23 April 2010

Update

BRE Bank Securities

Telecommunications

Poland

TPSA

Accumulate

TPSA.WA; TPS.PW

(Reiterated)

Current price	**PLN 16.35**
Target price	**PLN 17.60**
Market cap	PLN 22.89bn
Free float	PLN 8.45bn
Avg daily trading volume (3M)	PLN 93.21m

Shareholder Structure

France Telecom	48.58%
CR CM	10.46%
State Treasury	4.05%
Others	36.91%

Sector Outlook

We remain neutral on the telecom sector. 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. A strengthening of the zloty will reduce operating expenses.

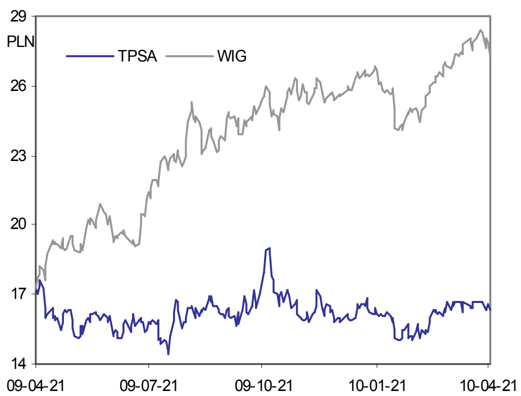
Company Profile

TPSA is a former monopolist who currently controls ca. 75% of the fixed-line voice market (incl. carrier pre-selection), 34% of the mobile market, and 44% of the broadband internet access market (the Company dominates in DSL access).

Important Dates

28.07.2010 - Consolidated H1 2010 report

TPSA vs. WIG



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Ripe For Turnaround

2010 is going to be a tough year for TPSA, with revenues and EBITDA margin on a continuing downtrend, but the company's value is supported by dividends (DY: 9.2%). On the upside, the telecom market is slowly shifting to the incumbent's advantage (an agreement with the regulator enables the company to regain some of its broadband market share, moreover, MTR asymmetry is set for a gradual phase-out). Prices of mobile services in Poland are among the cheapest in Europe. In the second half of the year, TPSA should report earnings growth and an expanded subscriber base in key market segments. In the next three years, in spite of an increased infrastructure CAPEX budget (about PLN 800-900m in additional expenses a year stemming from regulatory commitments), the company is expected to generate annual free cash flows of PLN 2-2.3bn, allowing dividend payments at PLN 1.5 a share. TPSA's current market value factors in negative developments (fast topline and profit erosion, high CAPEX, legal disputes), while ignoring positive prospects (e.g. the possibility that EU subsidies will fund a portion of the capital expenses, the expected award of PLN 300-500m in back universal-service cost claims plus PLN 100m a year in regular future funding, or the ultimate positive effects of CAPEX on future revenues).
We are lowering our price target on TPSA from PLN 19.2 to PLN 17.6 a share, with a reiterated accumulate rating.

Q1 2010 results

On a revenue of PLN 3.87bn (-10.2% y/y), TPSA generated an EBITDA of PLN 1.42bn (-15.3%), an EBIT of PLN 474m (-22.3% y/y), and a profit of PLN 285m (vs. PLN 328m a year ago). The reported figures are in line with our estimates and analysts' expectations. Year-on-year revenue contraction was reported by the fixed-line (voice) business (-15.7%), the mobile business (-9.1%), and the data business (-0.93%), But the first-quarter results also reflect stabilizing market conditions, in particular in mobile telephony (60,000 new lines added in the quarter) and fixed-line voice services (TPSA has stopped market-share shrinkage in DLD and F2M traffic, enjoys steady market share in other markets, and hands over fewer and fewer lines under WLR).

TPSA reengages with core markets

Centertel has launched new, innovative calling plans with a view to regaining market leadership in terms of subscribers and revenues. Moreover, the fixing of BSA charges at constant levels by the regulator has allowed TPSA to reduce the prices of top broadband connection speeds (>6Mb/s), and to offer discounts on slower connections this June. At the same time, any future price competition from alternative operators will cause them to lose margins.

(PLN m)	2008	2009	2010F	2011F	2012F
Revenues	18 164	16 560	15 516	15 211	15 057
EBITDA	7 630	6 246	5 663	5 668	5 820
EBITDA margin	*42.0%*	*37.7%*	*36.5%*	*37.3%*	*38.7%*
EBIT	3 313	2 096	1 814	1 885	2 100
Net profit	2 188	1 280	1 150	1 204	1 382
DPS	2.1	1.5	1.5	1.5	1.5
P/E	10.0	17.1	19.0	18.1	15.8
P/CE	3.4	4.0	4.4	4.4	4.3
P/BV	1.3	1.3	1.4	1.5	1.5
EV/EBITDA	3.7	4.3	4.9	4.9	4.7
DYield	12.6%	9.2%	9.2%	9.2%	9.2%

2010 First-Quarter Results

On a revenue of PLN 3.87bn (-10.2% y/y), TPSA generated an EBITDA of PLN 1.42bn (-15.3% y/y), an EBIT of PLN 474m (-22.3% y/y), and a profit of PLN 285m (vs. PLN 328m a year ago). The reported figures are in line with our estimates (respectively: PLN 3901m, PLN 1443m, PLN 463m, and PLN 279m) and analysts' expectations (respectively: PLN 3882m, PLN 1435m, PLN 451m, and PLN 275m). The first-quarter results indicate that TPSA's markets, most notably mobile telephony and fixed-line voice services, are stabilizing. The broadband market is still constrained by competitive pressures.

Year-on-year revenue contraction was reported by the fixed-line (voice) business (-15.7%), the mobile business (-9.1%), and the data business (-0.93%), compared to our forecasted drops by 17.8%, 8%, and 1.39% respectively. The revenue item that displayed the biggest gap to our estimate were sales of goods (a y/y drop by 8.3%, or PLN 14m). The bottom line was supported by year-on-year reductions in D&A expenses (a PLN 119m decrease) and financial expenses (-PLN 84m). Moreover, TPSA estimates that it reduced its operating expenses by PLN 130m (incl. a PLN 19m cut in payroll, a PLN 13m reduction in the costs of interconnection, third-party services, and network maintenance, and a PLN 18m drop in content costs). Free cash flows amounted to PLN 464m in Q1 2010, marking a decline by just 11.8% from their year-ago levels. Net debt fell to PLN 3.96bn from PLN 4.84bn reported in Q1 2009.

