPE
- I Connect Systems' orientation in the past was strongly focused on the domestic market (80% of revenues were generated in Belgium): being part of IPTE, it will benefit of the international sales organisation of ITE/IPE.

Last but not least, the acquisition is earnings and cash flow accretive. The net margin is 4.6% versus 2.5% at the acquiring company.

SALES AND MARKETING

IPTE currently operates 9 sales/service offices located in Belgium, the United Kingdom, the United States, France, Singapore, Portugal, Sweden and the Netherlands. The sales organisation consists of 30

sales engineers and representatives.

Global presence is critical to become a preferred supplier of multinationals: an order of plant A often leads to orders from other production sites within the same group.

Since the solutions are technically sophisticated, local sales representatives get the full support of the engineers to make an offer (pricing, lead time,...).

IPTE regularly advertises for its products in industry-related trade publications. The group also participates in a number of trade shows abroad because these shows facilitate product recognition and further market penetration.

IPTE maintains a web site www.ipte.com as one of its major marketing tools to attract new customers or as an additional source of information for existing customers.

PERSONNEL

Management

Management expertise and industry vision

Management includes individuals extensive hands-on experience in engineering.

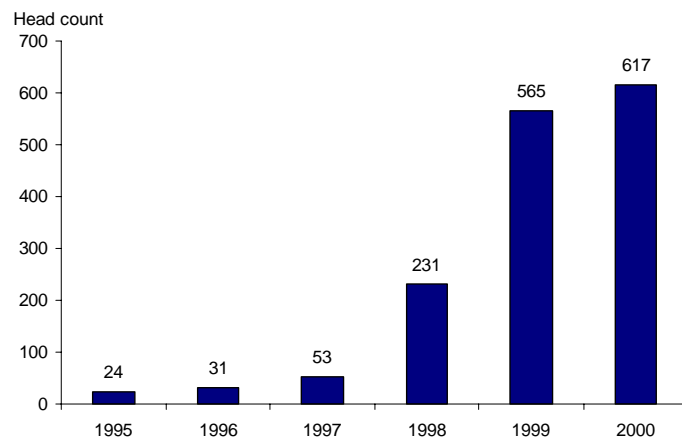
The management board consists of:

- Huub Baren, 59 years old – CEO and *co-founder*
responsibility : marketing/sales
- Hugo Ciroux, 39 years old – CFO
responsibility : finance, controlling, human resources
- Vladimir Dobosch, 41 years old – *co-founder*
Responsibility : product manager
- Gaston Moonen, 51 years old – *co-founder*
responsibility : product development and engineering
- Emmerich Höttl, 49 years old
responsibility : operations manager IPE
- Florimond Peersman, 47 years old
responsibility : operations manager Connect Systems
- Luc Switten, 34 years old – *co-founder*
responsibility : sales manager Connect Systems
- Gilbert Nulens, 36 years old – *co-founder*
responsibility : sales manager ITE/IPE
- Frank Verjans, 36 years old
responsibility : operations manager IPTE

Employees

Worldwide IPTE employed 617 persons at the start of 2000, including 250 engineers. 220 people work outside Belgium. The breakdown over the business lines is 45% in test and production automation and 55% in subcontracting.

Fig. 6 : Personnel development



STRATEGY

Since its foundation, IPTE has grown at a CAGR of 97% through a combination of organic growth and acquisitions. This figure demonstrates a successful growth strategy.

Strategy of growth on the back of organic...

To drive organic growth, IPTE continually develops new automation technologies that are standardised as much as possible in order to reduce production costs.

...and external growth.

From an acquisition perspective IPTE has multiple objectives:

- ! extension of the **geographical presence**,
- ! acquisition of **qualified headcount** (know how and capacity),
- ! extension of high quality **customer relationships**,
- ! **focus on diversification** : enlargement of the product range through a smooth fit with IPTE's products and services offer

The company is looking at several possible acquisitions in the US, Singapore and other countries.

Building a one-stop-shopping concept

The purchase of the assets of PTS (later renamed to IPE) not only broadened the product portfolio from test technology to production technology. In addition, the company also acquired a highly skilled workforce, although investments were needed to improve the company's competitive position and attract more customers. IPE is located in Germany and well placed to serve the German industry (Siemens, Grundig), a quite difficult market to enter as a non-German supplier.

With the acquisition of Connect Systems, IPTE entered into the subcontracting and services business to OEMs. This provides IPTE with a unique technology portfolio.

Today, IPTE positions itself as a **global solution provider** and **system integrator** of customer-specific solutions. IPTE's aim is to consolidate this position through continuous investments in R&D. Since the company's inception, investments in R&D have exceeded EUR 5 m.

