RESEARCH REPORT
Mobile Telephony in 2003

Telecommunications

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The Big Little Market

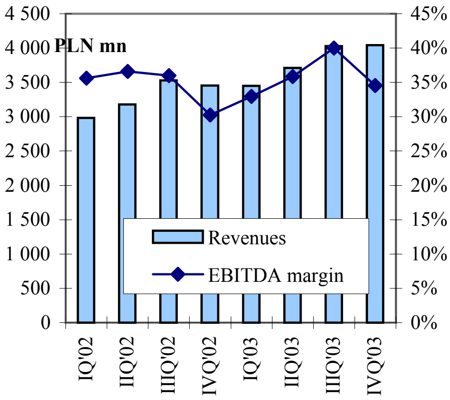
At the end of 2003, the number of mobile telephony subscribers increased by 3.5 mn to 17.4 mn, which corresponds to an estimated market penetration (the number of telephones per 100 inhabitants) of 45%. The analogous ratio for the Czech Republic reached 95%, 98% for Portugal and 78% for Hungary.

The above comparison illustrates the market's growth potential in the years ahead. However, a necessary condition in this respect is lower prices of services, which in Poland are among the highest in Europe. ARPU (Euro) in the Czech Republic is 18% lower than in Poland. Considering purchasing power and such factors like high unemployment, we expect the further growth in the number of users (mainly pre-paid) to be accompanied by a decline in ARPU. The appearance of pre-paid starters (Heyah), which simultaneously are becoming the main motor driving the growth in the subscriber base, will have an large influence on lowering prices of mobile services.

In 2003, the fastest growth was noted in the subscriber base of PTC, which obtained 1.33 mn net users, of which 1.01 mn were pre-paid clients. PTC's share in net connections in this segment amounted to 48%. At the other end of the spectrum is Centertel, which focuses on post-paid subscribers, with a 55% share in the net connections of the segment. Centertel added an additional 1.23 mn users to its subscriber base, of which pre-paid accounted for only 453 thous. The number of Polkomtel subscribers, which at mid-year disconnected 355 thousand non-active users, increased by 0.94 mn, of which 67% were pre-paid clients.

In terms of the number of users, 2003 saw little change. PTC remains the leader with a 35.7% market share, followed by Centertel (32.8%) and Polkomtel (31.6%). Centertel's strategy consisting in focusing on the post-paid segment resulted in the operator increasing its market share, calculated in terms of revenues, to 31.1% (from 27.4% one year earlier).

In 2003, average weighted ARPU for all operators amounted to PLN 76 and was 10.8% lower than in 2002.



Shareholder Structure

Centertel	
TPSA	66,0%
Orange	34,0%
Polkomtel	
PKN	19,6%
KGHM	19,6%
PSE	16,1%
Vodafone	19,6%
TDC	19,6%
Węglokoks	4,0%
PTC	
Vivendi/Elektrim	51,0%
Deutsche Telecom (with Polpager	49,0%

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	Centertel (IAS)				Polkomtel (PAS)				PTC (IAS)			
	Sales (PLN mn)	EBITDA (PLN mn)	EBIT (PLN mn)	Net profit (PLN mn)	Sales (PLN mn)	EBITDA (PLN mn)	EBIT (PLN mn)	Net profit (PLN mn)	Sales (PLN mn)	EBITDA (PLN mn)	EBIT (PLN mn)	Net profit (PLN mn)
2000	1 553	-174	-550	-659	3 518	989	642	206	3 632	1 051	609	63
2001	2 367	165	-336	-471	4 232	1 527	948	591	4 345	1 682	832	427
2002	3 455	732	124	-46	4 710	1 751	1 075	516	4 930	2 061	1 151	346
2003	4 532	1 366	185	23	5 176	2 004	1 250	757	5 601	2 104	1 161	654
2004F	5 385	1 707	867	378	5 527	2 099	1 296	790	6 152	2 399	1 309	547

