

29 July 2010

Update



Telecommunications

Poland

Current price	PLN 15.55
Target price	PLN 18.20
Market cap	PLN 21.77bn
Free float	PLN 8.03bn
Avg daily trading volume (3M)	PLN 141.26m

Shareholder Structure

France Telecom	49.79%
Others	50.21%

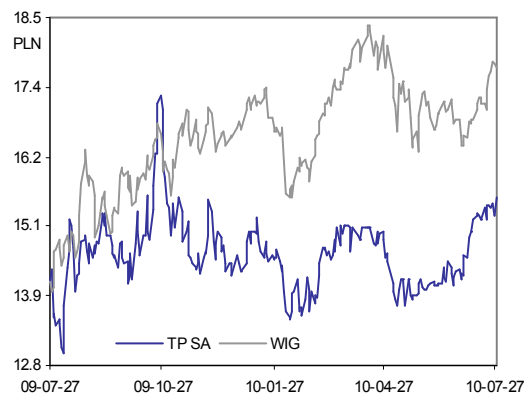
Sector Outlook

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).

TPSA vs. WIG



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TPSA

TPSA.WA; TPS.PW

Accumulate

(Reiterated)

Worst Is Over For TPSA

The improved financials and slower churn reported for Q2 2010 are a good sign for the second half of the year, when the year-on-year rates of revenue decline should be less than 4%. The second quarter was particularly successful for TPSA's mobile business, represented by Centertel, which, with its new calling plans, managed to capture 250,000 new subscribers (the biggest increase in net additions since 2007), and record a 5.7% increase in ARPU on the first quarter. Another positive trend observed in the quarter was a slowdown in POTS and broadband customer churn. TPSA is set to launch new 2Mb/s Internet plans in Q3 2010, no longer based on the "retail-minus" pricing rule (which means that wholesale line rental prices are fixed), which, we believe, is going to allow it to recapture broadband market share. The telecom has raised its 2010 FCF estimate from PLN 2bn to PLN 2.3bn, increasing the probability of a PLN 1.5-a-share dividend payout next year (DY: 9.6%). Based mainly on the better-than-expected second-quarter performance of Centertel, we are raising our 2010 and 2011 net-earnings forecasts for TPSA by 13.6% and 17.3% respectively, and we are increasing the price target from PLN 16.1 to PLN 18.2 per share, while an unchanged accumulate rating.

Q2 2010 Results

TPSA generated a revenue of PLN 3.987 billion (-4.7 y/y), an EBITDA of PLN 1,472 million (-5.5% y/y), and a net profit of PLN 325 million, in the second quarter of 2010. The reported results came ahead of our estimates, which were PLN 3.815bn, PLN 1,384m, and PLN 276m respectively. The highlights of the second quarter was a year-on-year decline by just 1.5% in the revenues of Centertel (compared to a 9% drop in Q1), and the continuing reductions in operating expenses.

Sentiment Shift

Investor sentiment to TPSA has been extremely negative of late, but we expect this to change going forward, as the telecom reports improving earnings results, accompanied by an increasing number of mobile and broadband customers. These positive trends will be supported by a more favorable regulatory environment (decreasing MTR asymmetry, replacement of the "retail-minus" wholesale broadband pricing model with the "cost-plus" approach). In our view, the regulator (UKE) will be placing an increasing emphasis on infrastructure development, which cannot be achieved without cooperation from the dominant operator. The Polish telecommunications market is among those where regulatory interference has been most substantially reduced (which implies less risks in the future, and one of the highest DY in Europe). Moreover, TPSA is eligible for EU subsidies in its future projects, plus, it is set to finally receive a refund of its universal service costs (which it estimates at PLN 800m).

