26 November 2007

Research Report

BRE Bank Securities

Media

Poland

Current price	**PLN 23.7**
Target price	**PLN 20.1**
Market cap	PLN 8.22bn
Free float	PLN 3.11bn
Average daily trading (3M)	PLN 22.03m

Shareholder structure

N-Vision B.V.	33.6%
Strateurop International B.V.	28.63%
Others	37.77%

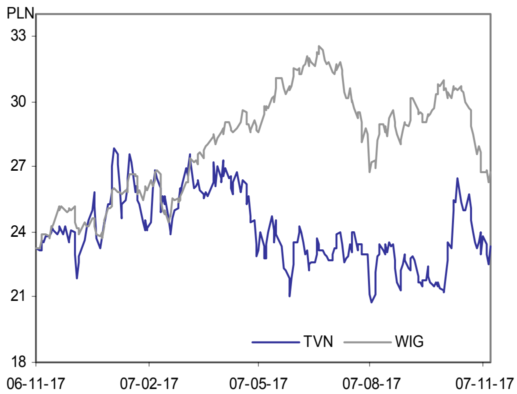
Sector Outlook

The advertising market, the main factor influencing media industry earnings, is growing at a double-digit rate, and television stations are garnering a sustained share of the advertising budgets. These growth trends are expected to continue for at least 2-3 more years. As for the TV broadcasting industry, it has tough times ahead of it as competitive pressure increases.

Company Profile

TVN, launched ten years ago, is Poland's leading television broadcaster next to public stations and Polsat, with a 21.2% audience share. In addition to TV broadcasting, TV is also active in the market of Internet services, and owns Poland's most popular Web portal, Onet.pl.

TVN vs. WIG



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TVN

Sell

TVNN.WA; TVN.PW

(Initial)

Bracing For Change

Poland's television market is about to be changed dramatically by the arrival of Rupert Murdoch's News Corporation. and the widespread of alternative means of signal transmission, including cable TV, digital satellite TV, and digital terrestrial TV. The transformation of TVN's market landscape could be so great that the network might not be able to maintain its competitive edge. Growing competition, fueled by the emergence of new players and technology-enabled "equality" in signal coverage, will cut into TVN's piece of the advertising pie. In our opinion, as the tide turns, the premium at which TVN currently trades relative to Western European broadcasters will disappear, and even the fact of owning Poland's largest Web Portal "Onet.pl" will not be enough to keep it in place.

New Trends In TV broadcasting

Competition between television networks will be heating up in the next few years, in the wake of Polsat's successful image-overhaul and ratings campaign, News Corp's recent launch, albeit not a very spectacular one, of a revamped "TV Puls" station which it bought from Franciscan friars. Fast expansion of digital broadcasting technologies and media will level the playing field for all TV stations, and eliminate the problem of limited spectrum which enabled just four stations - the public TVP1 and TVP2, Polsat, and TVN - to virtually monopolize the market. In these new settings, the market will become wide open not only for existing smaller players, but also for foreign broadcasters attracted by the tremendous opportunities that our market has to offer.

Trouble In Paradise

Increasing competitive pressure will cause dominant networks to lose audience share, and force them to step up efforts to attract viewers, leading to an upsurge in the costs of programming licenses, marketing and promotion, and production. TV stations are also in a battle for talent, including reporters, news anchors, and technical personnel – a trend which, as more stations emerge and set out to build an audience, can only become stronger. In this shifting environment, it is not likely that TVN will continue to generate margins as high as it is enjoying now, at levels far exceeding the margins observed in other European markets where competition is much stronger. On the upside, however, the tremendous growth of online advertising is bound to boost revenues for Onet.pl, Poland's number-one Web portal owned by TVN. Paired with significant overheads, this will lead to a major improvement in profit margins, making Onet.pl the main driving force behind TVN's growth.