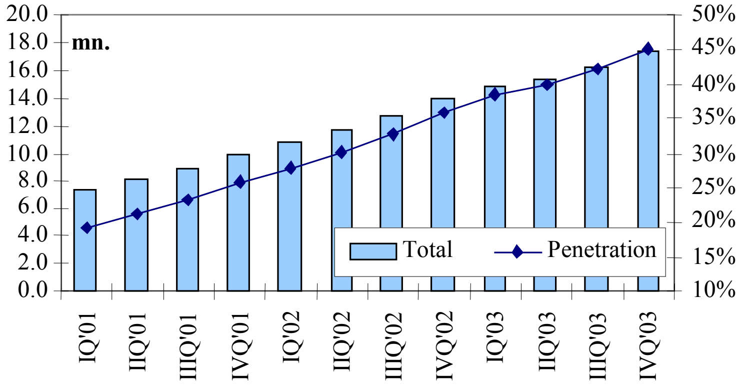
NOTE: *F - BRE Bank Securities forecast*

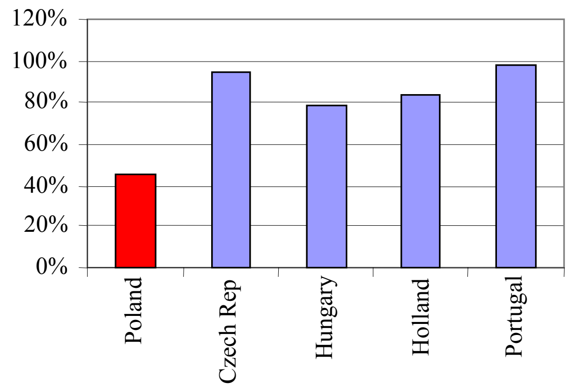
The Market

In 2003, the number of mobile telephony subscribers in Poland increased to 17.4 mn, which is 3.5 mn more than that noted the previous year. The increase in the subscriber base, in annual terms, is lower than in 2002, when it amounted to 3.92 mn. Such an evaluation may be imprecise due to Polkomtel disconnecting 355 thous. non-active subscribers in 2Q 2003.

Penetration reached 45% (+9pp), what ranks Poland last among EU member countries. For comparison, penetration in the Czech Republic amounted to 94.7% and grew almost 10 percentage point in the last year alone. Hungary, with penetration of 78%, also surpasses Poland in regard to the popularity of mobile services. In our opinion, the main reason for this state of affairs is the high cost of mobile services in Poland (in relation to the purchasing power of the population) as discussed in BRE Bank Securities' report on TPSA issued in January of this year.

Number of mobile telephony subscribers and penetration in Poland and selected European countries

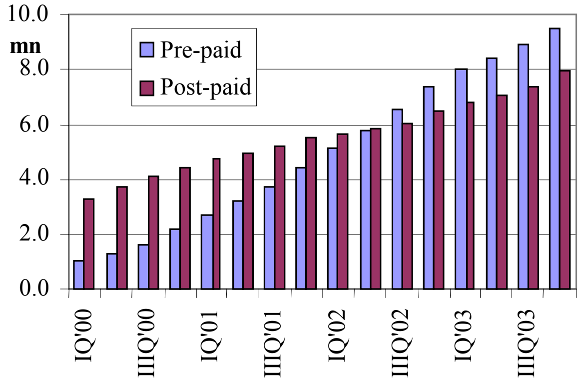


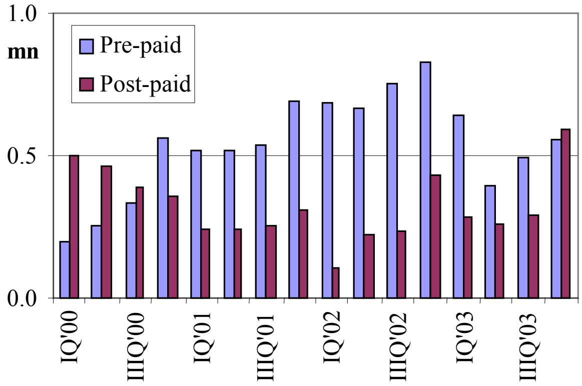


Source: Operators' data

In recent years the engine driving the growth in the number of subscribers has been the pre-paid segment. As a result, since the beginning of 2002, the number of subscribers using pre-paid services has been higher than the number of post-paid subscribers.