(PLN m)	2008	2009	2010F	2011F	2012F
Revenues	18 164	16 560	15 835	15 644	15 481
EBITDA	7 630	6 246	5 851	5 914	6 062
<i>EBITDA margin</i>	42.0%	37.7%	36.9%	37.8%	39.2%
EBIT	3 313	2 096	2 002	2 128	2 336
Net profit	2 188	1 280	1 308	1 412	1 588
DPS	2.1	1.5	1.5	1.5	1.5
P/E	9.5	16.2	15.9	14.7	13.1
P/CE	3.2	3.8	4.0	4.0	3.9
P/BV	1.2	1.3	1.3	1.4	1.4
EV/EBITDA	3.6	4.2	4.5	4.5	4.3
DYield	13.3%	9.6%	9.6%	9.6%	9.6%



2010 Second-Quarter Results

The most notable achievement of TPSA's second-quarter performance was a minor, 4.7% year-on-year contraction in revenues, which proved much less dramatic than the 10% drop predicted earlier by the company itself. The credit for the better-than-expected result is due to Centertel, which recorded an increase in its mobile customer base, as well as in ARPU which slowed its downtrend relative to the same period a year ago down from -9.1% in Q1 to -1.5% in Q2 (the second-quarter results were still impacted by base effects stemming from the MTR cuts implemented in H1 2009). An additional boost to revenues came from high sales of goods which added an estimated 0.6 ppts to the rate of the period's topline growth. As predicted, sales generated by the Data Services business were weak, mainly because of a shrinking broadband subscriber base. TPSA expects the year-on-year revenue erosion to be below 4% in the second half of 2010. We predict that Centertel will report an increase in revenues in Q4 2010.

Consolidated Q2 2010 results

(PLN m)	2Q2010	2Q2009	Y/Y change	1H2010	1H2009	Y/Y change
Fixed-Line Telephony	1 315	1 490	-11.7%	2 665	3 091	-13.8%
Retail revenues	1 029	1 203	-14.5%	2 106	2 509	-16.1%
Whole services	283	278	1.8%	552	567	-2.6%
Other	3	9	-66.7%	7	15	-53.3%
Mobile Telephony	1 787	1 815	-1.5%	3 465	3 659	-5.3%
Voice revenues	1 079	1 080	-0.1%	2 077	2 128	-2.4%
Interconnection revenues	349	364	-4.1%	661	789	-16.2%
Other	359	371	-3.2%	727	742	-2.0%
Data Services	636	656	-3.0%	1 275	1 301	-2.0%
Line rental	74	76	-2.6%	147	160	-8.1%
Data transmissions	176	179	-1.7%	348	344	1.2%
Dial-up	1	3	-66.7%	3	8	-62.5%
Broadband revenues	385	398	-3.3%	777	789	-1.5%
Radio communications	52	53	-1.9%	104	107	-2.8%
Sales of goods and other	197	171	15.2%	351	339	3.5%
TOTAL REVENUES	3 987	4 185	-4.7%	7 860	8 497	-7.5%
(PLN m)	2Q2010	2Q2009	Y/Y change	1H2010	1H2009	Y/Y change
Payroll expenses	-566	-592	-4.4%	-1 158	-1 203	-3.7%
Third-party operator services	-538	-576	-6.6%	-1 044	-1 223	-14.6%
Selling expenses	-615	-639	-3.8%	-1 217	-1 253	-2.9%
Network and IT expenses	-232	-251	-7.6%	-463	-495	-6.5%
Provisions for claims and litigation	-23	-36	-37.2%	-27	-36	-26.3%
Other	-546	-535	2.1%	-1 073	-1 087	-1.2%
TOTAL COSTS	-2 520	-2 629	-4.1%	-4 982	-5 297	-5.9%
EBITDA	1 472	1 557	-5.5%	2 892	3 214	-10.0%
EBITDA margin	36.9%	37.2%	-	36.8%	37.8%	-
D&A expenses	-965	-1 053	-8.4%	-1 906	-2 113	-9.8%
EBIT	507	501	1.1%	981	1 111	-11.7%
Profit/loss on financial activity	-98	-65	50.8%	-213	-264	-19.3%
Tax	-84	-60	39.9%	-158	-143	10.5%
Net income	325	376	-13.6%	610	704	-13.4%

Source: TPSA

Positive trends are also noticeable in second-quarter costs, including continued reductions in payroll expenses, costs of sales, and network maintenance, consistent with the Management's policy. The biggest savings were achieved in external operator services, though this was owed to reduced MTRs rather than TPSA's efforts. Moreover, decreasing amortization and depreciation charges had a positive effect on the bottom line, and they are expected to continue falling going forward as the depreciation period related to the high 2001-2005 capital expenses, ends.