(PLN m)	2005	2006	2007F	2008F	2009F
Revenue	860.3	1165.0	1508.0	1713.1	1914.2
EBITDA	294.6	399.8	530.8	609.7	683.4
EBITDA margin	*34.2%*	*34.3%*	*35.2%*	*35.6%*	*35.7%*
EBIT	256.0	348.4	460.8	534.2	605.6
Net profit	209.2	186.3	314.9	378.0	442.8
DPS	1.9	0.0	0.3	0.5	0.5
P/E	7.2	43.7	26.1	21.8	18.6
P/CE	6.1	34.3	21.4	18.1	15.8
P/BV	3.8	6.6	5.6	4.9	4.3
EV/EBITDA	5.8	22.2	16.7	14.4	12.7

Q3 2007 Results

Strong Top Line Growth...

The TVN Group reported a consolidated revenue of PLN 296.6m in Q3'07 compared to PLN 215.4m a year earlier, marking a 37.7% increase. Adjusted for Grupa Onet and Mango Media, Q3 income rose 30.6% from PLN 197.9m in FY'06 to PLN 258.4m in FY'07. In the same period, EBIT surged 94.2% to PLN 37.7m (85.3% to PLN 37.0m adjusted for Grupa Onet and Mango Media). The resulting net income, after adjustment for PLN 99.4m revaluation gains on callable bonds, was PLN 21.1m.

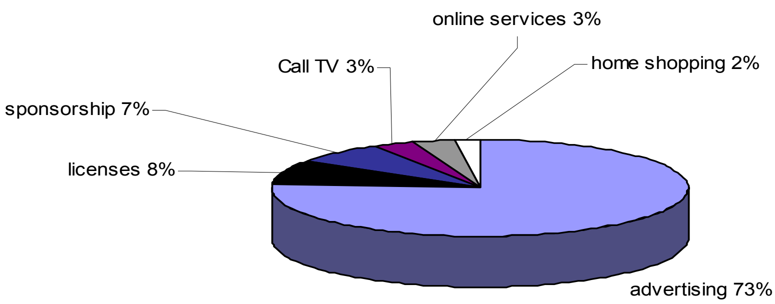
Q3'07 earnings

	3Q 2007	3Q 2006	change	9 months 2007	9 months of 2006	change
Revenue	296 553	215 407	37.7%	1 033 108	759 949	35.9%
EBIT	37 731	19 427	94.2%	288 605	213 581	35.1%
Net income	-78 325	-3 328	-	107 464	130 724	-17.8%
Adjusted net income	21 104	-8 611	-	184 177	116 039	58.7%
EBIT margin	12.7%	9.0%	41.1%	27.9%	28.1%	-0.6%
Net margin	-26.4%	-1.5%	-	10.4%	17.2%	-39.5%
Adjusted net margin	7.1%	-4.0%	-	17.8%	15.3%	16.8%

Source: TVN, BRE Bank Securities

The main source of revenue for the TVN Group are advertisements, which account for ca. 73% of total sales. Other sales drivers include sponsorship (7%), program licenses granted to cable and digital satellite network operators (8%), interactive television (3%), online services (3%), and home shopping (2%).

Q3 Revenue Composition



Source: TVN, BRE Bank Securities

Advertising revenues are seasonal. In line with consumer demand patterns, advertisers allocate much bigger budgets for spring and fall seasons than for winter, hence, ad revenues are as much as 29.8% above the quarterly average in the peak sales season of Q4, and ca. 28% below average in the typically weakest Q3. When ad spending shrinks, TVN stations are forced to cut their programming expenses, in turn leading to weaker ratings in the summer.
The ratio of advertising revenues to the revenue total declined from the 76% recorded in Q3'06, however, in absolute terms, there was a ca. 31.9% increase from PLN 163.5m to PLN 215.6m. The apparent y/y decline was an effect of an acceleration in other revenue sources, including licenses (up 57.0% to PLN 24.4m), online services, and Mango Media home shopping.