6. MARKET ASSESSMENT

END USER MARKETS

Factors driving demand

IPTE is focused on providing value-added technologies and production capabilities aimed at reducing costs, improving product quality and reducing the time-to-market of its clients. Its growth therefore is a function of the demand for its customers' products, and the speed at which the automation solutions are implemented in the equipment by the **OEMs** and **contract manufacturers**. In the following section, we discuss the outlook for IPTE's end user markets.

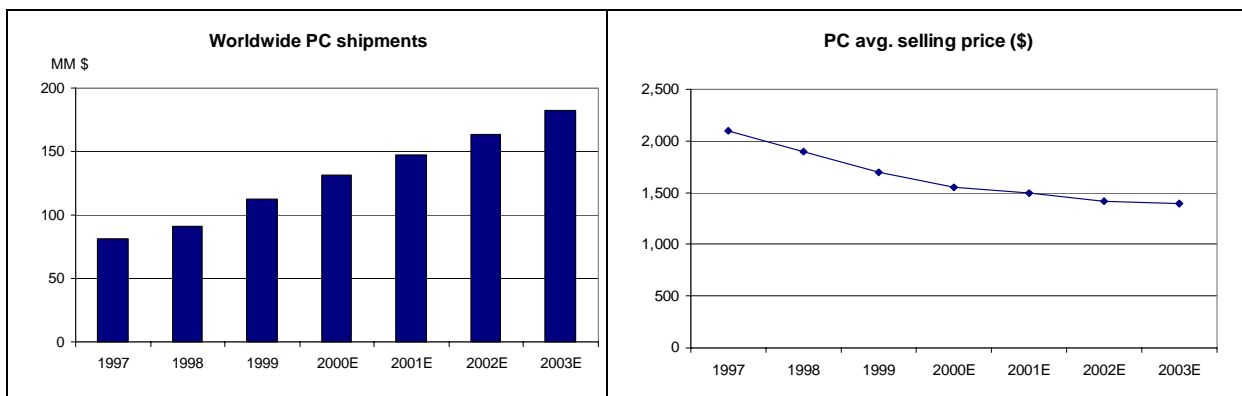
**Telecom equipment:
extreme volume demand
on handsets
CAGR of 32%**

In particular the mobile phone market has high growth potential. According to Dataquest, the number of mobile phone users is expected to more than triple world-wide from 309 m in 1998 to more than 1,100 m by 2003. Annual sales of mobile phones are expected to quadruple from 163 m in 1998 to over 650 m by 2003. This is driven by the rapidly growing replacement demand which in 1999 was for the first time larger than the demand of new customers. The widespread introduction of cellular phones with WAP (Wireless Application Protocol) for the use of mobile internet services will also give the market a boost.

**Computer & peripherals:
on the wings of the Internet
CAGR of 16.5%**

Research firm IDC forecasts a 16.5% growth in world wide PC shipments. The uptick in PC growth is heavily correlated to demand for Internet usage and declining hardware prices.

Fig. 7 : Evolution PC market 1997 – 2003



Source : IDC

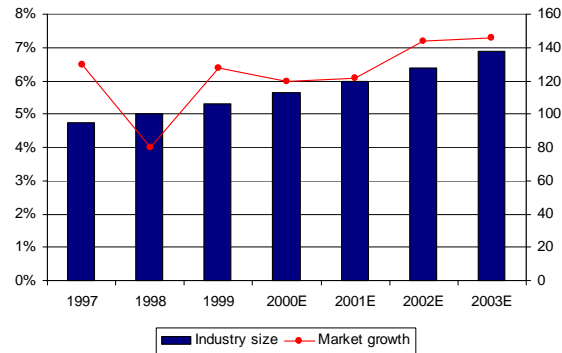
**Electronic automotive
components sales :
spurred by demand for
safety and comfort
CAGR of 15%**

The use of electronics in cars will continue to increase as the industry introduces electronically controlled safety and comfort functions. According to Delphi Automotive, the market is estimated to be USD 21 billion, or only 2.8% of the total automotive component market. The trend toward electronics integration leads to expect that this area provides some of the greatest opportunities for growth with a CAGR exceeding 15%. The segment consists of audio products, motor and dash board control, brake systems, security systems and restraint system electronics.

**Consumer electronics sales driven by penetration of new digital products
CAGR of 7%**

The consumer electronics industry, which includes products such as televisions, audio and video recorders, CD players,... will be driven in the next years by higher penetration of new digital products. The exponential growth in hardware sales volumes will also be supported by declining prices.

Fig. 8 : Consumer electronics industry : size and growth



Source : Bernstein Research, January 2000

Automation and outsourcing by OEMs: a must to maintain market leadership

As a result of the growth projects of all these markets, the strong expansion of the electronics industry leads to fierce competition between OEMs. This in turn leads to price erosion, shorter product time-to-market, increased quality requirements and increasingly complex and miniaturised products.