**TPSA Voice Subscribers**

(thousands)	1Q'08	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10
Total	9 323	9 169	9 035	8 898	8 747	8 605	8 452	8 288	8 137	8 018
q/q change	-219	-154	-134	-135	-150	-137	-138	-187	-148	-111
RETAIL										
POTS	7 557	7 322	7 117	6 913	6 691	6 481	6 274	6 068	5 895	5 742
ISDN	1 102	1 078	1 063	1 044	1 030	1 005	981	965	946	930
WHOLESALE										
WLR	664	769	855	941	1 026	1 119	1 197	1 255	1 296	1 346
q/q change	72	105	86	86	85	92	78	58	41	50
<i>of which Centertel</i>					3	17	30	44	50	67
<i>share in WLR lines</i>					0.3%	1.7%	3.1%	4.6%	5.3%	7.2%
<i>of which Netia</i>	64	102	642	673	711	731	740	743	747	
<i>share in WLR lines</i>	9.7%	13.3%	75.1%	71.5%	69.2%	65.3%	61.8%	59.2%	57.6%	
<i>of which Dialog</i>				162	184	210		250		
<i>share in WLR lines</i>				17.2%	18.0%	18.8%		19.9%		

Source: TPSA, Netia, Dialog

Fixed-line subscriber churn continued in the second quarter, but the rate of line losses was the slowest since q3 2006. In our opinion, this deceleration is a permanent trend resulting from the fact that the corporate demand for telecommunications services is nearing saturation point, paired with household demand for Internet access and TV services. We predict that quarterly line losses will decrease below 100,000 next year. Customer defections to other operators (through WLR arrangements) remain at a steady 50,000 per quarter, and about 35% of these lines come back to TPSA via Centertel which continued to increase its share (currently at 7.3%) in the parent's voice subscriber base.

TPSA Broadband Subscribers

	1Q'08	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10
Total	2 271	2 328	2 385	2 445	2 520	2 563	2 587	2 600	2 618	2 630
ADSL/CDMA	2 079	2 084	2 089	2 097	2 132	2 151	2 156	2 144	2 128	2 122
change	57	5	5	8	35	19	5	-12	-16	-6
BSA	192	244	296	348	388	412	431	456	490	508
change	60	52	52	52	40	24	19	25	34	18
<i>of which Centertel</i>	23	40	70	96	111	117	123	129	134	138
<i>share in BSA lines</i>	12.0%	16.4%	23.6%	27.6%	28.6%	28.4%	28.5%	28.3%	27.3%	27.2%
<i>of which Netia</i>	39	36	54	67	248	260	272	294	320	
<i>share in BSA lines</i>	20.5%	14.6%	18.4%	19.2%	64.0%	63.0%	63.2%	64.4%	65.4%	
<i>of which Dialog</i>				9	10	10				
<i>share in BSA lines</i>				2.5%	2.4%	2.4%				
<i>of which others</i>				177	19	26	36	33	36	
<i>share in BSA lines</i>				184.1%	17.2%	21.9%	28.9%	25.8%	26.5%	
LLU				2	4	8	24	52	62	76
change				2	2	4	16	28	11	14
<i>of which Netia</i>				1	4	7	21	48	60	
<i>share in LLU lines</i>				88.4%	99.1%	92.7%	89.8%	93.3%	95.8%	

Source: TPSA, wholesale and retail lines (BSA)

The Data Services business had an uneventful second quarter because of a delayed launch of new broadband plans, set to enter into force in the third quarter following approval by the regulator of the outcomes of THE July margin-squeeze test. The switch from the "retail-minus" pricing model for wholesale broadband access to the "cost-plus" approach means a paradigm shift in the Polish market for Internet services. Under the old regime, every cut in the prices of TPSA's broadband services entailed an automatic reduction in the wholesale rates paid by alternative operators for access to the dominant operator's infrastructure. Under the new approach, the wholesale rates are fixed, and TPSA can freely reduce its retail prices as long as they pass the margin-squeeze test. In consequence, to maintain their advantage, alternative operators will be forced to accept lower margins.