… and Almost As Strong Cost Expansion

Strong Q3 sales were offset by almost equally fast-paced costs, demonstrating that TVN was not able to fully leverage the positive impact of fixed costs on margins. Q3 tax-deductible

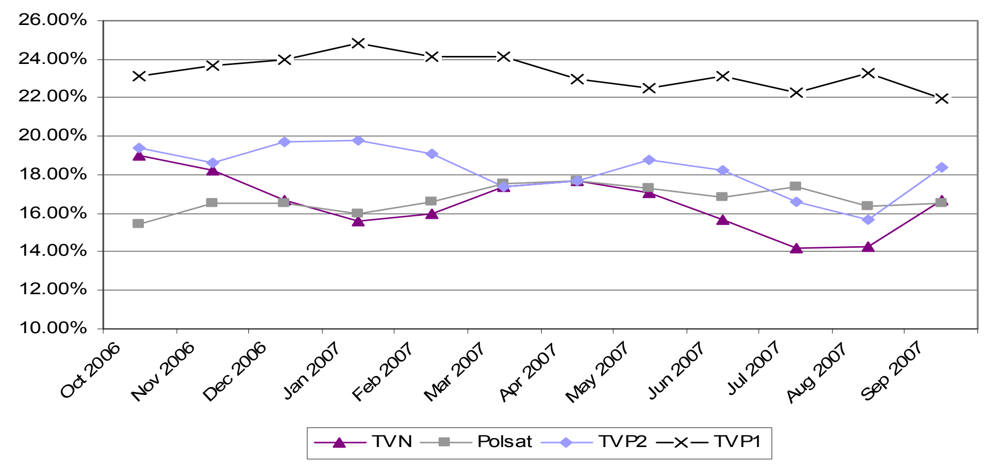
expenses surged to PLN 194m from PLN 144.7mln PLN a year earlier, i.e. 34.1%, or 25.5% adjusted for Grupa Onet and Mango Media. As a result, the operating margin rose to 12.7% from 9.0%.
Operating expenses were mostly boosted by amortization of content-production costs which accounted for 68% of the total. Amortization charges on local and joint productions increased by PLN 16.4m, mainly because TVN aired more episodes of its own series, which were more expensive than the entertainment shows broadcast in Q3 2006. In addition, amortization of the programming library increased by PLN 8.9m as the network bought more expensive movies and series aired over more hours.
Operating costs were further fueled by salaries which increased by PLN 5.0m, driven by new employees hired to manage the ‘n’ digital platform (PLN 1.0m in Q2). Last but not least, selling costs soared to PLN 33.7m from PLN 24.3m in Q3’06 (38.5%), partly due to expenses generated by Grupa Onet and Mango Media, although, even considered without these two subsidiaries, selling costs were still 33.6% higher than a year earlier.

Viewership

TVN Runs Out of Steam...

While 2006 was a record ratings year for the TVN Group’s flagship channel "TVN," 2007 has been a big step back. Twelve months ago, it seemed that TVN can knock the public station TVP2 off the number-two spot, and work its way toward the top. Meanwhile, rival Polsat kept getting higher ratings, and TVN has stayed a distant fourth for the better part of the year even after increasing programming budget allocations. It seems obvious that the 2007 fall season will be a far cry from last year's, when the station drew 16.74% of the overall viewing audience. Viewing figures in the target demographic look even worse. TVN has been losing the viewers most coveted by advertisers, throughout the day as well as in prime time, from quarter to quarter. Its share of the all-day target audience fell to 22.1% from 24.6% y/y in Q1, to 21.8% in Q2'07 from 23.7% in Q2'06, and to 19.8% in Q3'07 from 21.6% in Q3'06. The prime-time audience share fell to 2.7% in Q1; 3.0% in Q2, and 2.6% in Q3 vs. corresponding periods of 2006.