Consolidated Q1 2010 results

(PLN m)	Q1 2010	Q1 2009	y/y change
Fixed Line	**1350**	**1601**	**-15.68%**
Retail lines	1077	1306	-17.53%
Wholesale lines	269	289	-6.92%
Other	4	6	-33.33%
Mobile	**1678**	**1844**	**-9.00%**
Voice	998	1048	-4.77%
Interconnection	312	425	-26.59%
Other	368	371	-0.81%
Data	**639**	**645**	**-0.93%**
Leased lines	73	84	-13.10%
Data transmissions	172	165	4.24%
Dial-up	2	5	-60.00%
Broadband	392	391	0.26%
Radio communications	**52**	**54**	**-3.70%**
Sales of goods and other	**154**	**168**	**-8.33%**
TOTAL REVENUE	**3873**	**4312**	**-10.18%**
(PLN m)	**Q1 2010**	**Q1 2009**	**y/y change**
Payroll expenses	592	611	-3.11%
Inter-operator billing	506	647	-21.79%
Commercial expenses	602	614	-1.95%
Network and IT expenses	231	244	-5.33%
Provisions for claims and litigation	4	0	
Other	518	539	-3.90%
TOTAL COSTS	**2453**	**2655**	**-7.61%**
EBITDA	**1415**	**1670**	**-15.27%**
EBITDA margin	36.53%	38.73%	
D&A expenses	941	1060	-11.23%
EBIT	474	610	-22.30%
Profit/loss on financial activity	-115	-199	42.21%
Tax	-74	-83	10.84%
Net income	**285**	**328**	**-13.11%**

Source: TPSA

TPSA's share in core markets

Fixed-line voice services	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Total local access	82.9%	81.9%	82.2%	80.6%	79.7%
Share in total market value	73.1%	71.8%	71.5%	70.9%	70.5%
Broadband	**Q1 2009**	**Q2 2009**	**Q3 2009**	**Q4 2009**	**Q1 2010**
Share in market volumes	39.2%	39.0%	38.5%	37.4%	36.4%
Share in market value	49.5%	49.5%	48.8%	47.5%	46.1%
Mobile	**Q1 2009**	**Q2 2009**	**Q3 2009**	**Q4 2009**	**Q1 2010**
Penetration rate	115.2%	116.4%	116.7%	117.8%	118.0%
PTK Centertel share in market volumes	31.1%	31.0%	30.8%	30.5%	30.6%
PTK Centertel share in market value	32.1%	30.8%	31.0%	30.8%	31.2%

TPSA's fixed-line business continues to report quarterly line losses over 100,000; customer defections amounted to 148,000 in Q1 2010, a level similar to the one reported in Q1 2009, and much lower than in Q4 2009 (187,000 lines). In the next few quarters, line losses should decrease to ca. 130,000 per quarter. On the upside, the decreasing subscriber base includes fewer and fewer retail lines resold to competition under wholesale line rental arrangements. The total number of WLR lines increased to 1,296,000, of which 50,000 were acquired by Centertel. This means that TPSA handed over 35,000 lines in Q1 2010 vs. 44,000 in Q4 2009 and 65,000 in Q3 2009, and this decreasing trend should continue in future quarters.

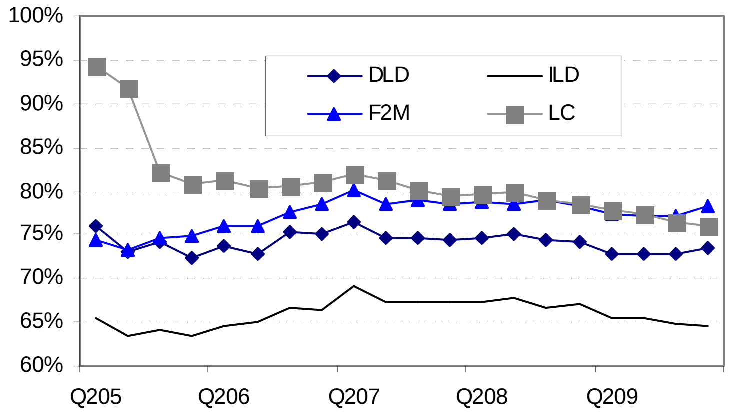
TPSA voice subscribers

(thousands)	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q1'10
Total	**9 323**	**9 169**	**9 035**	**8 898**	**8 747**	**8 605**	**8 452**	**8 288**	**8 137**
q/q change	**-219**	**-154**	**-134**	**-135**	**-150**	**-137**	**-138**	**-187**	**-148**
RETAIL									
POTS	7 557	7 322	7 117	6 913	6 691	6 481	6 274	6 068	5 895
ISDN	1 102	1 078	1 063	1 044	1 030	1 005	981	965	946
WHOLESALE									
WLR	664	769	855	941	1 026	1 119	1 197	1 255	1 296
q/q change	72	105	86	86	85	92	78	58	41
of which Centertel					***3***	***17***	***30***	***44***	***50***
share in WLR					***0.3%***	***1.7%***	***3.1%***	***4.6%***	***5.3%***
of which Netia	*64*	*102*	*642*	*673*	*711*	*731*	*740*	*743*	
share in WLR	*9.7%*	*13.3%*	*75.1%*	*71.5%*	*69.2%*	*65.3%*	*61.8%*	*59.2%*	
of which Dialog				*162*	*184*	*210*		*250*	
share in WLR				*17.2%*	*18.0%*	*18.8%*		*19.9%*	

Source: TPSA, Netia, Dialog

As a result, TPSA's shrinking market share in outgoing DLD and F2M traffic is going to decelerate. Shares in other market segments are stabilizing, except for local traffic where market share decreased by 1.2 ppts.

TPSA's market share in outgoing fixed-line traffic (retail, business lines)



Source: TPSA

Intense competitive pressure in the broadband market is causing TPSA to lose subscribers quarter after quarter. In Q1 2010, the pressure stemmed from the methodology of calculation of wholesale rates paid by alternative operators (TPSA's retail rate minus 50%), which prevents effective competition. On the upside, this is going to change gradually in coming quarters. At the end of March, TPSA (through the 'Neostrada' ADSL lines and Centertel's CDMA lines) served a total of 2,128,000 users, marking a drop by 16,000 lines versus December 2009. During that time, Centertel added 16,000 new CDMA customers, plus 5000 lines acquired under BSA, while Neostrada lost 32,000 subscribers, making for a net effect of 9000 lines lost during the period (compared to 5000 in Q409). Note that the number of lines unbundled for competition decreased considerably in the first quarter (to 11,000 from 28,000 in Q409).

TPSA broadband subscribers

(thousands)	Q108	Q208	Q308	Q408	1Q09	Q209	Q309	Q409	Q1'10
Total	**2 271**	**2 328**	**2 385**	**2 445**	**2 520**	**2 563**	**2 587**	**2 600**	**2 618**
ADSL/CDMA	2 079	2 084	2 089	2 097	2 132	2 151	2 156	2 144	2 128
change	*57*	*5*	*5*	*8*	*35*	*19*	*5*	*-12*	*-16*
BSA	**192**	**244**	**296**	**348**	**388**	**412**	**431**	**456**	**490**
change	*60*	*52*	*52*	*52*	*40*	*24*	*19*	*25*	*34*
of which Centertel	**23**	**40**	**70**	**96**	**111**	**117**	**123**	**129**	**134**
share in BSA	**12.0%**	**16.4%**	**23.6%**	**27.6%**	**28.6%**	**28.4%**	**28.5%**	**28.3%**	**27.3%**
of which Netia	128	151	202	227	248	260	272	294	
share in BSA	66.9%	61.7%	68.1%	65.4%	64.0%	63.0%	63.2%	64.4%	
of which Dialog				9	10	10			
share in BSA				2.5%	2.4%	2.4%			
of which others				16	19	26			
share in BSA				16.6%	17.2%	21.9%			
LLU				**2**	**4**	**8**	**24**	**52**	**62**
change				2	2	4	16	28	11
of which Netia				1	4	7	21	48	
share in LLU				88.4%	99.1%	92.7%	89.8%	93.3%	

Source: TPSA

Another positive development observed in the first quarter was an increase in the number of customers using TPSA's value-added solutions, most notably the broadband & TV bundles, with positive effects on ARPU which has remained steady for the past few quarters (PLN 58/m). TPSA is aiming to have 1 million TV users by 2012.