TPSA lost 5000 retail broadband lines in Q2 2010, being a net effect of 18,000 defected Neostrada subscribers on the one hand, and new CDMA additions on the other hand. Defections to BSA-based competition were relatively few in Q2 (totaling 18,000, of which 4,000 were recaptured by Centertel), as were lines lost under LLU which amounted to



14,000. This implies slower expansion in the subscriber base of TPSA's main rival, Netia. Going forward, TPSA's Broadband business will benefit from the more favorable regulatory environment described above.

TPSA's value-added services bundled with broadband plans are aimed at increasing customer loyalty rather than being a major source of profit, however, they do have a positive effect on ARPU. The most popular of these services continues to be satellite TV.

TPSA's network infrastructure does not have the capacity to offer IPTV services on a mass scale, but this should be remedied through the operator's planned investments. TPSA is probably reluctant to invest in developing such infrastructure, in particular in large cities dominated by cable TV providers, because, in the current regulatory regime, such infrastructure will be free to use by any one of its competitors through BSA or LLU. The consequence of this is that the choice of today's big-city TV viewers is basically limited to cable providers. TPSA has already submitted a suggestion to the UKE on how to solve this problem. The idea is that, in the largest cities (where TPSA's market share has fallen below 20%, compared to 40% countrywide), the telecom will not be considered a dominant operator, and hence will not be required to make its infrastructure, especially the new one, available to competition. If this solution is accepted, TPSA will be able to effectively grow in a new market. Moreover, equal treatment of TV providers in some areas can give rise to healthy competition in the field of infrastructure development, which one of the UKE's main objectives at the moment. Meanwhile, however, TPSA is still pondering the acquisition of the Warsaw cable provider Aster, which has a subscriber base of 380 thousand..

TPSA Value-Added Subscribers

	1Q'08	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10
IPTV	49	54	57	69	86	95	107	109	111	113
SAT TV				44	112	144	176	263	306	340
VoIP	164	176	174	168	162	156	150	140	123	143
Livebox	405	441	473	510	582	614	645	702	727	741

Source: TPSA

The new "Orange" mobile plans launched in Q2 2010 have proven a huge success, adding over 250,000 new users to TPSA's subscriber base – the largest number of net additions since Q4 2007. This increase marked a major step toward fulfilling the Management's objective of becoming the number one provider of mobile services in terms of subscribers and revenues. Line additions were highest in the pre-paid segment (+176,000), while post-paid additions amounted to the regular quarterly 80,000.

TPSA Mobile Subscribers

	1Q'08	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10
Total	14 006	13 900	14 054	14 182	13 680	13 768	13 736	13 714	13 774	14 028
change	-153	-106	154	128	-502	88	-32	-22	60	254
Pre-paid	8 332	8 086	8 091	8 015	7 370	7 318	7 228	7 090	7 062	7 238
change	-271	-246	5	-76	-645	-52	-90	-138	-28	176
share	59%	58%	58%	57%	54%	53%	53%	52%	51%	52%
Post-paid	5 674	5 814	5 963	6 167	6 310	6 450	6 508	6 624	6 712	6 791
change	118	140	149	204	143	140	58	116	88	79

Source: TPSA

On an expanded subscriber base, Centertel also increased its ARPU relative to the Q1 levels, with the pace of the downward year-on-year trend reduced from 8% to 3%. To a small extent, the period's ARPU growth might have also been owed to increased call traffic during the May floods and following the presidential place crash in April. Post-paid mobile users were the main ARPU driver, generating a 4% increase vs. Q1 2010, reflecting a seasonal pattern which produced a 4% q/q increase in Q2 2009, and a 7% increase in Q2 2008.

