

10 August 2010

Update


Telecommunications

Poland

Current price	PLN 4.80
Target price	PLN 5.30
Market cap	PLN 1.87bn
Free float	PLN 1.87bn
Avg daily trading volume (3M)	PLN 3.60m

Shareholder Structure

Third Avenue Management	24.07%
OFE ING	12.33%
SISU Capital Ltd.	10.03%
Pioneer Pekao Investment Management	9.99%
Others	43.58%

Sector Outlook

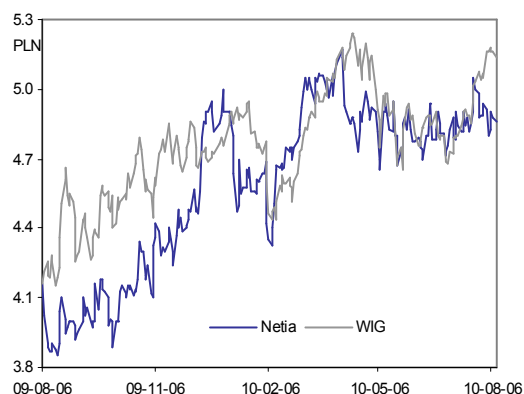
We remain neutral on telecoms. The increasing wealth of the population facilitates broader service access. At the same time, operators are getting tired of the price wars and big expenses, and they are no longer going to use low prices as their primary weapon. The telecommunications industry will start to consolidate.

Company Profile

Netia is Poland's biggest alternative fixed-line operator. The company generates 40% of revenues from POTS services provided via 390,000 telephone lines. Netia has also been the most successful alternative operator in using the incumbent's infrastructure to acquire subscribers under BSA and LLU arrangements. In 2010, Netia will become a target for acquisition.

Important Dates

06.11.2010 - Q3 2010 report

Netia vs. WIG

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Netia

NTIA.WA; NET.PW

Accumulate

(Upgraded)

Spotlight On FCF

We maintain that new regulation with respect to wholesale broadband access is going to bring about a slowdown in Netia's subscriber growth. Nevertheless, we believe that the telecom has a more positive outlook ahead, thanks to speedier migration of BSA/WLR customers to LLU, expected to support future earnings. Moreover, through reduced investment expected next year, Netia will see improved levels of free cash flow; we predict that the FCF/EV ratio will increase to 10%-11%, more than forecasted for the incumbent TPSA, who will be incurring high capital expenses until 2012 under its arrangements with the regulator. We estimate that Netia is trading on a FY2011 EV/EBITDA ratio below 4.0, suggesting a nearly 20% discount to the sector. Another source of upside potential are the company's acquisition plans which include the more probable choice, Exatel, and the more desirable one, Dialog. If no acquisitions are completed by next year, Netia has promised to start paying dividends (at least the whole of 2010 earnings). Based on expectations of reduced operating expenses, we are raising our financial forecasts for Netia, resulting in an increased price target (PLN 5.3 per share, raised from PLN 4.3) and a rating upgrade from hold to accumulate.

Q2 2010 Results

As predicted, Netia reported a slight improvement in second-quarter earnings relative to the preceding quarter. Revenues amounted to PLN 393.7m (+5.4% q/q), and net profit came in at PLN 15.56m. We were slightly disappointed with the slow expansion in data transmission revenues (which edged up just 1.9% q/q due to a 3.5% decrease in ARPU), and the deceleration in subscriber growth (both in the broadband and the voice business). On the upside, Netia managed to maintain its EBITDA margin at a high, 24% level, thanks to cost savings and LLU migration.

Forecast Revisions

To account for higher-than-expected Q2 2010 cost savings (achieved thanks to synergies generated by the merger with Tele2, and downsizing), we are raising our EBITDA forecasts from PLN 324m to PLN 359m in 2010 and from PLN 359m to PLN 381m in 2011. At the same time, we are revising the expected 2010 and 2011 CAPEX budgets from PLN 230m to PLN 220m and PLN 210m respectively. In line with Netia's own guidance, we assume that the company will have 700,000 broadband Internet subscribers, and 1.225 million POTS subscribers, by the end of the year.