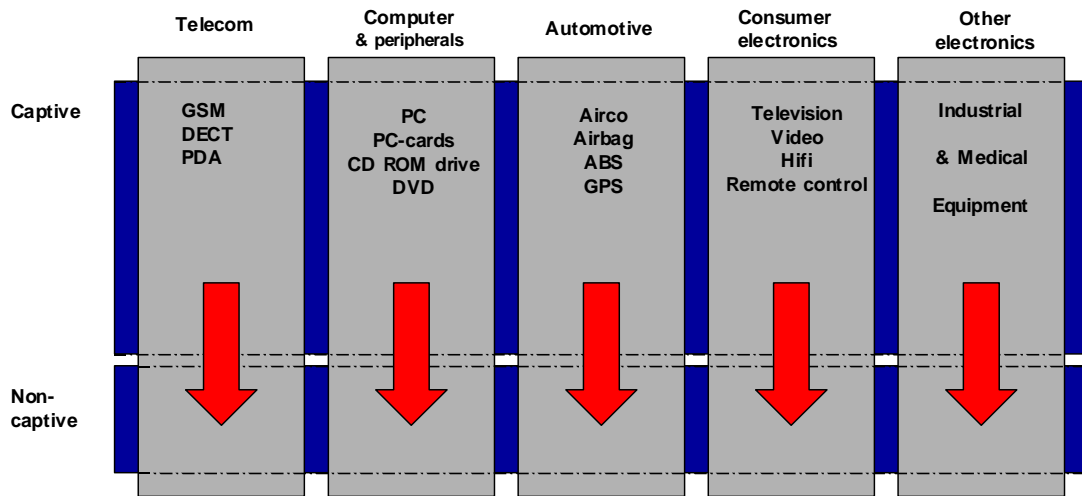
One way to cope with this evolution, while at the same time managing productivity and controlling production costs, is to **automate the production and testing process**.

Another trend we observe is the greater emphasis by OEMs to divest their manufacturing assets and **outsource non-core functions to electronic contract manufacturers** in order to become more flexible and cost competitive.

These two trends are discussed in the next section.

TREND TOWARD OUTSOURCING

Fig. 9 : Shift from captive (in-house production) markets to outsourcing



Source : IPTE

Structural shift from captive markets to outsourcing

As the PC, networking, telecommunications, industrial and consumer electronics industries move towards increased globalisation, OEMs will be forced to focus their efforts on what they do best : design, product development and marketing. Since the 1990s, the trend has been to outsource non-core functions in order to reduce costs and speed up time-to-market.

Cost effectiveness is the key driver for outsourcing

The benefits of outsourcing are multiple:

- Faster time-to-market
- Lower cost structure combined with increased flexibility
- Better asset utilisation
- Improved of inventory management and purchasing power
- Access to global manufacturing capabilities

Technology Forecasters assume that OEMs' Cost Of Goods Sold will grow at a compound annual rate of 7.5% through 2005, roughly in line with estimates of electronics equipment growth over the same period. A sales CAGR of 25% is projected for the subcontractors industry (Electronic Manufacturing Services or EMS) over the next five years. About 60-65% of this growth will be organic in nature. The balance should come through EMS providers capturing OEMs' in-house operations.

Table 4 : Global penetration rate of EMS industry relative to total available market

(US \$ billions)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Elect. Mfg. Cost	476	512	554	594	636	682	733	788	847	911
% growth	8.2%	7.6%	8.2%	7.2%	7.1%	7.2%	7.5%	7.5%	7.5%	7.6%
Global EMS market	59	73	90	112	141	178	223	278	348	435
% growth	30.0%	22.4%	23.4%	25.0%	25.4%	26.7%	25.0%	25.0%	25.0%	25.0%
Global penetration	12.5%	14.2%	16.2%	18.9%	22.1%	26.1%	30.4%	35.3%	41.1%	47.7%

Source : Technology Forecasters

INCREASING THE AUTOMATION LEVEL

Why automation?

IPTE's success can be linked to the general shift of the manufacturing sector towards greater automation.

The most important objectives of automation in test and production are:

Debottlenecking is the trigger for IPTE's solutions

- Miniaturisation
- Increasing number of integrated components
- Cost reduction
- Increasing flexibility and productivity: production times decline, consequently the test cycle time must be minimised too
- Control and monitoring of quality
- Zero defect production – improved quality and reliability

IPTE estimates the market size of production automation technology, including the fully automated assembly of bare printed circuit boards, at around **EUR 6 billion**, and test automation technology at around **EUR 3 billion**.