Viewership figures for the four most popular TV stations

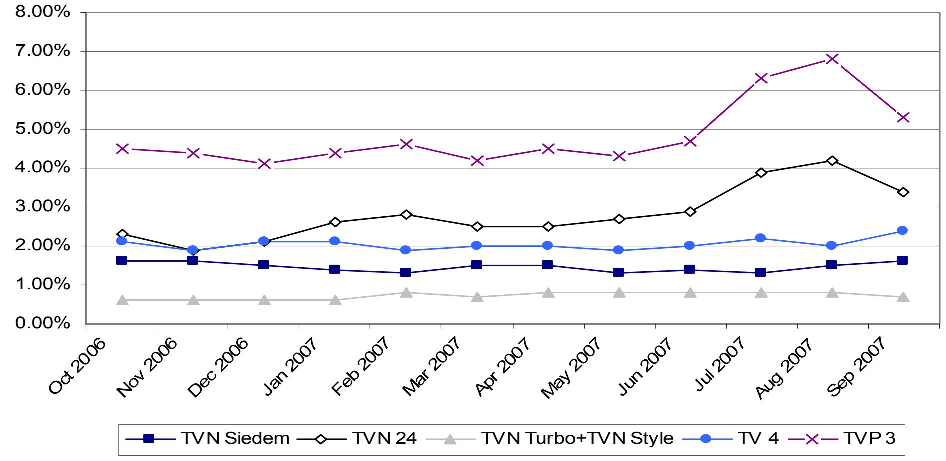


Source: AGB Nielsen, BRE Bank Securities

...While TVN24 Gains Momentum

TVN’s rating slump was more than offset by the strong performance of the TVN 24 news channel, and the Group’s other special-interest channels, fueled by wider household reach. The number of cable and satellite subscribers watching TVN24 and TVN Meteo (weather channel) increased to 5.1 million in mid-2007 from 4.0 million a year earlier, and the number of households subscribing to TVN Turbo (motoring channel), and TVN Style (women’s interest) increased to 4.9 million each from 3.6 million and 3.9 million respectively. The political turmoil seen over the past months also gave a boost to TVN 24’s audience numbers. In effect, TVN24 more than compensated for TVN’s viewership collapse, increasing its share of the overall all-day audience, as well as of the target demographic, which increased to 5.7% y/y from 3.8% in Q1’06; to 5.7% from 3.6% in Q2, and to 7.7% from 5.0% in Q3.

Audience shares of less-watched channels (incl. TVN Group channels)