Number of pre-paid and post-paid subscribers as well as quarterly increase in the number of subscribers in these segments





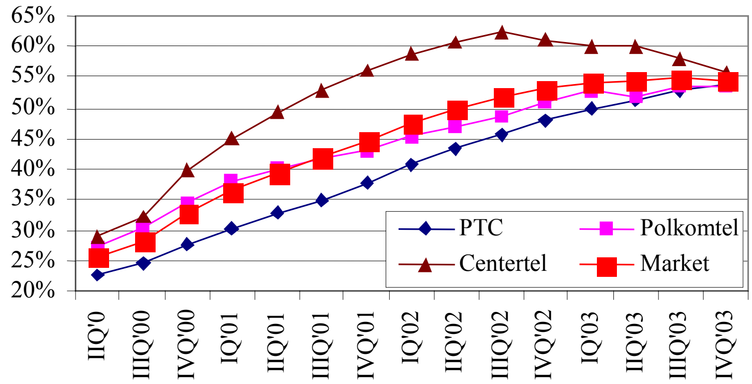
Source: Operators' data

Somewhat of a surprise was 4Q 2003, in which, due to the good results of Centertel and Polkomtel, the growth in the subscriber base in the post-paid segment was higher than in the pre-paid segment. This is a consequence of the specific price and marketing policies, which we believe will not be continued in 2004. Considering the fact that operators are introducing (as of 1Q 2004) new packages with lower rates for calls in the pre-paid segment (the introduction of Heyah by PTC, to which other operators had to respond, was a revolution on the market) it can be expected that this segment will again drive the entire market in subsequent quarters.

A net total of 1.26 mn subscribers were acquired in 4Q 2002, as compared to 1.14 mn in 4Q 2003. Analogous data for 3Q is: 0.98 mn and 0.78 mn. This slowdown is primarily due to the lower number of subscribers connected in the pre-paid segment. In 2004, we believe the number of connected subscribers will be similar to the number noted in 2003, however users of inexpensive pre-paid services (based on starters – the Heyah offer) will dominate new connections. For operators, this means lower revenues, with a simultaneous reduction in the cost of obtaining a subscriber (no subsidising of telephones).

At the end of 2003, the share of pre-paid users for the entire market amounted to 54.5% in relation to 53.1% at the end of 2002 and 44.6% at the end of 2001. The slowdown in the growing share of pre-paid subscribers in the total number of subscribers is due to the change in Centertel's strategy, which clearly focuses on obtaining post-paid subscribers. As a result, the share of pre-paid subscribers in Centertel's portfolio has fallen to 55.9% from 61.1% one year ago.