The first effects of the agreement UKE have materialized in April. TPSA has launched a new broadband offer for top speeds, reducing monthly fees by 43% for 20 Mb/s connections (to PLN 82.7), 39% for 10 Mb/s connections (to PLN 75.2), and 27% for 6Mb/s connections (to PLN 67.7). Customers who sign agreements for 2 or 3 years can use their fast lines for PLN 1 a month for 6 to 9 months (this is included in the new prices). The price cuts were possible thanks to a freeze of BSA rates which means that any price reductions by competition will be at the expense of their margins. Next, we expect TPSA to offer cheaper prices on the slower, more popular speeds – a move that will deal the hardest blow to rival Netia. This will be possible after UKE approves the price cuts, probably in June (which means that higher sales will be reflected in Q3 2010 results).

The mechanism that altnets apply to establish the prices of their broadband services based on TPSA's prices is shown in the table below. Every price cut by the incumbent results in a reduction in the cost of wholesale line usage by alternative operators, allowing them to cut prices as well while maintaining the same margin levels. Now that the BSA rates are frozen, any price moves aimed at keeping a constant gap to TPSA prices will cause margin contraction for the altnets.

Impact of BSA rate freeze on altnet prices and margins

Before BSA freeze	TPSA retail price	Alternative Operator retail price	difference to TPSA	BSA cost	margin
Reference	100	80	-20%	50	38%
Reduced	80	64	-20%	40	38%
After BSA freeze	**TPSA retail price**	**Alternative Operator retail price**	**difference to TPSA**	**BSA cost**	**margin**
Reference	100	80	-20%	50	38%
Reduced	80	64	-20%	50	22%

Source: BRE Bank Securities

TPSA value-added customers

(thousands)	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q1'10
IPTV	49	54	57	69	86	95	107	109	111
SAT TV				44	112	144	176	263	306
VoIP	164	176	174	168	162	156	150	140	123
Livebox	405	441	473	510	582	614	645	702	727

Source: TPSA

After two quarters of losses (-54,000 lines), the mobile customer base saw an increase by 60,000 in Q1 2010, fueled mainly by post-paid users. Last week, Centertel launched new, innovative calling plans that focus on customer needs rather than budgets, and that are aimed at re-engaging TPSA with its core markets and regaining leadership in subscribers and revenues.

TPSA mobile subscribers

(thousands)	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q1'10
Total	**14 006**	**13 900**	**14 054**	**14 182**	**13 680**	**13 768**	**13 736**	**13 714**	**13 774**
change	*-153*	*-106*	*154*	*128*	*-502*	*88*	*-32*	*-22*	*60*
Pre-paid	8 332	8 086	8 091	8 015	7 370	7 318	7 228	7 090	7 062
change	*-271*	*-246*	*5*	*-76*	*-645*	*-52*	*-90*	*-138*	*-28*
share	59%	58%	58%	57%	54%	53%	53%	52%	51%
Post-paid	5 674	5 814	5 963	6 167	6 310	6 450	6 508	6 624	6 712
change	118	140	149	204	143	140	58	116	88

Source: TPSA

Mobile termination rates were slashed by over 50% in H1 2010, squeezing Centertel's ARPU which is still on a strong downward year-on-year momentum, expected to continue throughout the next three quarters. On a quarter-on-quarter basis, ARPU will show steady-to-upward dynamics supported by increasing traffic (of voice and data).

Mobile ARPU, traffic per user (Centertel)

	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q1'10
ARPU	**47.8**	**48.8**	**50.6**	**50.0**	**44.8**	**44.9**	**43.8**	**42.7**	**41.2**
change	*1%*	*-1%*	*-2%*	*2%*	*-6%*	*-8%*	*-13%*	*-15%*	*-8%*
Pre-paid	21.0	22.0	22.6	23.3	20.2	20.5	20.9	19.9	19.2
change	*0%*	*1%*	*-4%*	*6%*	*-4%*	*-7%*	*-8%*	*-15%*	*-5%*
Post-paid	88.2	87.0	88.5	85.1	75.1	72.9	69.4	67.6	64.5
change	*-2%*	*-5%*	*-5%*	*-5%*	*-15%*	*-16%*	*-22%*	*-21%*	*-14%*
ARPU (Voice)	**37.5**	**38.9**	**38.6**	**37.3**	**34.2**	**33.8**	**32.6**	**31.4**	**30.3**
change	*1%*	*0%*	*-6%*	*-3%*	*-9%*	*-13%*	*-16%*	*-16%*	*-11%*
ARPU (Data)	**10.3**	**9.8**	**12.0**	**12.7**	**10.6**	**11.1**	**11.2**	**11.3**	**11.0**
change	*-2%*	*-6%*	*15%*	*21%*	*3%*	*13%*	*-7%*	*-11%*	*4%*
	Q108	**Q208**	**Q308**	**Q408**	**Q109**	**Q209**	**Q309**	**Q409**	**Q1'10**
Minutes of Use	**102**	**112**	**113**	**123**	**126**	**135**	**139**	**142**	**147**
change	*6%*	*7%*	*9%*	*23%*	*24%*	*21%*	*23%*	*15%*	*17%*
Pre-paid	39	43	45	58	60	66	71	71	78
change	*9%*	*-3%*	*1%*	*51%*	*53%*	*52%*	*59%*	*22%*	*29%*
Post-paid	195	209	205	209	207	215	215	220	219
change	*3%*	*6%*	*6%*	*8%*	*6%*	*3%*	*5%*	*6%*	*6%*

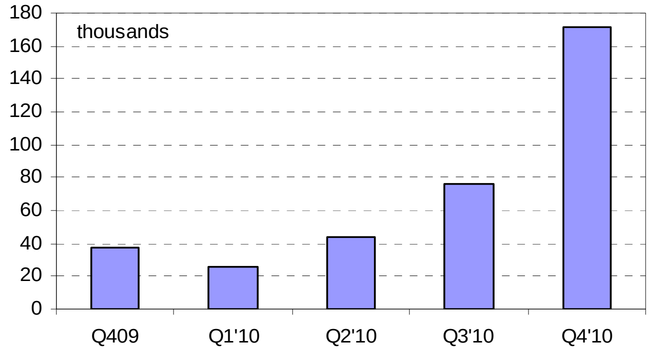
Source: TPSA

Capital Investment, FCF, and Dividends

TPSA spent a total of PLN 2.185 billion (13% of revenues) on fixed assets in 2009, including PLN 1.397bn on fixed-line (a PLN 174m decrease vs. Q109) and PLN 788m on mobile assets (PLN -220m y/y). The company plans to increase its CAPEX substantially in the next three years, to 17-19% of sales (16-18% in 2010). In Q1 2010, capital expenses amounted to a modest PLN 201m compared to PLN 512m in the same period a year ago, due to stoppage of infrastructure-building works forced by unfavorable weather. CAPEX will increase in future quarters, making for a an estimated full-year total of PLN 2.87bn.

Fixed-line infrastructure is going to be the main area of investment for TPSA in future. In Q4 2009, the company started to fulfill the commitment made to the telecom regulator (UKE) (in exchange for a decision not to split the operator’s business into wholesale and retail lines) to install and/or modernize 1.2 million lines within a 36-month period for an estimated PLN 3 billion. According to the arrangement, TPSA is to lay 479,000 new phone lines, most of them (235,000) in new residential neighborhoods and for use by the services sector, and install 150,000 lines in the so-called “white areas” that do not have any fixed-line infrastructure. The work is on hold at the moment as TPSA waits for a decision on an EU subsidy request made under the “Innovative Economy” operational program which has a EUR 300m (PLN 1.1bn) budget.