**Centertel ARPU and call traffic per user**

	1Q'08	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10
ARPU	47.8	48.8	50.6	50.0	44.8	44.9	43.8	42.7	41.2	43.6
change	1%	-1%	-2%	2%	-6%	-8%	-13%	-15%	-8%	-3%
Pre-paid	21.0	22.0	22.6	23.3	20.2	20.5	20.9	19.9	19.2	19.7
change	0%	1%	-4%	6%	-4%	-7%	-8%	-15%	-5%	-4%
Post-paid	88.2	87.0	88.5	85.1	75.1	72.9	69.4	67.6	64.5	69.0
change	-2%	-5%	-5%	-5%	-15%	-16%	-22%	-21%	-14%	-5%
Voice ARPU	37.5	38.9	38.6	37.3	34.2	33.8	32.6	31.4	30.3	32.7
change	1%	0%	-6%	-3%	-9%	-13%	-16%	-16%	-11%	-3%
Data ARPU	10.3	9.8	12.0	12.7	10.6	11.1	11.2	11.3	11.0	10.9
change	-2%	-6%	15%	21%	3%	13%	-7%	-11%	4%	-2%
	1Q'08	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10
Minutes of Use	102	112	113	123	126	135	139	142	147	162
change	6%	7%	9%	23%	24%	21%	23%	15%	17%	20%
Pre-paid	39	43	45	58	60	66	71	71	78	98
change	9%	-3%	1%	51%	53%	52%	59%	22%	29%	50%
Post-paid	195	209	205	209	207	215	215	220	219	229
change	3%	6%	6%	8%	6%	3%	5%	6%	6%	6%

Source: TPSA

The second quarter of 2010 was the last to be impacted by base effects resulting from last year's MTR cuts. As a result, Centertel's revenues in the quarters ahead are expected to flatten, and then display year-on-year growth in Q4 2010. The next reductions in mobile termination rates are tentatively scheduled for January 2011, and we predict that this time, at least when it comes to the three leading players, they will not be as dramatic as the ones made in H1 2009 (over 50%), hovering around 15-20%. Our prediction is based on the fact that Polish MTRs are currently among the lowest in Europe. In any case, the impact of MTR levels on the earnings of leading Polish telecoms is not as big as that of rate asymmetry, which is one of the greatest in Europe. EU-approved measures aimed at evening out the disparities are expected to be put into effect in the near future.



Valuation

Based on our updated DCF and relative valuation models, we estimated the current per-share price of TPSA at PLN 16.7, and a nine-month target at PLN 18.2 (revised from PLN 16.1). The increase in our valuation is a consequence of new, higher earnings forecasts for TPSA, as well as of higher peer valuations. A factor working in the opposite direction is an increase in the risk-free rate used in our DCF model. Our valuation factors in EUR 100m in damages to DPTG.

Valuation Summary

(PLN)	Weight	Valuation	
		New	Old
Relative valuation	50%	15.2	13.2
DCF analysis	50%	18.2	16.2
Valuation		16.7	14.7
9M Target Price		18.2	16.1

Relative valuation

(PLN)	EV/EBITDA			EV/Sales			P/E		
	2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F
Implied value per share	20	19	19	20	19	19	10	11	11
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	15.2	18.9			19.2			10.7	