Market potential is huge as the degree of automation is still low

The penetration levels of final assembly and test automation are still low, and just like its direct competitors, IPTE is only in an early stage of growth. The penetration level of automation for the different stages of the production process ranges from quasi zero for testing and odd component assembly to up to 95% for standard component assembly of PCB's.

Table 5 : Penetration of automated production within the electronics industry

Production process stage	Current degree of penetration
PCB – handling	80-90%
PCB – assembly standard components	90-95%
PCB – assembly odd-form component	0-5%
In-circuit test	5-10%
Functional test	0-5%
Final assembly	0-5%
Final testing	0-5%

Source : Management IPTE

7. COMPETITIVE POSITION

The automation systems market is fragmented without dominant players. **ITE/IFE's competitors**, primarily based in Europe, include both public and private companies.

Among its direct competitors, we list JOT Automation (Finland), PMJ Automec (Finland), Rohwedder Pematech (Germany), Grohman (Germany), Prodel (France), ATI (USA), Sony Automation (Japan) and Hirata (Japan).

Table 6 : Key figures of listed competitors

Name	Sales 99 (EUR)/ growth 97-99	EBIT margin % of sales	R&D % of sales	Net margin % of sales	Major customer
JOT	99 m/ 84%	16.4%	6.4%	11.7%	Nokia (60%)
PMJ	41 m/ 85%	2.6%	5.7%	2.4%	NA
Rohwedder	73 m/ 33%	6.3%	< 1%	2.8%	Siemens (42%)
IPTE	47 m/ 131%	6.8%	4.3%	2.3%	Philips (20%)

Source : Company reports

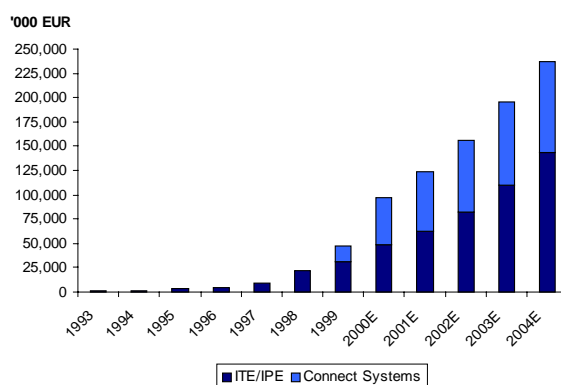
The principal competitors of **Connect Systems** are Barco Surface Mount (Belgium), Neways (Netherlands), Ripa SMT (Netherlands) and Stork Nolte (Netherlands).

8. FINANCIAL OUTLOOK

IPTE's accounts comply with IAS standards. We do not expect the company to publish quarterly results in the short term.

SALES AND EARNINGS

Fig. 10 : IPTE – sales evolution



Source : IPTE/Artesia estimates

Sales track record reflects strong and mostly external growth

The development of sales reflects the strong, mostly external growth of IPTE group, which peaked in 1999. **The figures of Connect Systems contributed only 50% in the consolidated figures because the acquisition took place on July 1, 1999.**

Net overall revenue is expected to rise at a CAGR of 30% over the next five years

We project sales to grow at a **CAGR of 30%** in the years to come. The growth will be strongly influenced by the extension of IPTE's product offer to final assembly and the upside potential in automation and outsourcing. The group has made a good start in the current year: the inflow of orders at the end of Q1 2000 totals **EUR 25 m** or twice the backlog of Q1 1999. This includes an impressive order for three lines of EUR 2.7 m each for the final end-of-line assembly of mobiles. This large order of a new customer in a market that is relatively new to IPTE clearly demonstrates the demand for automation systems and IPTE's ability to diversify internally.

Gross margin is set to decline as Connect Systems is consolidated

In 1999, ITE/IPE and Connect Systems achieved gross margins of 31% and 17.5% respectively. Connect Systems plans to intensify its programming business (programming of subassemblies) which will push downwards its gross margin to 15%.

As a result, the overall gross margin drops by 6% in 2000 to 21.6%. Revenue mix will change and drive up gross margin again.

EBIT margin gradually widens to 9% after goodwill amortisation

We expect overall EBIT margin to improve gradually from 6.7% in 1999, climbing over 9% from 2004 onwards.

Elements which positively impact overall margin are :

- consolidation of Connect Systems in the group (9% EBIT margin in 1999);
- higher standardisation level of the automation lines;
- deployment of the sales distribution network;
- lower depreciation level (substantial one-off investments took place in 1999 and 1H 2000).

The acquisition of Connect Systems generated goodwill for EUR 7.5 m, which will be amortised over seven years starting in 1999.

Since we lack information with respect to acquisitions, we did not include potential acquisitions in the business plan. Instead, we assumed that half of the short term debt will be repaid with part of the proceeds of the capital increase, reducing the interest burden to the same extent. We assume a small return of 2% on cash reserves.