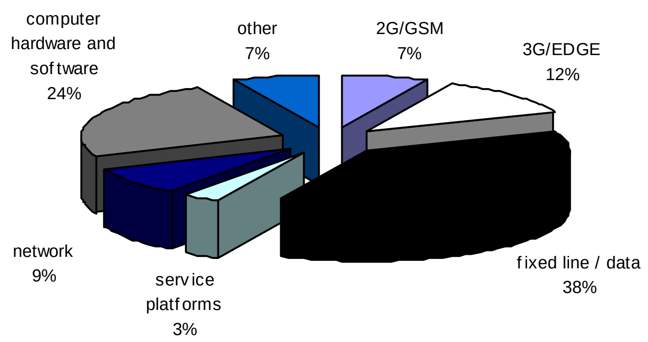
New line additions as per UKE agreement



Source: TPSA

In addition to laying new fiber, the company also undertook to modernize its existing infrastructure (721,000 lines) by providing 340,000 access cards and putting in place new access nodes for 323,000 lines in locations where customer activity is the highest. Further, the operator has to connect 40,000 lines for customers who have signed deferred-service agreements. Financially speaking, these projects will probably generate very low ROIC, but we think that investors today focus more on expenses than on revenues.

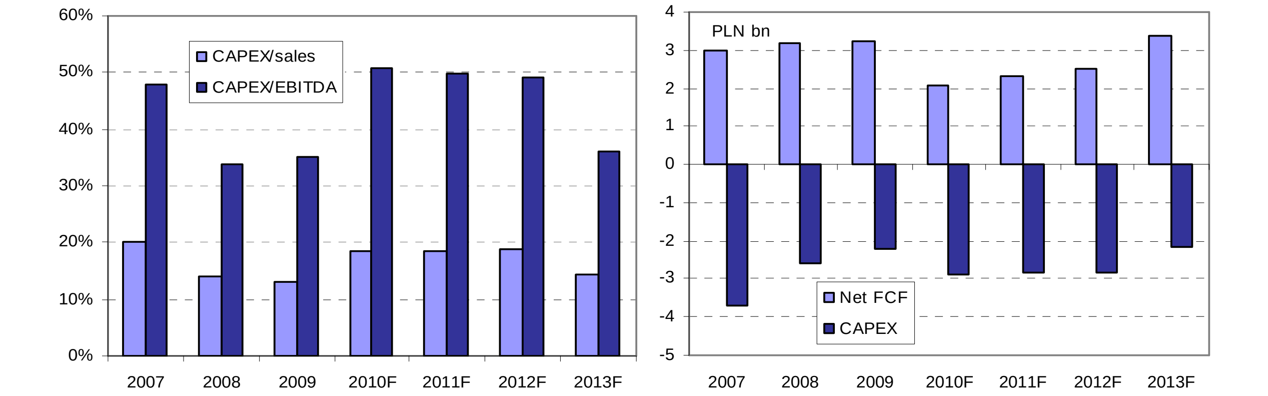
2009 CAPEX breakdown



Source: TPSA

Investment in the mobile business concentrates mainly on development of the access infrastructure, that is on CDMA technology, as well as on expanding reach through UMTS/HSPA networks (CDMA and UMTS/HSPA network coverage rates are 76.1% and 55% respectively).

CAPEX as percentage of EBIDTA, Net FCF



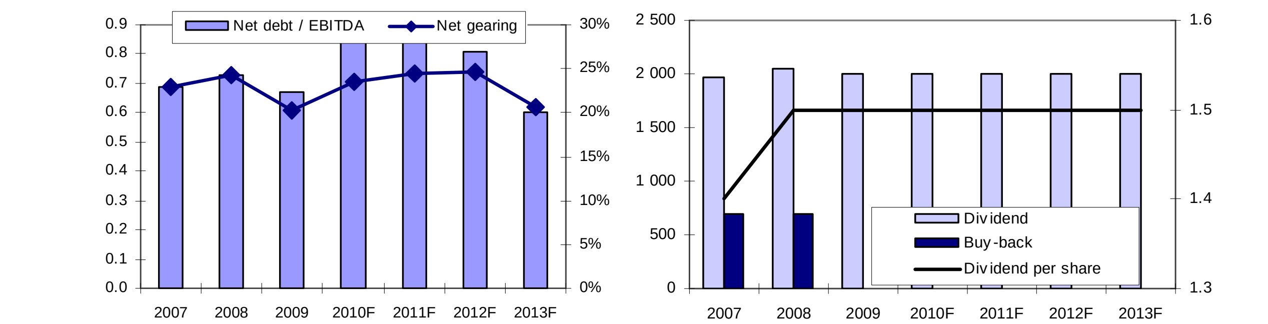
Source: BRE Bank Securities, TPSA

At 31 December 2009, TPSA's bank and bond debt stood at PLN 6.4bn (1.0xEBITDA), which was PLN 767m less than in the year before. After adjustment for hedges, 100% of the debt was owed in zlotys (the company also hedges 87% of UMTS license payables). On the opposite side of the balance sheet, the company recognized net cash of PLN 2.2bn, suggesting net debt in the amount of PLN 4.2bn (0.7xEBITDA). AT 31 March 2010, net debt was down to PLN 3.96bn from PLN 4.84bn a year ago.

The composition of TPSA's liabilities changed over the past year, with the share of bonds increased to 68% from 18% at year-end 2008, resulting in an average maturity extension from 2.2 to 3.3 years. The bonds are rated A3/BBB+ / outlook stable.

In spite of increased capital expenses and a lower EBITDA, we expect TPSA to pay the annual PLN 1.5 per-share dividends promised in the 2010-12 strategy plan. During the years of heightened CAPEX, the company's FCF should not decrease below PLN 2bn – TPSA has so far always delivered on its promises in this respect. Estimated based on our 2010 profit forecasts, this suggests an increase in net debt to 0.86xEBITDA, a level which can be considered very safe. To pay shareholders PLN 1.5 a share (i.e. PLN 2bn in total), an equivalent of the annual FCF forecasted for the next three years, TPSA will reduce its equity by ca. PLN 3.5 billion.

Debt ratios, dividend projections



Source: BRE Bank Securities

TPSA fights for Universal Service Subsidy

The less known aspect of TPSA's troubled relationship with the regulator is the issue of universal-service funding. The Universal Service Provider status given by the UKE in 2006 is an onerous duty for TPSA, which entails additional expenses, but which is also eligible for subsidies as per Polish and EU laws. The funding comes from proportional contributions made by all telecoms generating over PLN 4m in annual revenues, including TPSA and Centertel.

TPSA has applied for this funding in 2007, 2008, and 2009, and these claims added up to PLN 316m after deduction of the company's own contributions. This June, the operator is expected to claim a further PLN 120m-plus to cover the universal-service costs incurred in 2009. Unfortunately, the UKE shoWs great determination not to settle these claims, passing the matter from court to court since 2007. It has lost all the appeals so far, and the latest ruling obliges it to hire an auditor to check TPSA's cost calculations.