Share of pre-paid in portfolios of individual operators and entire market



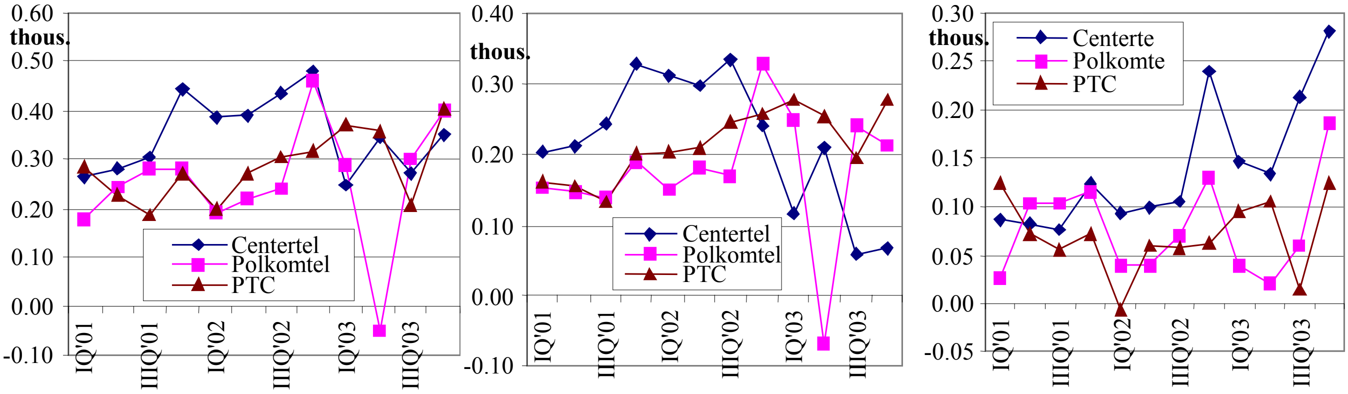
Source: Operators' data

Operators

In terms of increasing the subscriber base, Centertel ceased to dominate the market in 2003. PTC, which obtained 1.33 mn users, overtaking Centertel (+1.23 mn) and Polkomtel (+0.94 mn), noted the largest increase in the number of subscribers. Data concerning Polkomtel includes the disconnection of 355 thous. non-active telephones. If this element is ignored, it turns out that in 2003 Polkomtel increased its base by 1.29 mn users and therefore 66 thous. more than Centertel.

Centertel connected the smallest number of users, but generated the highest revenues. The operator's share in net connections in the post-paid segment amounted to 55%, and only 22% in the pre-paid segment. Analogously, these amounts for the remaining operators amount to: 22%, 30% for Polkomtel and 24%, 48% for PTC. The division of the market can clearly be seen from this data: Centertel dominates in post-paid and PTC in the pre-paid segment. Polkomtel is focusing on both segments, although data for 4Q 2003 would indicate a shift in focus from pre-paid to post-paid.

Change in subscriber base of individual operators (total, pre-paid, post-paid)



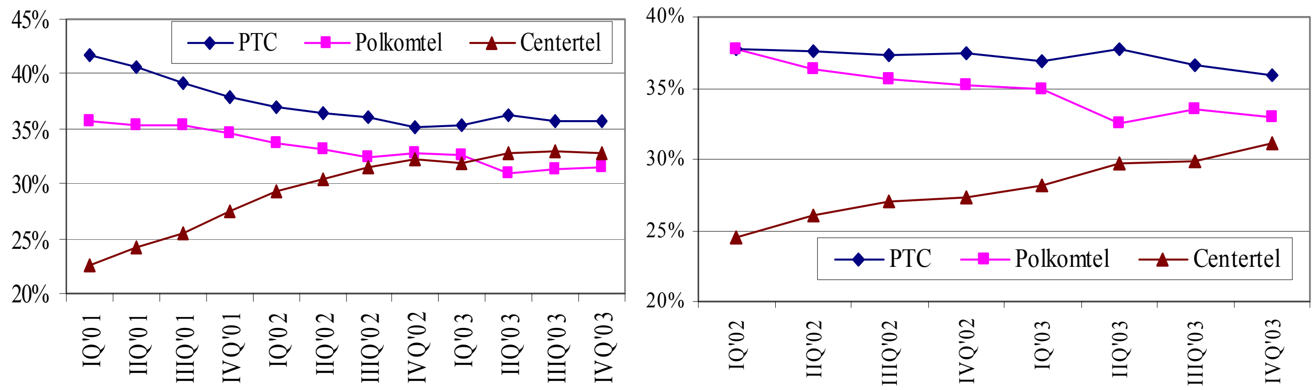
Source: Operators' data

The decline in the number of Polkomtel subscribers, evident in above chart, is connected with the disconnection of 355 thous. non-active users (primarily pre-paid) in 2Q 2003.

In terms of market share of individual operators, calculated by the number of subscribers, the situation is clear. The leader remains PTC, whose share however is only 3 percentage points higher than Centertel's. It should be noted that despite the commonly held opinion concerning Polkomtel's less aggressive attitude in obtaining subscribers, 2H was a very successful period for the operator. It's share in net connections amounted to 36.4%, which also improved its market position.

Centertel's strategy of concentrating in recent quarters on post-paid clients has resulted in the operator's share, defined by the amount of revenues, systematically growing, despite the fact that its market share, calculated by the number of subscribers, has remained virtually the same for five quarters. In 4Q, it amounted to 31.1% in comparison with 27.4% one year earlier. This trend will continue as long as Centertel continues to dominate in the post-paid segment.