Tax rate of 38%

The company had a 41% tax rate in 1999. In the future however, a larger portion of sales will be invoiced by the subsidiaries abroad. Therefore, management expects the effective tax rate will be below the nominal Belgian tax rate, probably around 38%.

Annual earnings growth of 54% until 2004

The business plan forecasts that net recurring earnings progress from 3.2% in 1999 to 5.5% of sales in 2004. This corresponds to a CAGR of 54%.

INVESTMENTS AND FINANCING

In 1999, ITE took over Connect Systems for EUR 9.9 m (PER of only 7!). This acquisition was financed by short term loans and by a subordinated convertible loan for the amount of EUR 4,95 m.

Substantial one-off investments take place in 1999 and 1H 2000

In addition, new production facilities (9,000 m²) will be built at the Genk site. The investments are estimated at EUR 3 m and split over 1999 (purchase of the land) and 2000 (construction of the premises). The company is planning to move to the new premises by the end of June 2000.

In our projections for the period 2000-2004, annual capital expenditures are kept constant and amount to EUR 2.5 m.

Strong need for fresh capital

By the end of 1999, financial debt amounted to EUR 29.1 m or 64% of total assets. The solvency amounted to 5%.

The financial structure will be considerably reinforced due to the capital increase of approximately EUR 25 m (after IPO costs which are estimated at EUR 1.5m) and the loan conversion.

After reimbursement of short term financial debt in the amount of EUR 9.5 m, we calculate a solvency ratio of 50%.

PROFIT AND LOSS STATEMENT

<i>in 1000 EUR</i>	1998	1999	2000E	2001E	2002E	2003E	2004E
ITE/IPE sales	21,418	31,072	48,131	61,973	81,805	110,437	143,568
Connect Systems sales	0	16,336	49,579	61,973	74,368	85,523	94,076
Sales	21,312	46,975	97,199	123,947	156,173	195,960	237,643
Other revenues	105	433	511	0	0	0	0
Total revenues	21,418	47,408	97,710	123,947	156,173	195,960	237,643
<i>% change</i>	<i>142.6%</i>	<i>121.3%</i>	<i>106.1%</i>	<i>26.9%</i>	<i>26.0%</i>	<i>25.5%</i>	<i>21.3%</i>
Cost of goods sold	14,841	34,602	76,641	96,706	119,878	148,896	179,026
<i>gross margin %</i>	<i>30.7%</i>	<i>27.0%</i>	<i>21.6%</i>	<i>22.0%</i>	<i>23.2%</i>	<i>24.0%</i>	<i>24.7%</i>
R&D expenses	1,403	2,019	2,872	3,096	4,084	5,522	7,192
General and Admin.	1,138	2,644	4,081	5,242	6,643	8,218	9,981
Selling expenses	2,777	4,547	6,882	9,183	11,989	15,391	19,122
Total operating expenses	20,160	43,812	90,475	114,226	142,593	178,027	215,320
EBITDA	2,186	5,073	9,604	12,129	16,027	20,194	24,807
<i>as % of revenues</i>	<i>10.2%</i>	<i>10.7%</i>	<i>9.8%</i>	<i>9.8%</i>	<i>10.3%</i>	<i>10.3%</i>	<i>10.4%</i>
Depreciation and amortisation	928	1,874	3,161	3,201	3,240	3,054	3,277
EBIT	1,258	3,199	6,443	8,928	12,787	17,140	21,530
<i>as % of revenues</i>	<i>5.9%</i>	<i>6.7%</i>	<i>6.6%</i>	<i>7.2%</i>	<i>8.2%</i>	<i>8.7%</i>	<i>9.1%</i>
Financial expenses	625	1,347	825	1,213	1,424	1,339	1,264
Financial income	135	316	158	232	240	269	351
Extraordinary items	0	0	0	0	0	0	0
Income taxes	346	1,061	2,554	3,397	4,806	6,525	8,268
Net income	422	1,107	3,223	4,550	6,797	9,545	12,349
Net income, part of the group	414	1,106	3,222	4,549	6,796	9,544	12,348
Recurring net income	414	1,503	4,015	5,342	7,589	10,337	13,141
<i>as % of revenues</i>	<i>1.9%</i>	<i>3.2%</i>	<i>4.1%</i>	<i>4.3%</i>	<i>4.9%</i>	<i>5.3%</i>	<i>5.5%</i>
Recurring cash flow	1,342	2,980	6,383	7,750	10,037	12,598	15,625