The UKE is obviously trying to play the same game that TPSA was known to play in the past, stalling decisions in favor of the operator for as long as possible. In our opinion, TPSA is entitled to universal-service funding, and the only question is in what amount. If the dispute is resolved in the incumbent's favor, it will have a positive influence on its share value (adding about PLN 0.75 to each share), stemming from a one-time cash boost from back-funding, and from the future subsidies that the company will receive on a regular basis.

A Customer's View Of the Telecom Market

A BPS DGA survey of retail and commercial users of telecommunications services, commissioned by the UKE, has confirmed long-running trends in some points, and produced surprising results on other points.

- **Mobile telephony continues to push out fixed-line services, and TPSA continues to lose market share to altnets, including cable TV providers.**
- **Intense competition has led to cuts in subscription fees and call prices.**
- **VoIP penetration is still low in Poland (no more than 5% in fixed-line networks).**
- **A combination of MTR cuts and strong competition have brought prices of Polish mobile services down to levels that are among the lowest in Europe.**
- **There is a decreasing trend in users looking to change carriers.**
- **TPSA receives better satisfaction scores from business customers than Netia.**

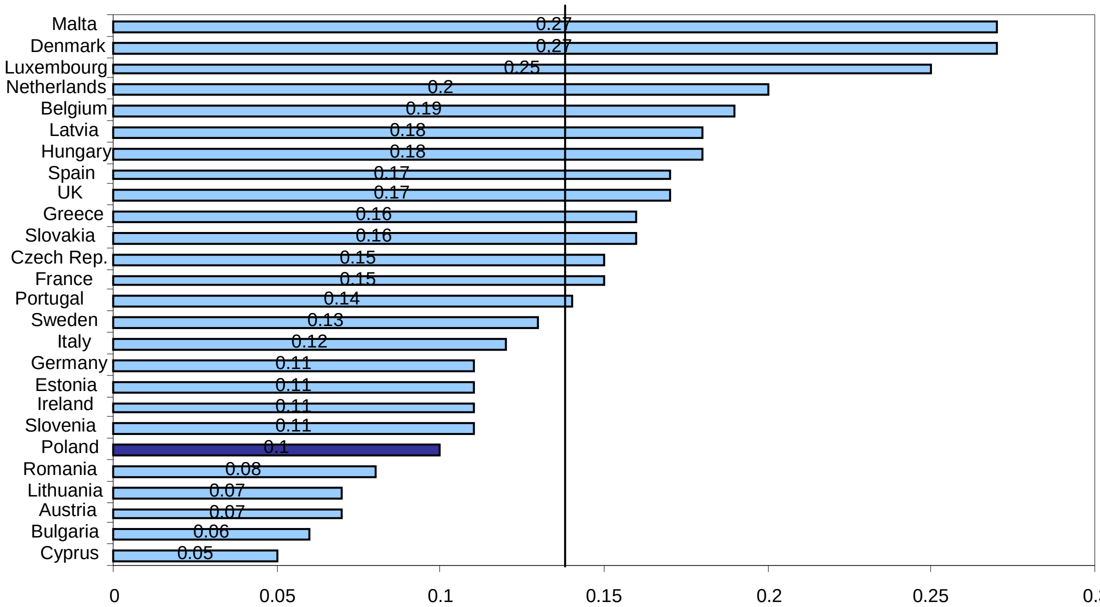
Retail Customers

In spite of a continuing push into mobile services, 51.4% of Poles still have a fixed-line phone at home. However, mobile penetration is progressing at a fast pace – the number of people using both fixed-line and mobile phones decreased from 43.3% in 2008 to 40.9% in 2009, and the number of people using only mobile phones increased from 39% to 44%. 85% of Poles declare that they own a mobile.

The falling fixed-line usage is not hampered by decreasing costs – the average monthly phone bill in 2009 was PLN 70 PLN, which was 13.5% less than a year earlier and 17.6% less than in 2007. The lower costs are partly a result of a decrease in fixed-line-rental fees by 9% after the UKE enabled other operators to compete with TPSA through WLR. The cost-reducing effects of VoIP telephony have been marginal, as it is used by only 4.1% of Polish fixed-line subscribers.

Mobile calls in Poland are among the cheapest in the EU. In 2009, the average cost per minute was 0.1 euros, compared with a EU average of 0.14 euros.

Mobile price per minute (euros)



Source: European Commission Progress Report

Number porting is still not very popular in Poland, either among fixed-line, or mobile users. In fact, the number of users declaring an interest in switching carriers has decreased to 19.3% from 23.2% in 2007, probably because the process is still long and bothersome. According to the European Commission, the wait is 38 days in Poland, compared 8.5 days on average in the EU. In 2009, the UKE issued new regulations that require telecoms to shorten the waiting times to 1 day for mobile-number porting and 7 business days for fixed-line numbers.

Broadband is the fastest-growing segment of the telecommunications market, with 58% of Poles declaring that they have access to the Internet in 2009, representing an increase from 44.5% in 2008. 5.5% of respondents use mobile Internet (an increase from 1.9% in 2008). Most (60%) of Internet users connect to the Internet at speeds exceeding 1 Mb/s, compared to 34.8% in 2008 (when 52% of Web users had 256kb/s-1Mb/s connections). Telecoms often offer faster connections to retain customers, thus accommodating the growing volumes of data being sent over the Web.

Corporate Customers

Understandably, the proportion of businesses using both fixed-line and mobile phones is much higher (66%) than for individuals. As many as 76.2% of these businesses are customers of TPSA (compared to 67.9% of retail users), whose only real rival in the market for corporate telecommunications services is Netia (a 16.4% market share). The average monthly phone bill of a business customer is PLN 260 (individuals pay PLN 70). What may come as a surprise for many, as many as 70% of those surveyed gave TPSA either good or very good ratings, compared to 60% in case of Netia.

The leading providers of mobile services to businesses are Era (39.5%) and Orange (38.9%). Plus is ranked third, with a 27.7% market share, but it caters to bigger corporations. The market division shows that some business customers use the services of at least two carriers. 90% of them pay for these services on a subscription basis, with pre-paid customers in the minority. To date, 27.6% of corporate customers have ported their mobile numbers to another carrier, and 17% have switched fixed-line carriers.

92.9% of companies that use computers (of which 57.2% use PCs and 40.1% use laptops) provide their employees with Internet access, mostly broadband (80.3%), with the share of mobile Internet connections up at 11.8%. Only 5-6% of Polish companies use fixed-line VoIP, and just 1.7% use mobile VoIP.

MTR

Pressured by the European Commission, the UKE has relaxed its firm stance with respect to maintaining MTR asymmetry, and shortened the period during which operators that have been in business for at least four years can take advantage of asymmetrical pricing. The two main beneficiaries of this policy are P4 and Cyfrowy Polsat. The price of call termination on the networks of PTC, Polkomtel, and Centertel, is currently PLN 0.17 per minute, and it will remain at this level at least until January 2011. P4 charges PLN 0.38/min, but it is expected to reduce this rate in July; we predict a 10% cut, which will still leave a considerable gap to others.