(PLN m)	2008	2009	2010F	2011F	2012F
Revenues	1 112	1 506	1 556	1 614	1 685
EBITDA	171	313	359	381	398
<i>EBITDA margin</i>	15.3%	20.8%	23.1%	23.6%	23.6%
EBIT	-100	14	70	104	132
Net profit	231	89	75	109	139
DPS	0.0	0.0	0.0	0.2	0.3
P/E	8.1	21.1	24.9	17.1	13.5
P/CE	3.3	4.2	4.3	3.8	3.4
P/BV	0.9	0.8	0.8	0.7	0.6
EV/EBITDA	9.8	5.2	4.4	3.9	3.4
DYield	0.0%	0.0%	0.0%	4.0%	5.8%

Q2 2010 Results

Netia's 2010 second-quarter earnings came in line with expectations. On a revenue of PLN 393.7m (+5.4% q/q), the company generated an EBITDA of PLN 95.4m (with margin at 24.2%) and a net profit of PLN 15.56m (the reported figures compare to our forecasts of PLN 391m, PLN 91.8m, and PLN 12.6m respectively). The rate of revenue growth in the strategic area of broadband Internet access was somewhat disappointing at +PLN 2.7m or +1.9% q/q. The main growth area in Q2 2010 was transit traffic (resulting in a PLN 7m q/q wholesale revenue growth fueled by increased traffic).

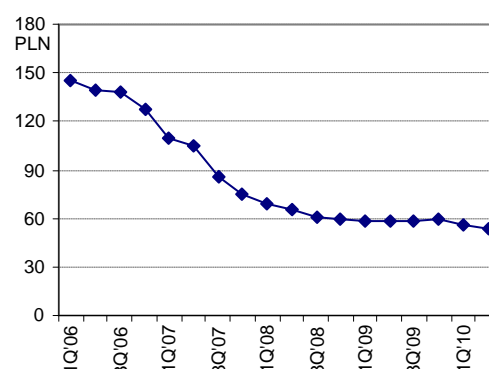
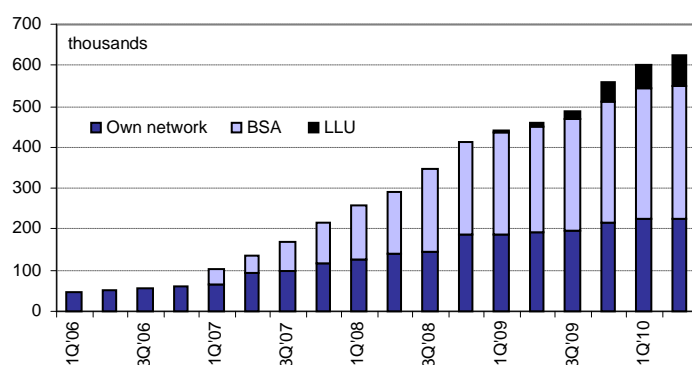
Q2 2010 Results

(PLN m)	2Q2010	2Q2009	change	1H2010	1H2009	change	2Q2010	1Q2010	change
Revenues	393.7	373.7	5.4%	780.7	749.3	4.2%	393.7	387.0	1.7%
Direct services (traffic, subscriptions)	185.6	184.1	0.8%	372.2	368.1	1.1%	185.6	186.6	-0.5%
Indirect services	9.9	17.0	-41.8%	21.5	36.8	-41.6%	9.9	11.6	-15.0%
Data transmissions	145.5	129.2	12.6%	288.3	251.2	14.8%	145.5	142.8	1.9%
Wholesale services	30.2	20.6	46.3%	53.4	41.2	29.5%	30.2	23.2	29.9%
Other	22.5	22.8	-1.0%	45.3	52.0	-13.0%	22.5	22.8	-1.0%
EBITDA	95.4	69.4	37.3%	188.8	139.3	35.5%	95.3	93.5	1.9%
<i>EBITDA margin</i>	24%	19%	-	24%	19%	-	24%	24%	-
EBIT	20.5	-4.9		40.0	-8.0		20.5	19.6	
Profit/loss on financial activity	2.3	-9.6		0.2	-7.1		2.3	-2.1	
Net income	15.6	-14.5		29.9	-14.6		15.6	14.3	