BALANCE SHEET

<i>in 1000 EUR</i>	1998	1999	2000E	2001E	2002E	2003E	2004E
<i>Fixed assets</i>	2,347	16,130	17,942	17,095	16,334	15,512	14,466
<i>Current assets</i>	15,221	29,609	51,853	62,309	75,645	93,342	114,489
Inventories	6,278	10,436	16,701	20,666	25,289	30,595	36,786
Trade receivables	7,500	17,604	22,928	28,864	35,941	44,024	52,086
Cash & equivalents	864	1,152	11,607	12,005	13,451	17,526	24,175
Other current assets	578	417	618	774	964	1,197	1,442
Total assets	17,568	45,739	69,795	79,405	91,979	108,853	128,956
<i>Total shareholders' equity</i>	1,067	2,246	35,215	39,764	46,561	56,105	68,453
Long term liabilities	1,555	5,907	5,339	4,911	4,549	4,243	3,971
Short term financial liabilities	8,832	29,277	16,396	17,984	19,998	22,511	25,170
Trade payables	6,114	8,308	12,843	16,746	20,871	25,994	31,362
Total liabilities	17,568	45,739	69,794	79,404	91,980	108,854	128,955

FLOW OF FUNDS

<i>in 1000 EUR</i>	2000E	2001E	2002E	2003E	2004E
EBIT	6,443	8,928	12,787	17,140	21,530
Income taxes	-2,554	-3,397	-4,806	-6,525	-8,268
Depreciation and amortisation	3,161	3,201	3,240	3,054	3,277
Operating cash flow	7,050	8,732	11,221	13,668	16,539
Net change in WCR	-5,048	-4,429	-5,683	-5,930	-6,438
Capex	-4,973	-2,355	-2,479	-2,231	-2,231
Financial & extraordinary items	-666	-981	-1,184	-1,070	-914
Change in equity	29,747	0	0	0	0
Change in financial debt	-15,655	-569	-430	-363	-306
Net flow of funds	10,455	398	1,446	4,075	6,650
Kaspositie einde boekjaar	11,607	12,005	13,451	17,526	24,175

9. VALUATION

Valuation metrics: DCF and peer group analysis

We use two valuation methodologies to establish a value range for IPTE : **discounted cash flow** and **peer group comparison**. Because of IPTE's focus on two different business areas, we split the peer in two categories.

DCF

Our estimates for future cash flows are based on a number of assumptions, including

DCF Assumptions

- a five year business plan
- cost of equity : 9%
- cost of debt : 5.5% pre-tax tax rate : 38%
- long term growth : 2.5%
- ROIC to stabilise from FY 2005 at a level of 20%, well above the WACC of 8.5%. This clearly indicates IPTE is a value creator

In our base case, the residual value accounts for 92%.

Fair post –money DCF value of EUR 140 m or 27 EUR per share

Based on our DCF analysis, we estimate a fair equity value of **EUR 140 m** or **EUR 27 per share** for IPTE.

The table below calculates the equity value as a function of the cost of equity and the Perpetual Growth Rate

Table 7 : DCF sensitivity analysis for cost of equity and perpetual growth rate.

	8.00%	8.50%	9.00%	9.50%	10.00%
1.50%	149,031	136,942	126,509	117,419	109,436
2.00%	157,801	144,164	132,520	122,469	113,713
2.50%	168,167	152,590	139,457	128,242	118,561
3.00%	180,608	162,551	147,552	134,905	124,104

PEER GROUP

The decisive criteria for the stock market valuation of companies are the **growth** perspectives and the capability to turn growth into **profit** in the future.

To link the operating value drivers of a company directly to its market capitalisation, EV/EBITDA and PER are the suitable multiples for the purpose of relative valuation.

We used forecasts for the near future, e.g. 2000 en 2001.

IPTE's focus on two business areas with different financial characteristics in terms of growth and margins, calls for a **split peer group**.

IPTE shares will be introduced on the Brussels Stock Exchange. To give an indication of how IPTE would be perceived and valued on its domestic stock exchange, we compared the company to a panel of **technology companies listed on BXS**.

We composed the following peer groups :

Peer group for ITE/IPE

International companies active in automation and test equipment

ATS Automation Tooling Systems (Canada), Icos vision Systems (Belgium), JOT Automation (Finland), Orbotech (Israel) , PMJ Automec (Finland) , and Rohwedder Pematech (Germany);

Belgian companies which operate in a similar business space

Agfa Gevaert, Barco, Global Graphics , Ion Beam Applications, Telfino and Xeikon;

Suppliers of electrical test and measurement equipment

Adept technology (US) , Genrad (US), Teradyne (US) and Tektronix (US).