MTR forecasts for major mobile operators

	PTC, Polkomtel, Centertel	pct. chng	P4	pct. chng	Asymmetry PLN	Asymmetry %
2008	0.34		0.65		0.31	91%
January 2009	0.26	-23%	0.65	0%	0.39	149%
July 2009	0.17	-36%	0.40	-38%	0.24	141%
January 2010	0.17	0%	0.38	-6%	0.21	126%
July 2010*	0.17	0%	0.34	-10%	0.17	103%
January 2011*	0.15	-10%	0.29	-15%	0.14	93%
July 2011*	0.14	-10%	0.23	-20%	0.10	71%
January 2012*	0.12	-10%	0.19	-20%	0.06	52%
July 2012*	0.12	-5%	0.15	-20%	0.03	28%
January 2013*	0.11	-5%	0.11	-26%	0.00	0%

*Source: UKE, * - forecasts by BRE Bank Securities*

The UKE has promised to remove the MTR asymmetry enjoyed by P4 by January 2013. By then, the rates charged by the three leading players should decrease to EUR 0.03, or PLN 0.11, per minute. Based on these targets, we established the possible timeline for MTR reductions shown above. We assume that the UKE will continue to favor P4 over the next few quarters, and the rate cuts will get deeper as 2013 gets closer.

P4, which entered the market in 2007, is the main competition to all Polish incumbents, including Centertel, Polkomtel, and PTC. At December 2009, the altnet had about 3.4 million subscribers, representing a market share of 7.7%. Moreover, through aggressive pricing and marketing, P4's mobile service Play was last year's fastest-growing player, capturing a staggering 54% of all ported numbers. There are two main factors that give Play an advantage over the majors: MTR asymmetry and a fast-expanding infrastructure.

According to TPSA's data, at the end of 2009, Play operated 2.3 thousand GSM900 base stations and 3.5 thousand UMTS base stations, providing coverage rates of 85% and 61% respectively. If we add to this the roaming agreement with Polkomtel, we can say that Play reaches 99% of the Polish population.

Valuation

Based on our updated DCF and relative valuation models, we estimated the current per-share price of TPSA at 16.2, and a nine-month target at PLN 17.6 (revised from PLN 19.2). The new price target is lower than the previous one due to increased telecom valuations, paired with downward revisions in the forecasts for TPSA. The DCF valuation was also affected by a rollover of the forecast horizon, and the inclusion of a EUR 100m claim by DPTG in the financial estimates.

Valuation Summary

(PLN)	Weight	Valuation	
		new	old
Relative Valuation	50%	14.7	18.4
DCF Analysis	50%	17.7	16.8
Valuation		16.2	17.6
9M Target Price		**17.6**	**19.2**

Relative Valuation

		EV/EBITDA			EV/SALES			P/E		
(PLN)		2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F
Implied value per share		20	19	19	21	20	19	11	9	9
Year weight		10%	45%	45%	10%	45%	45%	10%	45%	45%
Premium/discount		0%	0%	0%	0%	0%	0%	0%	0%	0%
Multiple weight			45%			10%			45%	
Valuation	**14.7**		18.9			19.5			9.5	

		EV/EBITDA			EV/S			P/E			EBITDA margin			D/Y		
	Price	2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F
Belgacom	27.1	5.7	5.4	5.7	1.8	1.7	1.7	10.6	10.5	11.1	0.3	0.3	0.3	7.7%	7.8%	7.9%
Cesky Telecom	433.0	5.1	5.3	5.3	2.3	2.3	2.3	12.5	12.1	11.6	0.4	0.4	0.4	10.6%	9.6%	9.6%
Hellenic Telecom	12.4	4.3	4.5	4.5	1.6	1.6	1.6	8.4	8.4	7.6	0.4	0.4	0.4	8.2%	8.0%	8.4%
Matav	815.0	4.7	4.9	5.0	1.9	1.9	1.9	10.3	10.7	10.8	0.4	0.4	0.4	9.4%	9.4%	9.6%
Portugal Telecom	7.8	5.9	5.6	5.5	2.1	2.0	1.9	13.9	13.6	12.2	0.4	0.4	0.4	6.7%	6.8%	6.9%
Telecom Austria	11.9	4.5	4.9	5.0	1.7	1.7	1.7	12.9	14.5	12.8	0.4	0.4	0.4	7.3%	7.3%	7.3%
BT	1.3	4.4	3.9	3.8	1.0	1.0	1.0	9.5	9.2	8.5	0.2	0.3	0.3	6.1%	5.2%	5.6%
DT	9.5	4.4	4.5	4.5	1.4	1.4	1.4	15.0	14.0	13.4	0.3	0.3	0.3	7.8%	7.6%	7.6%
FT	17.7	4.9	4.9	4.9	1.6	1.7	1.7	10.1	9.5	9.2	0.3	0.3	0.3	8.2%	8.2%	8.3%
KPN	12.4	5.7	5.5	5.5	2.2	2.2	2.2	12.5	10.4	9.6	0.4	0.4	0.4	6.1%	7.0%	7.5%
Swisscom	374.0	6.5	6.6	6.6	2.6	2.6	2.6	10.5	10.8	10.8	0.4	0.4	0.4	5.7%	5.9%	6.1%
TELEFONICA	18.9	5.5	5.6	5.5	2.2	2.2	2.1	10.1	9.6	9.1	0.4	0.4	0.4	6.7%	8.1%	9.0%
TeliaSonera	47.7	7.8	7.5	7.3	2.5	2.5	2.5	11.5	10.8	10.3	0.3	0.3	0.3	4.2%	5.0%	6.0%
TI	1.1	5.1	5.1	5.1	2.1	2.1	2.1	10.9	10.2	9.6	0.4	0.4	0.4	4.7%	4.9%	5.1%
Median		**5.1**	**5.2**	**5.2**	**2.0**	**2.0**	**1.9**	**10.7**	**10.6**	**10.5**	**36%**	**35%**	**35%**	**7.0%**	**7.4%**	**7.6%**

DCF Valuation Model

(PLN m)	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	TV
Sales revenue	**16 560**	**15 516**	**15 211**	**15 057**	**15 201**	**15 406**	**15 498**	**15 539**	**15 635**	**15 774**
change	*-8.8%*	*-6.3%*	*-2.0%*	*-1.0%*	*1.0%*	*1.4%*	*0.6%*	*0.3%*	*0.6%*	*0.9%*
EBITDA	**6 246.0**	**5 662.8**	**5 668.3**	**5 820.3**	**6 012.7**	**6 185.4**	**6 221.7**	**6 207.5**	**6 194.6**	**6 201.1**
EBITDA margin	*37.7%*	*36.5%*	*37.3%*	*38.7%*	*39.6%*	*40.1%*	*40.1%*	*39.9%*	*39.6%*	*39.3%*
D&A expenses	4 150.0	3 849.0	3 783.5	3 719.8	3 662.3	3 563.2	3 459.2	3 362.9	3 273.4	3 190.7
EBIT	**2 096.0**	**1 813.8**	**1 884.8**	**2 100.5**	**2 350.4**	**2 622.1**	**2 762.5**	**2 844.6**	**2 921.2**	**3 010.5**
EBIT margin	*12.7%*	*11.7%*	*12.4%*	*14.0%*	*15.5%*	*17.0%*	*17.8%*	*18.3%*	*18.7%*	*19.1%*
Tax rate on EBIT	398.2	344.6	358.1	399.1	446.6	498.2	524.9	540.5	555.0	572.0
NOPLAT	**1 697.8**	**1 469.1**	**1 526.7**	**1 701.4**	**1 903.9**	**2 123.9**	**2 237.6**	**2 304.1**	**2 366.2**	**2 438.5**
CAPEX	-2 185	-2 867	-2 827	-2 857	-2 176	-2 003	-2 015	-2 020	-2 033	-2 051
Working capital	-423.0	-374.7	-143.4	-72.9	-3.3	39.5	83.6	103.9	149.4	31.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	**3 239.8**	**2 076.3**	**2 339.3**	**2 490.9**	**3 386.8**	**3 723.8**	**3 765.7**	**3 750.8**	**3 756.4**	**3 609.9**
WACC	*11.5%*	*10.3%*	*10.3%*	*10.3%*	*10.6%*	*11.0%*	*11.4%*	*11.5%*	*11.5%*	*11.6%*
discount factor	*100.0%*	*90.7%*	*82.2%*	*74.6%*	*67.4%*	*60.8%*	*54.6%*	*48.9%*	*43.9%*	*31.6%*
PV FCF	0.0	1 883.0	1 924.0	1 857.3	2 283.7	2 262.8	2 054.5	1 834.7	1 647.3	