Source: Netia SA

The modest increase in data transmission revenues (including broadband) was caused by a decrease in monthly ARPU to PLN 54 from PLN 60 in Q409 and PLN 56 in Q1 2010. The drop in ARPU was accompanied by a slowdown in subscriber additions (in line with expectations), stemming most probably from scaled-down promotional efforts, and the floods and presidential plane crash that occurred in April and May. The second quarter is seasonally the slowest, and should not be considered an indicator of future trends (17,000 additions in Q2 2009). The broadband subscriber base increased by 20,000 lines to 623,600 lines compared to Q1 2010 (including 13,600 lines added through LLU). We must also point out that Netia incurred the highest acquisition costs per BSA contract in 1.5 years in the second quarter. After the planned regulatory changes, Netia will not be able to compete for broadband customers with TPSA as successfully as it has to date without increasing acquisition costs.

Broadband subscribers, ARPU



thousands	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10
Total BSA contracts (as reported by TPSA)	388	412	431	456	490	508
<i>change</i>	40	24	19	25	34	18
<i>of which Centertel</i>	111	117	123	129	134	138
<i>share in BSA lines</i>	28.6%	28.4%	28.5%	28.3%	27.3%	27.2%
<i>of which Netia</i>	134	260	272	294	320	325
<i>share in BSA lines</i>	34.5%	63.0%	63.2%	64.4%	65.4%	64.0%
<i>of which others</i>	144	36	36	33	36	45
<i>share in BSA lines</i>	34.4%	6.2%	8.3%	7.3%	7.3%	8.8%

Source: Netia SA, TPSA,



LLU contracts

thousands	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10
Total LLU (as reported by TPSA)	4	8	24	52	62	76
change	2	4	16	28	11	14
of which Netia	4	7	21	48	60	73
share in LLU lines	99.1%	92.7%	89.8%	93.3%	95.8%	96.4%

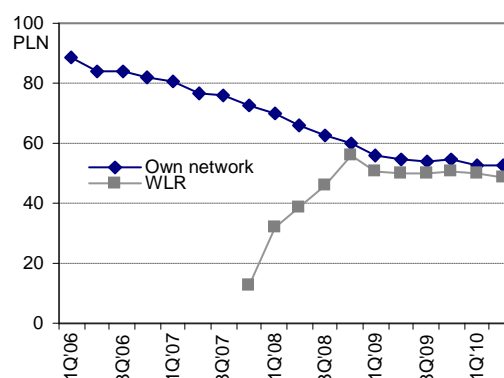
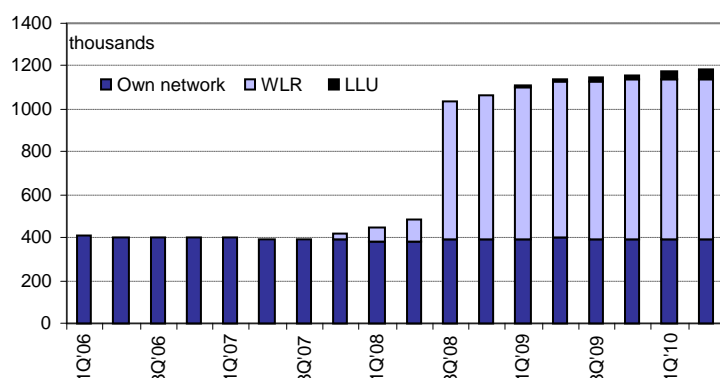
Source: Netia SA, TPSA,

An acceleration of customer migration from BSA and BSA/WLR to LLU arrangements has a positive influence on EBITDA. At 30 June, Netia had 350 unbundled nodes, giving it access to 2.9 million subscribers. By August 5th, the number of access nodes increased to 400 (providing an additional 81,000 customers). The target for the year is 500 unbundled nodes. In 2011, even assuming slower subscriber growth, LLU migration is going to drive EBITDA growth.