Source: AGB Nielsen, BRE Bank Securities

New Market Trends

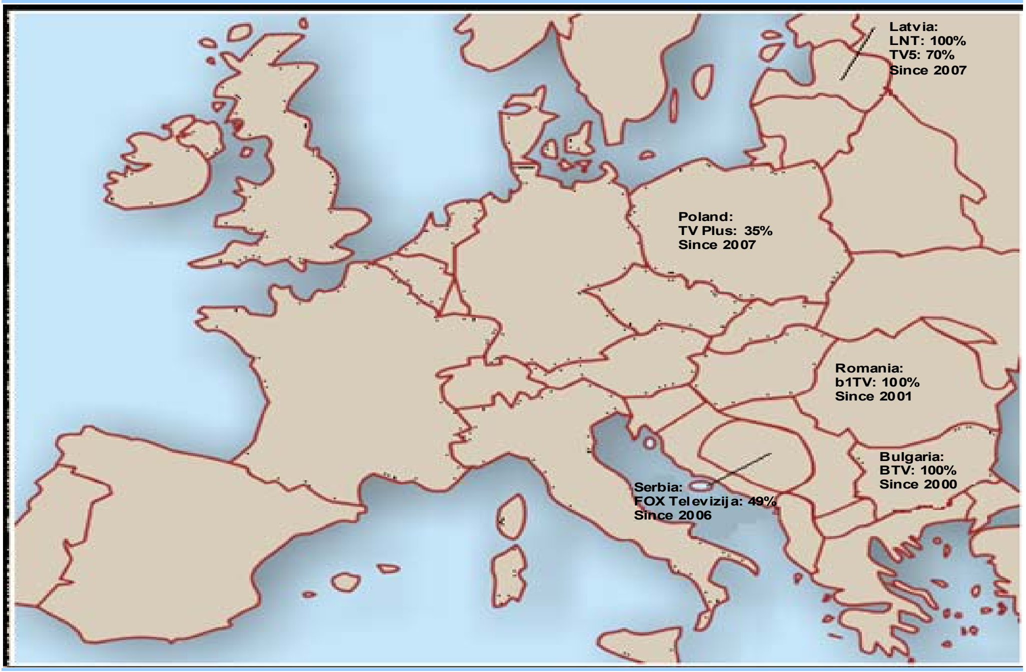
TV Puls

Big Fish In Poland's Pond

TVN channels have been very successful in today's marketplace. But the Group's future standing coul be affected by the imminent transformations in the broadcasting landscape. 28 October marked the launch of a revamped TV Puls, a former catholic station, since recently a 35% subsidiary of the News Corporation controlled by the media mogul Rupert Murdoch. TV Puls has newly obtained a broadcasting license which allows it to reduce religious and public-service content in favor of commercial programming.

News Corporation has a history of rapid success in television markets worldwide. FOX television network is one of the leading broadcasting companies, in the United States, FOX News is the most-watched US cable news channel, BSkyB, the digital pay TV platform is a great success in the UK, and Sky Italia is competing with Mediaset, the media empire run by Silvio Berlusconi. News Corporation is also gaining ground in Central and Eastern Europe, broadcasting in Romania and Bulgaria, and, since recently, also in Serbia, Latvia, and Poland. News Corp's consolidated revenue for the fiscal year ended June came in at $28.6bn, with operating profit at $4.5bn. Just a tiny fraction of this capital would suffice to turn things around for TV Puls. What is more, being just a drop in the News Corp ocean, there is no pressure for TV Puls to start generating profits quickly, and the station can offer competitive prices to advertisers, and focus on attracting viewers. The News Corporation's biggest advantage is its programming library, featuring 20th Century Fox movie productions, which is licensed to Polsat for two more years, but which is rich enough to give TV Puls an edge over competition.

News Corp's TV holdings in CEE



Source: BRE Bank Securities

The Case of Bulgaria's bTV

News Corp's subsidiary Balkan News Corporation moved into Bulgaria toward the end of 2000, by setting up the country's first private nationwide television network, the "bTV." Thanks to an exciting programming line-up based on western licenses, bTV became Bulgaria's most-watched station in just two years, more popular than the public television network BNT. In 2003, bTV achieved a 49% audience share compared to BNT's 20.7%. This share fell to 35% in subsequent years due to increasing competition, but bNT remains the number-one station among Bulgarian viewers.

As far as TV Puls is concerned, it is not likely to repeat bNT's success story for reasons described below. But it is fully capable of achieving a 5-6% market share in four years' time, to become the fifth most-watched TV station in Poland, eating into the advertising revenues of TVN. TV Puls's management say that their growth strategy is similar to TVN's at the time it was launched 10 years ago, namely, to start building a reputation through news services, and aim to draw the largest number of viewers during prime-time.

Polish TV station coverage in May 2007

TV station	reach
TVP1	99.9%
TVP2	99.9%
Polsat	96.2%
TVN	86.8%
TV Puls	57.2%

Source: TVN, AGB Nielsen, BRE Bank Securities

TV Puls: Obstacles and Solutions

At this early stage, TV Puls only reaches 13% of households through terrestrial transmitters, and ca. 57% households including cable and satellite TV subscribers, which is little compared to the two public TVP networks, Polsat, and TVN. A limited viewer base is a big drawback from an advertising standpoint, and places TV Puls way down on the owner's priority list when it comes to investments. To make profits on airing News Corp's hit shows, the station needs a bigger audience, and, until it then, we doubt that News Corp will bother trying to impress a small viewer group like TV Puls's.