WACC	***11.5%***	***10.3%***	***10.3%***	***10.3%***	***10.6%***	***11.0%***	***11.4%***	***11.5%***	***11.5%***	***11.6%***
Cost of debt	*6.5%*	*6.5%*	*6.5%*	*6.5%*	*6.5%*	*6.5%*	*6.5%*	*6.5%*	*6.5%*	*6.6%*
Risk-free rate	*5.5%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*	*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%*	*19.0%*
Net debt / EV	*0.0%*	*20.4%*	*20.4%*	*19.8%*	*15.3%*	*9.2%*	*2.7%*	*0.0%*	*0.0%*	*0.0%*
Cost of Equity	*11.5%*	*11.5%*	*11.5%*	*11.5%*	*11.5%*	*11.5%*	*11.5%*	*11.5%*	*11.5%*	*11.6%*
Risk premium	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Beta	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2

FCF growth after the forecast horizon	*0.0%*
Terminal value	31 120
Present value of the terminal value (PV TV)	9 829
Present value of FCF in the forecast horizon	18 439
Enterprise value (EV)	28 269
Net debt (incl. the DPTG claim)	4 190
Other non-operating assets	-385
Minority interests	14
Equity value	23 680
Number of shares (millions)	1 368.8
Equity value per share (PLN)	**17.7**
Cost of equity (9M)	*8.7%*
Target Price	**19.3**
EV/EBITDA('10) for the target price (adj.)	5.4
P/E('10) for the target price (adj.)	22.4
TV to EV	35%

Sensitivity Analysis

	-3.0%	**-2.0%**	**0.0%**	**2.0%**	**3.0%**
WACC +1.0ppt	16.0	16.3	17.3	18.5	19.3
WACC +0.5ppt	16.8	17.2	18.2	19.7	20.6
WACC	17.6	18.1	**19.3**	20.9	22,1
WACC -0.5ppt	18.5	19.1	20.4	22.3	23.7
WACC -01.0ppt	19.5	20.1	21.7	23.9	25.5

Income Statement

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
Sales revenue	**18 244.0**	**18 164.0**	**16 560.0**	**15 516.0**	**15 211.5**	**15 057.1**	**15 200.9**
change	*-2.0%*	*-0.4%*	*-8.8%*	*-6.3%*	*-2.0%*	*-1.0%*	*1.0%*
Fixed-line business	7 616.0	6 783.0	5 907.0	5 492.6	5 144.6	4 958.2	4 910.7
Inter-operator billing	783.0	966.0	1 081.0	1 178.9	1 247.4	1 297.9	1 316.9
Mobile business	7 462.0	8 023.0	7 188.0	6 547.0	6 460.1	6 355.4	6 403.2
Data	2 255.0	2 479.0	2 590.0	2 599.9	2 726.9	2 859.5	2 997.9
Other	911.0	878.0	874.0	876.6	879.9	884.1	889.0
Operating expenses	**14 996.0**	**14 962.0**	**14 464.0**	**13 702.2**	**13 326.7**	**12 956.6**	**12 850.4**
Salaries	2 399.0	2 305.0	2 376.0	2 293.3	2 184.9	2 068.0	1 989.1
D&A expenses	4 439.0	4 317.0	4 150.0	3 849.0	3 783.5	3 719.8	3 662.3
Inter-operator billing	2 518.0	2 624.0	2 179.0	2 032.6	1 977.5	1 882.1	1 900.1
External services	3 551.0	3 746.0	3 795.0	3 604.7	3 507.3	3 444.9	3 468.2
Other	6 528.0	6 287.0	6 114.0	5 771.7	5 657.0	5 561.6	5 493.0
EBIT	**3 248.0**	**3 313.0**	**2 096.0**	**1 813.8**	**1 884.8**	**2 100.5**	**2 350.4**
change	*-3.5%*	*2.0%*	*-36.7%*	*-13.5%*	*3.9%*	*11.4%*	*11.9%*
EBIT margin	*17.8%*	*18.2%*	*12.7%*	*11.7%*	*12.4%*	*14.0%*	*15.5%*
Profit/loss on financial activity	-418.0	-718.0	-499.0	-391.6	-395.8	-392.4	-352.1
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
Pre-tax income	**2 830.0**	**2 595.0**	**1 597.0**	**1 422.2**	**1 489.0**	**1 708.1**	**1 998.4**
Tax	555.0	405.0	315.0	270.2	282.9	324.5	379.7
Minority interests	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Net income	**2 273.0**	**2 188.0**	**1 280.0**	**1 150.0**	**1 204.1**	**1 381.6**	**1 616.7**
change	*8.5%*	*-3.7%*	*-41.5%*	*-10.2%*	*4.7%*	*14.7%*	*17.0%*
margin	*12.5%*	*12.0%*	*7.7%*	*7.4%*	*7.9%*	*9.2%*	*10.6%*
D&A expenses	4 439.0	4 317.0	4 150.0	3 849.0	3 783.5	3 719.8	3 662.3
EBITDA	**7 687.0**	**7 630.0**	**6 246.0**	**5 662.8**	**5 668.3**	**5 820.3**	**6 012.7**
change	*-2.2%*	*-0.7%*	*-18.1%*	*-9.3%*	*0.1%*	*2.7%*	*3.3%*
EBITDA margin	*42.1%*	*42.0%*	*37.7%*	*36.5%*	*37.3%*	*38.7%*	*39.6%*
Shares at year-end (millions)	1 368.8	1 335.6	1 335.6	1 335.6	1 335.6	1 335.6	1 335.6
EPS	1.6	1.6	1.0	0.9	0.9	1.0	1.2
CEPS	4.9	4.9	4.1	3.7	3.7	3.8	4.0
ROAE	*12.7%*	*12.5%*	*7.6%*	*7.1%*	*7.9%*	*9.5%*	*11.5%*
ROAA	*7.0%*	*6.9%*	*4.2%*	*4.1%*	*4.6%*	*5.5%*	*6.7%*