Data transmissions are expected to generate growing revenues in the quarters ahead. That said, after rival TPSA launches new price plans for slower connections (2Mb) in Q3 or Q4, Netia will face increased competitive pressure. Price incentives have proven ineffective in encouraging prospective customers to subscribe for faster connections (8/10/20 Mb/s), and Netia has reported that 75% of all new broadband contracts are for speeds of less than 8 Mb/s (mostly 2Mb/s). We believe that the company can fulfill its objective of increasing the broadband subscriber base to 700,000 by the end of the year.

The second quarter of 2010 was also slightly weaker for voice services. The number of line additions decreased to 9,300 – the lowest since Q3 2007. Moreover, Q2 2010 was the first to see a quarter-on-quarter decline in the number of WLR users (-1,700). This can be partly attributed to user shifts to the more profitable LLU arrangements (a Q/Q increase by 10,400), but the general downward trend is obvious. Netia's voice ARPU also dropped in Q2 to PLN 58 a month from PLN 60 in Q1 for direct users and to PLN 49 from PLN 50 for WLR lines.

Voice subscribers, ARPU



	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10
Total WLR (as reported by TPSA)	1 026	1 119	1 197	1 255	1 296	1 346
of which Netia	711	731	740	743	747	745
share in WLR lines	69.2%	65.3%	61.8%	59.2%	57.6%	55.4%
of which Dialog	184	210	n/a	250	n/a	n/a
share in WLR lines	18.0%	18.8%	n/a	19.9%	n/a	n/a
of which others	131	177	n/a	261	n/a	n/a
share in WLR lines	12.8%	15.9%	n/a	20.8%	n/a	n/a

Source: Netia, TPSA, Dialog

A continuing erosion (by ca. PLN 2m per quarter) can be observed in Netia's preselection revenues, which, however, account for just 3% to the total revenues.

The cost-cutting "Profit" scheme launched in 2009 is having a noticeable effect on administrative expenses and selling costs (advertising, distribution fees). A major one-time cost-reducing factor in Q2 was the migration of the former Tele2 customers onto Netia's infrastructure. The success of the cost-cutting measures is the main reason behind the upward revisions in our financial forecasts for the telecom. Note that the 2010 first-half EBIT was



positively impacted by one-time events in the amount of PLN 9.7m (booked as other net income), which included PLN 3.7m proceeds from asset sales (among others to P4) and debit notes (PLN 2.77m).

Netia's Q2 cash base was PLN 66m higher than in Q1 (PLN 21.4m of that amount was the last installment of the consideration owed by P4 for equipment purchases) at PLN 272.5m. The amount of free cash was reduced by a nearly PLN 60m tax payment made in Q1 2010, which is the subject of an ongoing court case.

Netia plans to use the available cash to either pay for acquisitions, or pay out dividends. Financing for the potential acquisitions will also be provided by Rabobank, Raiffeisen Bank, and BRE Bank, under a recent agreement. Netia's targets include Exatel, and Telefonía Dialog which would be a more desirable addition to the telecom's business mix from the standpoint of synergies. Unfortunately, an exclusive right to audit Dialog has recently been granted to Polkomtel, and, considering that the two companies share the same shareholder, KGHM, Netia's chances to take over Dialog seem slim.

Netia, Dialog, and Exatel earnings and valuation

(PLN m)	Netia	Dialog*	Exatel*
Revenues	1 505.9	520.90	550.0
EBITDA	312.8	135.38	153.0
EBITDA margin	20.8%	26.0%	27.8%
Net income	88.7	10.44	54.8
Implied EV (based on Netia 2009 = 5.2)		704.0	795.6
Implied EV (based on Netia 2010 = 4.4)		595.7	673.2

Source: BRE Bank Securities based on Netia SA, Telefonía Dialog, Exatel, * standalone data

Telefonía Dialog (which is 100% owned by KGHM) has 708,000 subscribers, including 465,200 direct lines and 243,700 wholesale lines. Moreover, the altnet has 156,000 Internet subscribers and 25,800 users of the DIALOGmedia IPTV service (digital TV and VoD, status as of 31 December 2009). Dialog manages a well-developed access infrastructure which caters primarily to users in south-western Poland.