Cable and digital TV subscribers

	2003	2004	2005	2006	2007F
cable subscribers	3566	3670	3700	3900	3900
incl. pay TV	2300	2380	2430	2520	2610
digital TV subscribers	900	1010	1315	1790	3000
total pay-TV subscribers	3200	3390	3745	4310	5610
as percentage of households	23.9%	25.1%	27.5%	31.5%	40.7%

Source: TVN, BRE Bank Securities

For these reasons, TV Puls's current programming schedule, which we find rather disappointing, in no way reflects the station's true potential. Clearly, News Corp underestimated the strength of the competing networks. But TV Puls's program line-up is just enough to achieve the short-term goal of a ca. 2% audience share by the end of 2008, as a springboard for further expansion.

Improving reach is the key challenge at this stage of TV Puls's development. The station has placed bids on five new spectrum ranges in and around Katowice-Bytków, Szczecin, Wrocław, Leszno, and Nowy Sącz, expected to be awarded between April and June 2008. Because this is not enough to think about competing with the majors, the station hopes to benefit from the widespread of cable and satellite broadcasting. These alternative forms of signal transmission are gaining speed, with the number of pay cable and satellite TV subscribers expected to reach 5.6 million by the end of the year, i.e. around 40% of all Polish households. Since TV Puls is a free service, it will probably be featured in every cable and satellite operator's program packages. But the ultimate cure for TV Puls's narrow reach will be the launch of digital television in Poland (read on for an impact analysis).

Due to a small audience, TV Puls cannot compete with TVN for advertising revenues. However, with big money supporting it, the station will be a source of cost pressure for TVN (salaries, producer fees).

Digitization of the Media

No Shield For Existing Broadcasters

Among the factors that will change the face of the Polish media market will be a definitive switch-over from analog to digital signal in the EU scheduled for 2014. During the transition period, analog and digital services will coexist. The switch-off will bring about a revolution in the Polish television market. Thanks to the MPEG-4 image compression standard, a single spectrum band will be able to carry between six and eight channels instead of one, eliminating the main factor which, to date, has kept potential new competitors away: a shortage of spectrum space. Incumbents like TV Puls will also benefit from the switch-off by gaining broader reach.

New Services and Their Impact on TVN

The digital revolution will provide a platform for the development of interactive TV delivering a whole new viewing experience. Polish audiences will be able to enjoy services such as VOD, NVOD, and pay-per-view, enabling them to watch their favorite shows whenever they want, and pay for their service with their remote controls. This, in turn, can give a boost to home shopping, the core business of TVN's recent acquisition Mango Media, though not until the deployment of IPTV in Poland, which is a matter of the distant future.

Digitization Hurdles

Prices could be an obstacle to a speedy analog-to-digital switch. To receive digital television, households have to shell out for special television sets, or connect a costly set-top-box ("STB") to their conventional analog TVs. Looking at the experience of other European countries, STB prices could significantly slow down the analog switch-off. Countries like Great Britain, Germany, and Italy, introduced subsidies to speed up the process. Considering the huge wealth gap between Poland and "old" EU countries, and the fact that many Polish households rely on terrestrial transmitters for their television service, the 2014 switch-off deadline will be hard to keep. Even so, digitization will be transforming the television market, and TVN will feel its impact in market share and costs starting in 2011.

That said, some experts predict that the future role of digital television is overestimated. A fast expansion of alternative broadcasting technologies like satellite, cable, and mobile services, could help achieve equal reach for all TV stations without much help from digital signal.