	Price	EV/EBITDA			EV/S			P/E			EBITDA margin			D/Y		
		2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F	2009	2010F	2011F
Belgacom	27.6	5.7	5.3	5.8	1.9	1.7	1.7	10.7	10.8	11.2	32.3%	32.3%	30.0%	7.6%	7.9%	7.9%
Cesky Telecom	430.0	5.1	5.5	5.4	2.2	2.3	2.3	12.3	12.7	12.2	44.2%	42.6%	43.0%	10.7%	9.2%	9.1%
Hellenic Telekom	6.3	3.8	4.1	4.1	1.4	1.4	1.4	6.1	7.0	6.4	35.9%	35.0%	35.4%	11.2%	8.7%	9.4%
Mataw	687.0	4.3	4.5	4.6	1.7	1.8	1.8	8.9	9.6	9.8	39.2%	39.1%	38.7%	10.8%	10.8%	10.8%
Portugal Telecom	8.3	5.8	5.5	5.3	2.1	1.9	1.9	13.6	13.4	11.8	35.8%	35.4%	35.7%	6.9%	7.0%	7.0%
Telecom Austria	9.2	4.3	4.6	4.7	1.6	1.6	1.7	11.4	13.6	12.0	36.7%	35.3%	35.5%	8.2%	8.2%	8.2%
BT	1.4	4.6	4.0	3.9	1.0	1.1	1.1	10.1	9.6	8.9	22.4%	26.7%	27.5%	5.7%	4.9%	5.3%
DT	10.3	4.5	4.6	4.7	1.4	1.5	1.5	15.5	14.3	13.8	31.6%	31.7%	31.8%	7.6%	7.0%	7.0%
FT	15.1	4.5	4.9	4.9	1.5	1.7	1.7	8.9	8.6	8.4	33.3%	34.7%	34.6%	9.3%	9.3%	9.3%
KPN	11.1	5.6	5.4	5.4	2.1	2.2	2.2	12.2	9.9	9.3	38.2%	40.3%	40.4%	6.2%	7.2%	7.7%
Swisscom	393.2	6.3	6.5	6.5	2.5	2.5	2.5	10.4	10.9	10.7	39.6%	38.3%	38.5%	5.7%	5.9%	6.2%
TELEFONICA	16.9	5.4	5.5	5.5	2.2	2.2	2.1	9.9	9.4	9.0	39.9%	38.9%	38.7%	6.8%	8.3%	9.2%
TeliaSonera	53.5	8.2	7.8	7.6	2.7	2.7	2.7	12.3	11.6	10.9	32.7%	35.0%	35.0%	3.9%	4.7%	5.1%
TI	1.0	4.9	4.9	4.8	2.0	2.0	2.0	9.6	8.6	8.1	41.0%	41.3%	41.5%	5.3%	5.7%	6.4%
Median		5.0	5.1	5.1	1.9	1.8	1.8	10.6	10.3	10.2	36%	35%	36%	7.2%	7.5%	7.8%



DCF Valuation Model

(PLN m)	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	TV
Sales revenue	16 560	15 835	15 644	15 481	15 617	15 829	15 926	15 971	16 071	16 213
Change	-8.8%	-4.4%	-1.2%	-1.0%	0.9%	1.4%	0.6%	0.3%	0.6%	0.9%
EBITDA	6 246.0	5 850.9	5 913.9	6 062.2	6 248.8	6 425.6	6 463.4	6 450.1	6 438.1	6 445.3
EBITDA margin	37.7%	36.9%	37.8%	39.2%	40.0%	40.6%	40.6%	40.4%	40.1%	39.8%
D&A expenses	4 150.0	3 849.0	3 786.3	3 726.1	3 671.9	3 575.8	3 474.6	3 381.0	3 294.0	3 213.7
EBIT	2 096.0	2 001.9	2 127.6	2 336.1	2 577.0	2 849.8	2 988.8	3 069.1	3 144.1	3 231.6
EBIT margin	12.7%	12.6%	13.6%	15.1%	16.5%	18.0%	18.8%	19.2%	19.6%	19.9%
Tax rate on EBIT	398.2	380.4	404.2	443.9	489.6	541.5	567.9	583.1	597.4	614.0
NOPLAT	1 697.8	1 621.6	1 723.3	1 892.2	2 087.3	2 308.3	2 421.0	2 486.0	2 546.7	2 617.6
CAPEX	-2 185	-2 909	-2 884	-2 913	-2 230	-2 058	-2 070	-2 076	-2 089	-2 108
Working capital	-423.0	-211.7	-266.1	-55.8	20.8	64.6	105.4	123.7	179.0	32.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	2 350.3	2 359.9	2 650.1	3 549.8	3 891.0	3 930.6	3 914.4	3 930.5	3 930.5	3 755.7
WACC	10.6%	10.6%	10.7%	11.0%	11.5%	11.8%	11.8%	11.8%	11.8%	11.6%
discount factor	90.4%	81.7%	73.8%	66.5%	59.6%	53.3%	47.7%	42.6%	30.6%	
PV FCF	2 124.3	1 927.8	1 955.3	2 358.9	2 319.9	2 095.8	1 866.6	1 676.2		
WACC	10.6%	10.6%	10.7%	11.0%	11.5%	11.8%	11.8%	11.8%	11.8%	11.6%
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%	19.0%
Net debt / EV	18.7%	18.7%	17.4%	12.4%	5.7%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of Equity	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	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			32 376							
Present value of the terminal value (PV TV)			9 896							
Present value of FCF in the forecast horizon			19 038							
Enterprise value (EV)			28 934							
Net debt			4 190							
DPTG			-385							
Minority interests			14							
Equity value			24 345							
Number of shares (millions)			1 368.8							
Equity value per share (PLN)			18.2							
Cost of equity (9M)			8.9%							
Target Price			19.8							
EV/EBITDA(*10) for the target price (adj.)			5.3							
P/E(*10) for the target price (adj.)			20.3							
TV to EV			34%							