Exatel, which serves businesses and public administration agencies, was formed through the merger of Tel-Energo and Telbank, two networks that originally catered to the power industry and banks. Exatel's customer base comprises over 1500 large and medium-sized businesses (incl. Bank Pekao SA, Bank PKO BP, Bank Handlowy SA, NBP, BGK, GPW, PGNiG, PSE, EnergiaPro, Netia, Vectra, Telefonía Dialog, and UPC Polska). The telecom's 95% owner is the power producer PGE.

Exatel focuses primarily on data transmissions, most notably VPN services. It operates a state-of-the-art fiber-optic network spanning almost 20,000 kilometers.

If Netia does not succeed in completing any of the major acquisitions, its plan (and the more probable scenario in our view) is to start paying dividends next year. We assume in our forecasts that the annual payout ratios will be 100%. We think it unlikely that the telecom's Management will agree to make large additional distributions from the free cash base because this would reduce the future M&A capacity, and acquisitions can potentially be the key value driver for the company in the future. Based on our earnings forecasts, we determined that, at the current price level, Netia can deliver a higher FCF to 2010 EV ratio in 2011 and 2012. In 2013, after fulfilling the commitments made to the telecom regulator, TPSA will again offer more attractive ratios.

2010 FCF/EV estimates for Netia and TPSA

	2010F	2011F	2012F	2013F	2014F
FCF/EV NETIA	6.1%	9.8%	11.2%	11.0%	10.7%
FCF/EV TPSA	8.4%	8.4%	9.5%	12.7%	13.9%

Source: BRE Bank Securities, 2010 estimates for Netia are adjusted for the disputed tax payments



Valuation

Based on our updated DCF and relative valuation models, we estimated the current per-share price of Netia at PLN 4.9, which implies a nine-month target of PLN 5.3 (upgraded from PLN 4.3). The increase in valuation is a result of upward revisions in financial forecasts, a rollover of the valuation horizon, a decrease in the risk-free rate (from 6.2% to 5.8%), and higher peer valuations.

Valuation Summary

(PLN)	Weight	Valuation	
		new	old
Relative valuation	50%	5.0	4.7
DCF analysis	50%	4.8	3.4
Valuation		4.9	4.0
Target price (9M)		5.3	4.3

Relative Valuation

(PLN)	EV/EBITDA			EV/SALES			P/E		
	2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F
Implied value per share	5.4	5.6	5.2	4.4	4.6	4.8	2.8	1.7	2.5
Year weight	10%	45%	45%	10%	45%	45%	10%	45%	45%
Premium/discount	0%	0%	0%	0%	0%	0%	0%	0%	0%
Multiple weight		80%			10%			10%	
Valuation	5.0	5.4			4.7			2.2	

Peer multiples

	Price	EV/EBITDA			EV/S			P/E		
		2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F
CABLE & WIRELESS PLC	0.7	5.4	3.9	3.6	0.8	0.8	0.8	16.5	9.6	8.6
COLT TELECOM GROUP PLC	1.3	2.6	2.5	2.4	0.5	0.5	0.5	12.4	11.7	10.3
KCOM GROUP PLC	0.5	6.4	6.0	5.7	0.9	1.0	1.0	9.7	8.7	7.8
ILIAD SA	66.1	6.7	5.8	5.4	2.2	2.1	2.0	20.6	14.5	12.9
FORTHNET SA	0.9	6.8	5.4	4.7	1.2	1.2	1.1	-4.5	-7.9	
FASTWEB SPA	11.3	4.0	3.9	3.7	1.2	1.2	1.1	18.8	13.5	9.6
VERSATEL AG	4.8	3.9	4.0	4.0	1.0	1.0	1.0	-5.2	-7.7	
TELE2 AB	132.1	6.7	6.5	6.0	1.6	1.6	1.5	13.7	13.1	12.4
TELEGATE AG	7.3		6.4	6.8	0.9	1.0	1.0	9.2	9.4	9.8
TISCALI SPA										
Median		5.9	5.4	4.7	1.0	1.0	1.0	12.4	9.6	9.8