Peer group for Connect Systems

International comparables

Aspocomp group (Finland), ***CS2*** (Belgium), ***Epiq*** (Belgium) , ***Leoni*** (Germany) , ***Neways*** (NL), ***Punch International*** (Belgium) , ***Stork*** (NL) ***and Volex*** (UK);

Large US based Electronic Manufacturing Services Companies

Benchmark Electronics (US), ***Celestica*** (US), ***DII Group*** (US), ***Flextronics*** (US) , ***Jabil Circuit*** (US), ***Sanmina*** (US), ***SCI Systems*** (US) and ***Solectron*** (US) .

Table 8 : Peer group and multiples

ITE/IPE	Ticker	Price	#	Currency	Market cap.	EV	P/E 00	P/E 01	EV/EBITDA 00	EV/EBITDA 01
Company name	Bloomberg	20-Apr-00	shares		million	million				
ATS	ATA CN	26.25	55.632	CAD	1,460	1,460	43.03	30.88	15.08	11.66
Icos Vision Systems	IVIS US	29.38	10.508	USD	309	293	34.36	29.97		
JOT	JOT1V FH	5.45	170.617	EUR	930	921	46.19	30.28	28.81	19.83
Orbotech	ORBK US	75.00	20.262	USD	1,520	1,425	25.51	19.69	21.00	17.70
PMJ	PMJ1V FH	7.40	27.938	EUR	207	206	46.84	26.43	22.18	11.92
Rohwedder	RWD GR	15.00	4.4	EUR	66	72	19.81	15.04	8.65	6.61
Median							38.69	28.20	21.00	11.92
Agfa Gevaert	AGF BB	20.12	140	EUR	2,817	3,703	14.96	11.61	6.29	5.02
Barco	BAR BB	122.00	12.374	EUR	1,510	1,479	19.93	17.60	8.28	7.77
Global Graphics	GLGR ES	34.50	9.4	EUR	324	370	30.80	21.43	19.46	14.16
IBA	IBA BB	44.35	24.195	EUR	1,073	1,027	37.71	27.84	15.91	12.70
Telinfo	TLND BB	120.00	8.087	EUR	970	928	52.59	43.26	25.83	21.75
Median							30.80	21.43	15.91	12.70
Adept technology	ADTK US	10.63	9.63	USD	102	77	26.56	14.17	5.98	4.26
Genrad	GEN US	7.56	29.746	USD	225	245	4.42	3.78		
Teradyne	TER US	96.31	170.998	USD	16,469	16,267	42.39	35.23	26.36	22.25
Tektronix	TEK US	58.81	47.253	USD	2,779	2,951	54.76	27.86		
Median							34.48	21.01	16.17	13.26

Connect Systems	Ticker	Price	# million	Curr	Market cap.	EV	P/E 00	P/E 01	EV/EBITDA 00	EV/EBITDA 01
Company name	Bloomberg	20-Apr-00	shares		million	million				
Aspocomp	ACG1V FH	52.00	8.77	EUR	456	472	25.12	19.65	8.57	6.80
Barco	BAR BB	122.00	12.374	EUR	1,510	1,479	20.59	17.23	7.64	6.96
CS2	CSCS ES	18.50	16.011	EUR	296	307	NM	30.33	66.73	13.52
Epiq	EPIQ ES	4.55	12.171	EUR	55	58	25.28	17.50	27.08	14.94
Leoni	LEO GR	26.50	6.6	EUR	175	248	7.92	6.95	3.15	2.93
Neways	NEWN NA	9.95	4.942	EUR	49	57	8.14	7.47	4.06	3.79
Punch Int.	PUN BB	37.5	1.267	EUR	48	71	29.76	18.75	7.60	6.23
Stork	VMFN NA	14	33.21	EUR	465	389	5.70	5.02	2.48	2.14
Volex	VLX LN	9.25	28.3	EUR	262	300	18.16	15.85	11.06	8.63
Median							19.38	17.23	7.64	6.80
Benchmark Electronics	BHE US	35.94	16.221	USD	583	807	28.87	18.06		
Celestica	CLS US	49.81	180.8562	USD	9,009	9,071	51.57	36.68		
Flextronics	FLEX US	68.81	115.467	USD	7,946	8,267	68.88	46.68		
Jabil Circuit	JBL US	36.81	173.732	USD	6,396	6,391	46.84	34.93		
Sanmina	SANM US	56.00	127.28	USD	7,128	7,129	43.34	33.67		
SCI Systems	SCI US	46.75	144.744	USD	6,767	6,994	34.38	27.83		
Sollectron	SLR US	45.38	592.662	USD	18,947	18,449	53.63	40.23		
Median							46.84	34.93		

Relative valuation measures indicate a post money valuation range of EUR 125 m to EUR 132 m or EUR 23.4 to EUR 25.4 per share

We multiply the 2000 and 2001 Current Earnings and EBITDA of ITE/IPE and Connect Systems by the median multiples of the corresponding peer group and make the sum of the parts. Finally, this sum has to be reduced by the price that was paid for Connect Systems.