Market share of individual operators (number of subscribers, revenues)

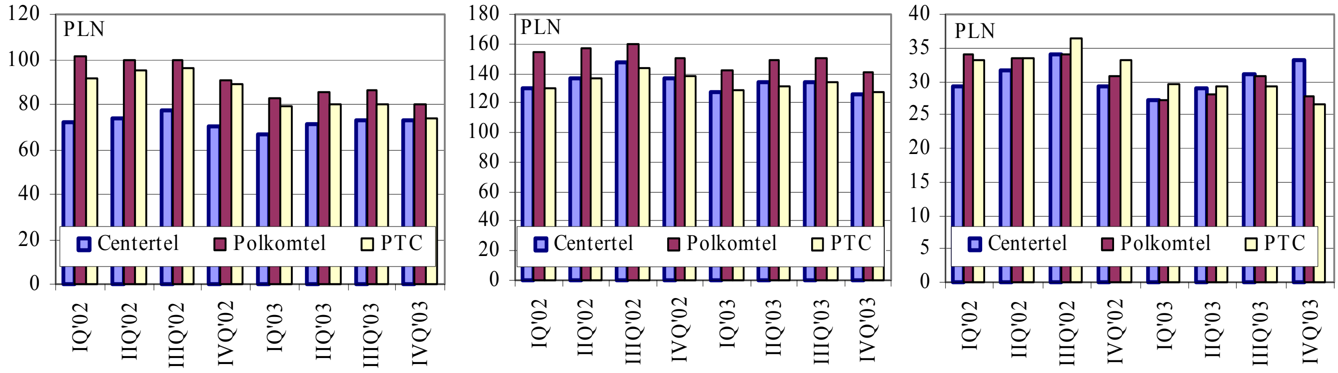


Source: Operators' data

ARPU

In 2003, the average weighted ARPU for all operators was PLN 76 and was 10.8% lower than in 2002. PTC noted the largest (14%) drop in ARPU.

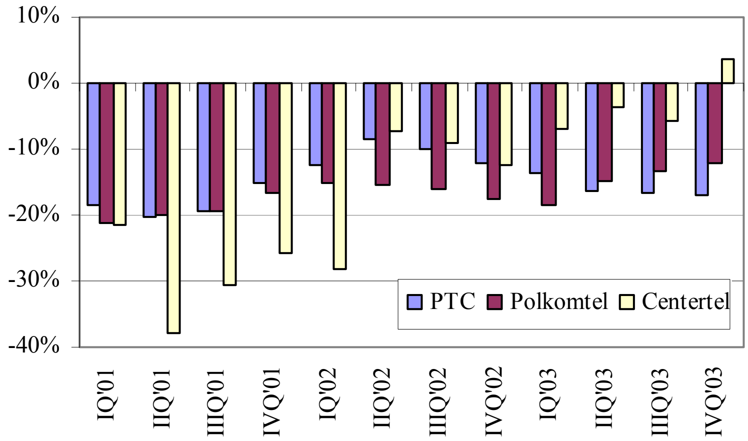
ARPU (weighted, post-paid, pre-paid)



Source: Operators' data

In quarterly terms, PTC's 16-17% dynamics of ARPU decline has continued for three successive quarters and as a result PTC's ratio (PLN 74 in 4Q 2003) is similar to that which Centertel achieved in the last three months (PLN 73). The decline in ARPU is mainly occurring in the pre-paid segment (-19%), to a lesser degree in post-paid (-7%), in which PTC is making no effort to aggressively compete with Centertel. From an analysis of the level of ARPU and the ARPU/MOU (minutes of use) ratio, it results that: Centertel, whose ARPU fell rapidly in 2001 and differed substantially from that noted by other operators (-20% in relation to PTC and –28% to Polkomtel), could be facing stronger pressure in 2004 to lower prices (Centertel's ARPU has remained stable for two years). Also not without significance in the case of pressure to lower rates in the post-paid segment is the observed aggressive strategy of reductions in the pre-paid segment.

Drop in ARPU in comparison with the analogous quarter of the previous year



Source: Operators' data

In the case of Polkomtel, the drop in ARPU (-12%) is similar to that noted by PTC. Centertel noted an only 3% decline in average revenue per user. Despite the fact that ARPU in the pre-paid segment for both PTC and Polkomtel is systematically falling (an average of 15%), in 4Q 2003

Centertel noted a 12% growth in the ratio in relation to the analogous period of the previous year. In our opinion, if Centertel wants to maintain its market share (number of subscribers), it will have to change its price policy in this segment.