Peer EBITDA margins, D/Y

	Price	EBITDA margin			D/Y		
		2009	2010F	2011F	2009	2010F	2011F
CABLE & WIRELESS PLC	0.7	14.1%	20.1%	21.3%	1.2%	5.0%	6.8%
COLT TELECOM GROUP PLC	1.3	19.5%	20.4%	21.1%	0.6%	1.0%	1.2%
KCOM GROUP PLC	0.5	13.7%	16.6%	17.2%	3.2%	3.0%	3.4%
ILIAD SA	66.1	33.4%	36.5%	37.4%	0.7%	0.7%	0.8%
FORTHNET SA	0.9	18.1%	21.3%	23.3%			1.6%
FASTWEB SPA	11.3	30.3%	30.1%	30.3%			1.8%
VERSATEL AG	4.8	25.3%	25.1%	24.9%			0.3%
TELE2 AB -A SHS	132.1	23.4%	24.0%	24.9%		4.2%	4.2%
TELEGATE AG	7.3		15.5%	14.6%	9.6%	9.8%	9.6%
TISCALI SPA							
Median		21.5%	21.3%	23.3%	1.2%	3.6%	1.8%



DCF Model

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	TV
Revenues	1 556	1 614	1 685	1 724	1 716	1 721	1 732	1 744	1 760	
<i>change</i>	3.3%	3.7%	4.4%	2.3%	-0.5%	0.3%	0.6%	0.7%	1.0%	
EBITDA	358.8	381.4	398.2	407.9	403.9	403.7	405.2	409.1	413.1	
<i>EBITDA margin</i>	23.1%	23.6%	23.6%	23.7%	23.5%	23.5%	23.4%	23.5%	23.5%	
D&A expenses	288.7	277.3	266.2	256.6	247.8	239.9	232.9	226.6	211.2	
EBIT	70.1	104.1	132.0	151.3	156.0	163.7	172.3	182.5	201.8	
<i>EBIT margin</i>	4.5%	6.4%	7.8%	8.8%	9.1%	9.5%	10.0%	10.5%	11.5%	
EBIT tax	13.3	19.8	25.1	28.7	29.6	31.1	32.7	34.7	38.3	
NOPLAT	56.8	84.3	106.9	122.6	126.4	132.6	139.6	147.9	163.5	
CAPEX	-220	-210	-202	-207	-206	-207	-208	-209	-211	
Working capital	-91	3	7	1	1	1	0	1	2	
Other	0	0	0	0	0	0	0	0	0	
FCF	39.9	159.3	182.7	178.7	174.3	172.1	169.7	171.2	170.5	172.2
WACC	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.6%
<i>discount factor</i>	94.9%	85.6%	77.3%	69.7%	63.0%	56.8%	51.3%	46.3%	41.8%	37.8%
PV FCF	37.9	136.4	141.2	124.7	109.7	97.8	87.0	79.2	71.2	749.1
WACC	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.6%
Cost of debt	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.6%
Risk-free rate	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.6%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	0.0%
Net debt / EV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.6%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
FCF growth after the forecast horizon	1.0%	Sensitivity Analysis								
Terminal value	1 793	FCF growth in perpetuity								
Present value of terminal value	749									
Present value of FCF in the forecast horizon	885									
Equity Value	1 634									
Net debt	-242									
Other non-operating assets	0									
Minority interests	0									
Equity Value	1 876									
Number of shares (millions)	389.3									
Equity value per share (PLN)	4.8									
9M cost of equity	7.2%									
Target Price	5.2									
EV/EBITDA ('10) for the target price	4.9									
P/E ('10) for the target price	26.7									
TV to EV	46%									