This method gives a value range between **EUR 125 m and EUR 133 m or EUR 23.4 to EUR 25.4 per share.**

10. APPENDIX

LIST OF THE COMPARISON COMPANIES

Adept technology (US) : designs, manufactures and markets automation software and hardware products. The company's products are used by manufacturers in the electronics, telecommunications, appliances, pharmaceutical, food processing, and automotive components industries.

Agfa Gevaert (Belgium): is Europe's leading imaging technology company and one of the most important players in the global imaging market world wide. The company produces film and digital cameras, film processors, scanners, pre-press and offset printing equipment, medical radiology and computer imaging systems.

Aspocomp group (Finland): manufactures high-density interconnection PCB's, thick film hybrid circuits and mechanical assemblies for the electronics industry. Aspocomp's main underlying markets are the mobile phone and telecom infrastructure markets. The company's main customers Nokia, Ericsson and Philips currently account for 66% of sales.

ATS Automation Tooling Systems (Canada) : operates in two complementary businesses: turn-key industrial automated manufacturing and test systems, and highly engineered precision components and subassemblies made under long-term contracts

Barco : is an international technology company operating in 5 niche markets : projection systems, graphic systems, display systems, Barco Vision and Communication systems.

CS2 (Belgium) : is a Belgian based start-up company specialised in semiconductor packaging and test services for major European based semiconductor manufacturers. CS2 benefits from the increasing outsourcing trend of both semiconductor packaging and test services.

Epiq (Belgium) : is a contract electronic manufacturer. The company develops and produces electronic modules for manufacturers in the automotive, house appliance and telecom markets

Genrad (US) : GenRad provides electronics manufacturers with hardware, software to improve process management from design through manufacturing. The company supplies in-circuit, electrical, and functional in-line test & inspection solutions.

Global Graphics : is the world's leading supplier of flexographic plate processing equipment with a market share of more than 50%

Icos vision Systems (Belgium) : develops and supplies machine vision and inspection solutions for use in the semiconductor manufacturing and electronic assembly industries. The company sells board-level vision products, system-level inspection products and stand-alone component inspection products to OEMs around the world.

Ion Beam Applications : IBA is a market leader in the development and installation of high-tech equipment focused on the medical and industrial sterilisation and ionisation, radioisotopes

JOT Automation (Finland) : JOT is a leading manufacturer of test automation equipment for the electronics industry, and Nokia in particular. The profitability of JOT is quite exceptional because the value added that JOT delivers to its customers is high.

Leoni (Germany) : manufactures and sells electric cables, wires, light wave conductors, co-axial cables, high-tension wires and customised cable wiring systems.

Neways (NL) : offers electronic products design and manufacturing services. The company designs prototypes of and manufactures electronic final assemblies, complex cable systems and hybrid microelectronics. Neways also designs and manufactures printed circuits, semi-flex boards and automation systems.

Orbotech (Israel) : designs, manufactures and markets automated optical inspection systems and imaging solutions as well as CAM solutions for the PCB industry.

PMJ Automec (Finland) : develops and markets automatic assembly equipment for the electronics industry. PMJ sells modular solutions for odd-form components such as the High Speed Assembly Cell. Customers are telecom, manufacturing and technology companies.

Punch International (Belgium) : develops and supplies parts and subassemblies for the multimedia and consumer electronics industry.

Rohwedder Pematech (Germany) : develops and manufactures equipment in the field of automation and rationalisation technology. The different business lines comprise assembly, test, robot and handling technology and vision systems. The lines are used principally in the automotive components industry, telecommunications, the electronics industry and medical technology.

Stork (NL) : manufactures diversified machinery, tools and industrial equipment. The company is grouped into five business units: textile and paper printing, food processing and packaging, industrial components, technical services and engineering and contracting.

Tektronix (US) : manufactures and sells measurement products, color printing and imaging products. The company produces a variety of electronic test instruments, color printers, digital video storage products, and business network computers.

Telinfo : is active in the telecommunications industry and develops and maintains telecommunication networks for business.

Teradyne (US) : manufactures automatic test systems and related software for the electronics and communications industries. The products include systems to test semiconductors, circuit boards, telephone lines and networks, and software.

Volex (UK) : designs and manufactures electrical and electronic interconnect products. The company sells power and data cable assemblies for the computer and office equipment, medical equipment and appliance industries.

Xeikon : is the world's leading manufacturer of digital colour printing systems.

Benchmark Electronics (US), **Celestica** (US), **Flextronics** (US), **Jabil Circuit** (US), **Sanmina** (US), **SCI Systems** (US), **Solectron** (US) : provide electronic manufacturing services to OEMs.

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