Sensitivity analysis

	-3.0%	-2.0%	0.0%	2.0%	3.0%
WACC +1.0ppt	16.5	16.9	17.8	19.1	19.9
WACC +0.5ppt	17.3	17.7	18.8	20.2	21.2
WACC	18.2	18.7	19.8	21.5	22.7
WACC -0.5ppt	19.1	19.6	21.0	22.9	24.3
WACC -1.0ppt	20.1	20.7	22.3	24.5	26.1

**Income Statement**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
Sales revenue	18 244.0	18 164.0	16 560.0	15 835.1	15 643.7	15 480.8	15 616.6
<i>Change</i>	-2.0%	-0.4%	-8.8%	-4.4%	-1.2%	-1.0%	0.9%
Fixed-line business	7 616.0	6 783.0	5 907.0	5 477.6	5 128.6	4 942.4	4 882.8
Inter-operator billing	783.0	966.0	1 081.0	1 192.4	1 254.3	1 290.6	1 315.1
Mobile business	7 462.0	8 023.0	7 188.0	6 881.1	6 908.3	6 794.9	6 846.9
Data transmissions	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	13 833.2	13 516.1	13 144.8	13 039.7
Salaries	2 399.0	2 305.0	2 376.0	2 271.0	2 163.7	2 047.9	1 969.8
D&A expenses	4 439.0	4 317.0	4 150.0	3 849.0	3 786.3	3 726.1	3 671.9
Inter-operator billing	2 518.0	2 624.0	2 179.0	2 074.4	2 033.7	1 935.1	1 952.1
External services	3 551.0	3 746.0	3 795.0	3 678.3	3 606.6	3 541.9	3 563.6
Other	6 528.0	6 287.0	6 114.0	5 809.5	5 712.1	5 619.9	5 554.2
EBIT	3 248.0	3 313.0	2 096.0	2 001.9	2 127.6	2 336.1	2 577.0
<i>Change</i>	-3.5%	2.0%	-36.7%	-4.5%	6.3%	9.8%	10.3%
<i>EBIT margin</i>	17.8%	18.2%	12.7%	12.6%	13.6%	15.1%	16.5%
Profit/loss on financial activity	-418.0	-718.0	-499.0	-384.7	-381.5	-373.7	-325.5
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 profit	2 830.0	2 595.0	1 597.0	1 617.2	1 746.0	1 962.4	2 251.4
Tax	555.0	405.0	315.0	307.3	331.7	372.8	427.8
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	1 307.9	1 412.3	1 587.5	1 821.7
<i>Change</i>	8.5%	-3.7%	-41.5%	2.2%	8.0%	12.4%	14.7%
<i>Margin</i>	12.5%	12.0%	7.7%	8.3%	9.0%	10.3%	11.7%
D&A expenses	4 439.0	4 317.0	4 150.0	3 849.0	3 786.3	3 726.1	3 671.9
EBITDA	7 687.0	7 630.0	6 246.0	5 850.9	5 913.9	6 062.2	6 248.8
<i>Change</i>	-2.2%	-0.7%	-18.1%	-6.3%	1.1%	2.5%	3.1%
<i>EBITDA margin</i>	42.1%	42.0%	37.7%	36.9%	37.8%	39.2%	40.0%
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	1.0	1.1	1.2	1.4
CEPS	4.9	4.9	4.1	3.9	3.9	4.0	4.1
ROAE	12.7%	12.5%	7.6%	8.1%	9.1%	10.5%	12.3%
ROAA	7.0%	6.9%	4.2%	4.7%	5.4%	6.2%	7.3%