**Income Statement**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
Voice	421.8	1 065.5	1 158.4	1 222.3	1 230.5	1 273.6	1 221.2
Direct lines	390.6	392.5	391.1	391.4	391.4	390.4	394.4
WLR/LLU	31.1	673.0	767.4	830.9	839.1	883.1	826.8
Internet	217.5	413.6	559.3	702.4	766.1	845.1	872.0
Direct lines	118.2	186.2	217.4	227.0	246.6	265.5	276.1
BSA/LLU	99.3	227.4	341.9	475.4	519.5	579.7	595.9
(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
Revenues	838.0	1 112.4	1 505.9	1 555.9	1 614.0	1 685.0	1 723.6
<i>change</i>	-2.8%	32.7%	35.4%	3.3%	3.7%	4.4%	2.3%
Direct services (traffic, subscriptions)	369.5	486.8	743.4	742.2	746.4	761.8	758.9
Indirect services	54.2	56.8	65.7	39.4	33.5	33.5	33.5
Data transmissions	242.2	371.6	520.5	592.9	651.2	701.8	740.9
Wholesale services	111.0	71.9	81.6	89.8	94.2	99.0	100.9
Other	61.1	125.3	94.8	91.6	88.7	89.0	89.3
Operating expenses, incl.	941.9	1 212.1	1 491.6	1 485.8	1 509.9	1 553.0	1 572.3
Payroll	165.5	177.5	187.3	183.3	192.7	203.1	213.2
D&A expenses	274.5	270.3	298.6	288.7	277.3	266.2	256.6
Interconnect	159.9	218.5	196.7	194.5	187.1	198.7	194.5
Network maintenance	173.0	281.6	484.0	521.7	544.2	557.9	563.2
Other	168.9	264.1	325.1	297.5	308.6	327.2	344.7
Impairment							
Forgiven license obligations							
EBIT	-103.8	-99.7	14.2	70.1	104.1	132.0	151.3
<i>change</i>	30.4%	96.0%	-14.3%	492.7%	148.4%	126.8%	114.6%
<i>EBIT margin</i>	-12.4%	-9.0%	0.9%	4.5%	6.4%	7.8%	8.8%
Profit/loss on financial activity	2.5	354.2	-13.1	13.4	17.4	22.5	26.4
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share in losses	-165.2	-22.6	0.0	0.0	0.0	0.0	0.0
Pre-tax income	-266.6	231.9	1.1	83.6	121.5	154.5	177.8
Tax	2.3	1.3	-87.6	8.4	12.1	15.4	32.0
Net income	-269.5	230.6	88.7	75.2	109.3	139.0	145.8
<i>change</i>	71.2%	-85.6%	38.4%	84.8%	145.3%	127.2%	104.8%
<i>Margin</i>	-32.2%	20.7%	5.9%	4.8%	6.8%	8.3%	8.5%
D&A expenses	274.5	270.3	298.6	288.7	277.3	266.2	256.6
EBITDA	170.7	170.6	312.8	358.8	381.4	398.2	407.9
<i>change</i>	-22.9%	0.0%	83.3%	14.7%	6.3%	4.4%	2.4%
<i>EBITDA margin</i>	20.4%	15.3%	20.8%	23.1%	23.6%	23.6%	23.7%
Shares at year-end (millions)	389.2	389.2	389.3	389.3	389.3	389.3	389.3
EPS	-0.3	0.7	0.2	0.2	0.3	0.4	0.4
CEPS	0.4	1.3	1.0	0.9	1.0	1.0	1.0
ROAE	-5.7%	13.8%	4.5%	3.6%	5.2%	6.5%	6.7%
ROAA	-4.9%	11.6%	3.8%	3.2%	4.5%	5.7%	5.9%