The influence of Centertel's change in strategy on ARPU is evident in comparing the number of connected pre-paid subscribers in individual quarters. In the second half of 2003, the number of subscribers obtained in this segment fell below 100 thous. per quarter. Limiting such promotions as "free minutes for new users" and the systematic growth in revenues from SMS's (in 4Q 2003 the share of SMS revenues in pre-paid ARPU grew to 10.2% from 8.7% in the previous quarter) without reductions in prices for services resulted in the operator's ARPU/MOU increasing in this period. As a result, Centertel ceased to be the cheapest operator on the market. For comparison, the table below presents analogous data for PTC, from which it can be concluded that revenue per minute has remained largely unchanged for several quarters. Simply stated, this means that the operator lowers the effective price per minute in portion to the growth in revenues from data transmission (SMS).

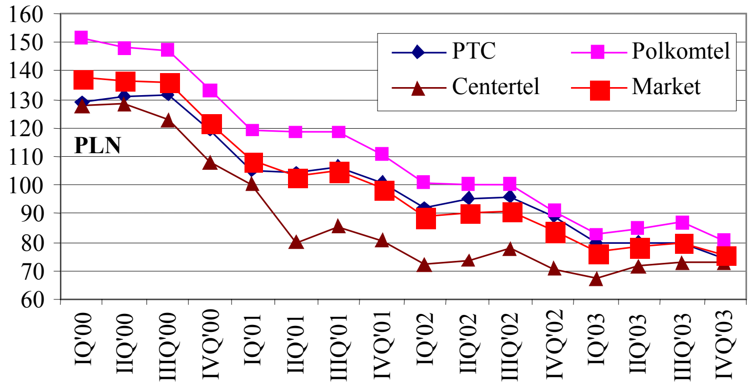
Selected operating data of PTC and Centertel

	2002				2003			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
ARPU/MOU (pre-paid; PLN)								
PTC	0.90	0.96	0.99	0.98	0.98	0.96	1.01	1.00
Centertel	0.98	1.06	1.15	1.16	1.17	1.16	1.19	1.36
Net connections (pre-paid; '000)								
PTC	0.20	0.21	0.25	0.26	0.28	0.26	0.20	0.28
Centertel	0.31	0.30	0.34	0.24	0.12	0.21	0.06	0.07

Source: BRE Bank Securities based on operators' data

Considering market saturation, it appears Centertel's strategy will be difficult to maintain in the long run, particularly in light of the reduction in prices resulting from the appearance of Heyah. In our opinion, the strategy declared by the management board of TPSA concerning a dynamic growth and improvement in the operator's profitability could be difficult to realise.

ARPU of individual operators relative to weighted average



Source: Operator's data

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List of abbreviations and ratios contained in the report.
EV *– net debt + market value (EV – economic value)*
EBIT *– Earnings Before Interest and Taxes*
EBITDA *– EBIT + Depreciation and Amortisation*
PBA *– Profit on Banking Activity*
P/CE *– price to earnings with amortisation*
MC/S *– market capitalisation to sales*
EBIT/EV *– operating profit to economic value*
P/E *– (Price/Earnings) – price divided by annual net profit per share*
ROE *– (Return on Equity) – annual net profit divided by average equity*
P/BV *– (Price/Book Value) – price divided by book value per share*
Net debt *– credits + debt papers + interest bearing loans – cash and cash equivalents*
EBITDA margin *– EBITDA/Sales*

Recommendations of BRE Bank Securities S.A.
A recommendation is valid for a period of 3-6 months, unless a subsequent recommendation is issued within this period.
BUY – we expect that the rate of return from an investment in a company's shares will be at least 15% higher than the WIG
ACCUMULATE – we expect that the rate of return from an investment in a company's shares will be 5%-15% higher than the WIG
HOLD – we expect that the rate of return from an investment in a company's shares will be within +/-5% in relation to the WIG
REDUCE – we expect that the rate of return from an investment in a company's shares will be 5%-15% lower than the WIG
SELL – we expect that the rate of return from an investment in a company's shares will be at least 15% lower in relation to the WIG

Strong and weak points of valuation methods used in recommendations:
DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model
Multiple – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.