**Balance Sheet**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
ASSETS	32 422.0	31 234.0	29 356.0	26 728.7	25 987.3	25 454.5	24 253.6
Fixed assets	28 960.0	26 980.0	25 167.0	24 208.6	23 305.9	22 492.3	21 050.6
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	16 468.9	15 563.4	14 746.8	13 302.9
Intangible assets	7 091.0	6 908.0	6 783.0	7 098.7	7 101.6	7 104.5	7 106.7
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	2 520.1	2 681.3	2 962.2	3 203.0
Cash	642.0	1 640.0	2 218.0	644.2	654.5	956.5	1 183.1
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	1 388.3	1 542.9	1 526.9	1 540.3
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	218.8	213.3	206.4	205.3
LIABILITIES	32 422.0	31 234.0	29 356.0	26 728.7	25 987.3	25 454.5	24 253.6
Equity	17 760.0	17 217.0	16 579.0	15 883.5	15 292.3	14 876.3	14 694.5
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	10 953.5	10 362.3	9 946.3	9 764.5
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	6 452.9	6 427.3	6 396.0	5 390.9
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	954.7	930.3	900.6	895.7
Reserves	473.0	578.0	449.0	449.0	449.0	449.0	449.0
Deferred income	71.0	59.0	53.0	49.2	48.0	46.4	46.2
Deferred tax provision	3.0	4.0	7.0	7.0	7.0	7.0	7.0
Short-term liabilities	11 306.0	7 415.0	5 222.0	4 371.3	4 246.7	4 161.2	4 147.2
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	2 243.0	2 132.6	2 064.4	2 053.2
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	555.3	541.1	523.8	521.0
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	4 555.8	4 545.5	4 243.5
(Net debt / Equity)	34.4%	29.8%	32.1%	25.3%	28.7%	29.7%	28.5%
(Net debt / EBITDA)	0.8	0.7	0.7	0.7	0.8	0.8	0.7
BVPS	12.9	13.0	12.9	12.4	11.9	11.4	11.1

**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	5 005.0	5 313.0	5 633.6	5 840.8
EBITDA	7 687.0	7 630.0	6 246.0	5 850.9	5 913.9	6 062.2	6 248.8
Working capital	513.0	-2 150.0	94.0	-303.7	-301.1	-95.8	-33.2
Tax	-555.0	-405.0	-315.0	-307.3	-331.7	-372.8	-427.8
Reserves	201.0	148.0	-141.0	-325.0	0.0	0.0	0.0
Other	875.0	1 166.0	-517.0	90.0	32.0	40.0	53.0
Cash flows from investing activities	-3 677.0	-2 579.0	-2 185.0	-2 908.6	-2 883.7	-2 912.5	-2 230.2
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	578.0	-1 573.8	10.3	302.0	226.6
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	2 348.3	2 356.9	2 650.1	3 548.8
(CAPEX / Sales)	20.2%	14.2%	13.2%	18.4%	18.4%	18.8%	14.3%

Market multiples

	2007	2008	2009	2010F	2011F	2012F	2013F
P/E	9.6	9.5	16.2	15.9	14.7	13.1	11.4
P/CE	3.2	3.2	3.8	4.0	4.0	3.9	3.8
P/BV	1.2	1.2	1.3	1.3	1.4	1.4	1.4
P/S	1.2	1.2	1.3	1.4	1.4	1.4	1.4
FCF/EV	17.7%	12.6%	12.5%	8.9%	9.0%	10.2%	14.3%
EV/EBITDA	3.5	3.6	4.2	4.5	4.5	4.3	4.0
EV/EBIT	8.3	8.2	12.4	13.2	12.4	11.1	9.6
EV/S	1.5	1.5	1.6	1.7	1.7	1.7	1.6
DYield	12.8%	13.3%	9.6%	9.6%	9.6%	9.6%	9.6%
Price (PLN)	15.6						
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
MC (PLN m)	21 770.0	21 770.0	21 770.0	21 770.0	21 770.0	21 770.0	21 770.0
Equity attributable to minority shareholders (PLN m)	13.0	13.0	14.0	14.0	14.0	14.0	14.0
EV (PLN m)	27 073.0	27 318.0	25 974.0	26 339.8	26 329.5	26 027.5	24 800.9



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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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