**Balance Sheet**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
ASSETS	2 070.7	2 283.5	2 340.7	2 404.1	2 430.6	2 476.2	2 489.3
Fixed assets	1 869.6	1 870.6	1 901.7	1 833.0	1 765.5	1 701.5	1 651.7
Property, plant and equipment	1 408.6	1 416.0	1 384.7	1 344.6	1 305.2	1 268.6	1 244.4
Intangible assets	267.9	411.4	388.6	360.0	331.9	304.5	278.8
Other financial assets	5.9	7.0	92.2	92.2	92.2	92.2	92.2
Long-term investments	187.2	36.1	36.3	36.3	36.3	36.3	36.3
Current assets	201.0	412.9	439.0	571.1	665.1	774.7	837.6
Cash	57.7	195.4	242.0	295.3	399.4	499.9	557.8
Prepayments	13.1	35.2	20.2	39.9	24.0	25.0	25.6
Accounts receivable	127.4	177.3	173.6	231.9	238.3	246.2	250.5
Inventories	2.9	5.1	3.1	4.0	3.4	3.6	3.7
(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
LIABILITIES	2 070.7	2 283.5	2 340.7	2 404.1	2 430.6	2 476.2	2 489.3
Equity	1 728.3	1 928.5	2 025.5	2 100.7	2 134.8	2 164.5	2 171.2
Payables	342.4	355.0	315.2	303.4	295.9	311.7	318.1
Debt	94.7	0.0	0.0	0.0	0.0	0.0	0.0
Trade creditors	219.5	296.4	255.8	243.3	235.0	250.2	255.8
Other	28.2	58.6	59.4	60.1	60.8	61.5	62.2
Debt	94.7	0.0	0.0	0.0	0.0	0.0	0.0
Net debt	37.0	-195.4	-242.0	-295.3	-399.4	-499.9	-557.8
(Net debt / Equity)	2.1%	-10.1%	-11.9%	-14.1%	-18.7%	-23.1%	-25.7%
(Net debt / EBITDA)	0.2	-1.1	-0.8	-0.8	-1.0	-1.3	-1.4
BVPS	5.0	5.2	5.4	5.5	5.6	5.6	5.6

Cash Flows

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
Operating cash flows	217.9	169.7	300.4	273.2	389.0	411.9	403.7
Net income	-269.5	230.6	88.7	75.1	109.2	138.9	145.7
D&A expenses	274.5	270.3	298.6	288.7	277.3	266.2	256.6
Working capital	45.7	19.9	-7.8	-90.6	2.5	6.8	1.4
Other	167.1	-351.2	-79.0	0.0	0.0	0.0	0.0
Cash flows from investing activities	-412.7	62.2	-249.9	-220.0	-209.8	-202.2	-206.8
Cash flows from financing activities	88.1	-94.2	-3.9	0.0	-75.1	-109.2	-138.9
Debt	88.1	-94.2	-3.9	0.0	0.0	0.0	0.0
Dividend / buy-back	0.0	0.0	0.0	0.0	-75.1	-109.2	-138.9
Stock issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash	-106.7	137.7	46.6	53.2	104.1	100.5	57.9
Cash at period-end	57.7	195.4	242.0	295.2	399.3	499.8	557.7
DPS (PLN)	0.0	0.0	0.0	0.0	0.2	0.3	0.4
FCF	-34.4	-49.1	59.6	39.9	159.3	182.7	178.7
(CAPEX / Sales)	28.1%	23.2%	15.8%	14.1%	13.0%	12.0%	12.0%

**Multiples**

	2007	2008	2009	2010F	2011F	2012F	2012F
P/E	-6.9	8.1	21.1	24.8	17.1	13.4	12.8
P/CE	378.1	3.3	4.2	4.3	3.8	3.4	3.3
P/BV	1.1	0.9	0.8	0.7	0.7	0.6	0.6
P/S	2.2	1.7	1.2	1.2	1.2	1.1	1.1
FCF/EV	-1.8%	-2.9%	3.7%	2.5%	10.8%	13.3%	13.6%
EV/EBITDA	11.2	9.8	5.2	4.4	3.9	3.4	3.2
EV/S	2.3	1.5	1.1	1.0	0.9	0.8	0.8
DYield	0.0%	0.0%	0.0%	0.0%	4.0%	5.8%	7.4%
Price (PLN)	4.8						
Shares at year-end (millions)	389.2	389.2	389.3	389.3	389.3	389.3	389.3
MC (PLN m)	1868.0	1868.0	1868.8	1868.8	1868.8	1868.8	1868.8
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	1 905.0	1 672.6	1 626.8	1 573.5	1 469.4	1 368.9	1 311.0



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**List of abbreviations and ratios contained in the report:**

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
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

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Rating date	2009-11-06
Price on rating day	4.36
WIG on rating day	38863.29