Balance Sheet

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
ASSETS	**32 422.0**	**31 234.0**	**29 356.0**	**26 466.8**	**25 551.1**	**24 814.2**	**23 409.1**
Fixed assets	**28 960.0**	**26 980.0**	**25 167.0**	**24 167.1**	**23 211.0**	**22 348.7**	**20 862.5**
Prepayments	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Long-term receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments in associates acc. for using the equity method	489.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial assets	2.0	59.0	117.0	117.0	117.0	117.0	117.0
PP&E	21 120.0	19 589.0	17 743.0	16 427.4	15 468.6	14 603.3	13 115.0
Intangible assets	7 091.0	6 908.0	6 783.0	7 098.6	7 101.5	7 104.3	7 106.5
Tax asset	251.0	417.0	517.0	517.0	517.0	517.0	517.0
Current assets	**3 462.0**	**4 254.0**	**4 189.0**	**2 299.7**	**2 340.0**	**2 465.5**	**2 546.6**
Cash	642.0	1 640.0	2 218.0	369.7	360.0	505.6	571.7
Prepayments	263.0	102.0	119.0	120.8	122.6	124.4	126.3
Receivables	1 795.0	1 814.0	1 475.0	1 445.3	1 500.3	1 485.1	1 499.3
Other financial assets	394.0	240.0	124.0	124.0	124.0	124.0	124.0
Prepaid taxes	52.0	166.0	24.0	24.0	24.0	24.0	24.0
Inventories	316.0	292.0	229.0	216.0	209.2	202.5	201.4

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
LIABILITIES	**32 422.0**	**31 234.0**	**29 356.0**	**26 466.8**	**25 551.1**	**24 814.2**	**23 409.1**
Equity	**17 760.0**	**17 217.0**	**16 579.0**	**15 725.5**	**14 926.1**	**14 304.2**	**13 917.4**
Share capital	4 200.0	4 106.0	4 007.0	4 007.0	4 007.0	4 007.0	4 007.0
Share premium reserve	832.0	832.0	832.0	832.0	832.0	832.0	832.0
Asset revaluation reserve	-702.0	-704.0	0.0	0.0	0.0	0.0	0.0
Other	-18.0	8.0	91.0	91.0	91.0	91.0	91.0
Retained earnings	13 448.0	12 975.0	11 649.0	10 795.5	9 996.1	9 374.2	8 987.4
Minority interests	13.0	13.0	14.0	14.0	14.0	14.0	14.0
Long-term liabilities	**3 340.0**	**6 585.0**	**7 534.0**	**6 439.7**	**6 408.5**	**6 377.7**	**5 372.8**
Debt	1 920.0	5 075.0	6 033.0	5 000.0	5 000.0	5 000.0	4 000.0
Accruals	876.0	873.0	999.0	942.1	912.5	883.2	878.5
Reserves	473.0	578.0	449.0	449.0	449.0	449.0	449.0
Deferred income	71.0	59.0	53.0	48.6	47.1	45.6	45.3
Deferred tax provision	3.0	4.0	7.0	7.0	7.0	7.0	7.0
Long-term liabilities	**11 306.0**	**7 415.0**	**5 222.0**	**4 280.6**	**4 195.4**	**4 111.2**	**4 097.8**
Debt	4 012.0	2 100.0	375.0	200.0	200.0	200.0	200.0
Accruals	5 041.0	3 073.0	2 566.0	2 159.6	2 091.7	2 024.5	2 013.8
Taxes payable	559.0	498.0	490.0	490.0	490.0	490.0	490.0
Reserves	1 177.0	1 220.0	1 208.0	883.0	883.0	883.0	883.0
Deferred income	517.0	524.0	583.0	548.0	530.8	513.7	511.0
Debt	6 895.0	5 932.0	7 175.0	6 408.0	5 200.0	5 200.0	5 200.0
Net debt	6 219.0	5 290.0	5 535.0	4 190.0	4 830.3	4 840.0	4 694.4
(Net debt / Equity)	*34.4%*	*29.8%*	*32.1%*	*25.3%*	*30.7%*	*32.4%*	*32.8%*
(Net debt / EBITDA)	0.8	0.7	0.7	0.7	0.9	0.9	0.8
BVPS	12.9	13.0	12.9	12.4	11.8	11.2	10.7

Cash Flows

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
Cash flows from operating activities	**8 721.0**	**6 389.0**	**5 367.0**	**4 688.8**	**5 237.0**	**5 422.9**	**5 626.8**
EBITDA	7 687.0	7 630.0	6 246.0	5 662.8	5 668.3	5 820.3	6 012.7
Working capital	513.0	-2 150.0	94.0	-461.7	-166.4	-94.9	-33.3
Tax	-555.0	-405.0	-315.0	-270.2	-282.9	-324.5	-379.7
Reserves	201.0	148.0	-141.0	-325.0	0.0	0.0	0.0
Other	875.0	1 166.0	-517.0	83.0	18.0	22.0	27.0
Cash flows from investing activities	**-3 677.0**	**-2 579.0**	**-2 185.0**	**-2 867.1**	**-2 827.5**	**-2 857.4**	**-2 176.1**
Cash flows from financing activities	**-5 078.0**	**-2 812.0**	**-2 604.5**	**-3 669.8**	**-2 419.5**	**-2 419.5**	**-3 384.5**
Debt	-963.0	1 243.0	-767.0	-1 208.0	0.0	0.0	-1 000.0
Dividend	-2 660.0	-2 753.0	-2 003.5	-2 003.5	-2 003.5	-2 003.5	-2 003.5
Interest paid	-493.0	-562.0	-400.0	-406.3	-364.0	-364.0	-329.0
Interest received	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange differences	97.0	-94.0	-30.0	0.0	0.0	0.0	0.0
Other (net)	-1 059.0	-646.0	596.0	-52.0	-52.0	-52.0	-52.0
Change in cash	**-34.0**	**998.0**	**577.5**	**-1 848.0**	**-9.9**	**146.0**	**66.2**
Cash at end of period	642.0	1 640.0	2 217.5	370.0	359.7	505.9	571.8
DPS (PLN)	2.0	2.1	1.5	1.5	1.5	1.5	1.5
FCF	4 780.9	3 437.5	3 239.8	2 072.3	2 334.3	2 490.9	3 383.8
(CAPEX / Sales)	*20.2%*	*14.2%*	*13.2%*	*18.5%*	*18.6%*	*19.0%*	*14.3%*

Market multiples

	2007	2008	2009	2010F	2011F	2012F	2013F
P/E	10.1	10.0	17.1	19.0	18.1	15.8	13.5
P/CE	3.3	3.4	4.0	4.4	4.4	4.3	4.1
P/BV	1.3	1.3	1.3	1.4	1.5	1.5	1.6
P/S	1.3	1.3	1.4	1.5	1.5	1.5	1.5
FCF/EV	*17.0%*	*12.1%*	*12.0%*	*7.5%*	*8.4%*	*9.0%*	*12.8%*
EV/EBITDA	3.7	3.7	4.3	4.9	4.9	4.7	4.4
EV/EBIT	8.7	8.6	12.9	15.3	14.7	13.1	11.3
EV/S	1.5	1.6	1.6	1.8	1.8	1.8	1.7
DYield	*12.2%*	*12.6%*	*9.2%*	*9.2%*	*9.2%*	*9.2%*	*9.2%*
Price (PLN)	**16.4**						
Shares at year-end (millions)	1 368.8	1 335.6	1 335.6	1 335.6	1 335.6	1 335.6	1 335.6
MC (PLN m)	22 890.0	22 890.0	22 890.0	22 890.0	22 890.0	22 890.0	22 890.0
Equity attributable to minority shareholders (PLN m)	13.0	13.0	14.0	14.0	14.0	14.0	14.0
EV (PLN m)	28 193.0	28 438.0	27 094.0	27 734.3	27 744.0	27 598.4	26 532.3

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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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WIG on rating date	35175.59	38763.24