Competition

Competing News Services

Encouraged by the success of TVN's news channel TVN 24, the public television network TVP and Polsat launched their own news services" "TVP Info" replaced the former TVP3 in early October, and "Polsat 24" is in the works. TVP Info had a 5.14% audience share according to measurements taken between 6 and 23 October, compared to TVP3's 4.5% in the same period a year earlier, but was far behind TVN 24's 6.6% cable and satellite viewership with 3.85%. Both newcomers need time to achieve the quality and professionalism of TVN 24's news coverage and really start competing with the market leader. In the mean time, however, they will eat away at TVN 24's growth potential, given how small an audience there is for strictly-news programming. But it could also turn out that Polsat and TVP overestimated the power of news. 2007 saw a surge in political interest among Poles, as witnessed by a record voter turnout during October's general election. Now that the media frenzy over the election has died down, so will citizen interest in politics, creating a shrunken market populated by more news services.

Polsat Attacks

In October 2006, former TVP executive Ms. Nina Terentiew took over Polsat's programming reins, bringing in 35 years of experience (including 8 years as TVP's programming director), and in-depth knowledge of the television market. Her arrival marked the beginning of big changes for Polsat, which waged a fierce and successful battle for viewers, moving steadily up in ratings, especially among the 16-49 year-old demographic most desired by TVN, an audience which, to date, has enabled TVN to translate a 21% audience share into an over-32% share in the TV advertising market. Even worse, Polsat is expecting to receive a considerable capital injection soon from Axel Springer, which is negotiating to take over a 25% stake in the network. Regardless, Polsat is also thinking about going public. At the moment, the prospectus of its digital TV subsidiary Cyfrowy Polsat is filed with the securities regulator, with market debut slated for 2008. The proceeds will make Polsat an even more formidable rival.

New Directions For Public Television

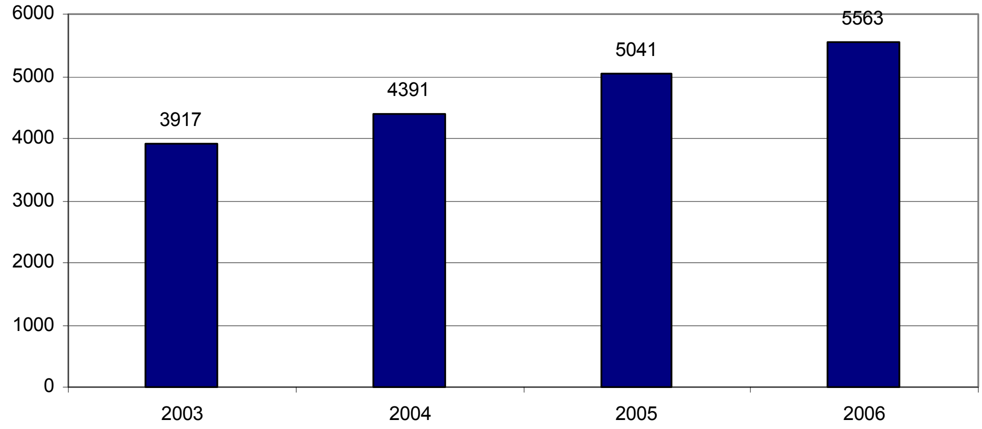
Poland's new government has plans to reform public television. There are many ideas on what public TV services should be like, and changes seem inevitable. At the heart of all these plans is the concept of waiving license fees as a source of financing, and adopting a policy similar to the BBC's, where commercial channels help fund public services. This means more commercial interruptions. The consequence for TVN would be more pressure in the competition for advertising revenues. The situation will go from bad to worse if the government agree to privatize public stations and take them public as a way of forever solving their money problems, ensuring transparency, and fast decision-making processes, making them an attractive place of work for top TV professionals.

From TVN's standpoint, a much better scenario would be if public stations drop commercials altogether, and become funded by private broadcasters who would then have a larger advertising pool to dip into. Without a major rival like TVP in the way, TVN could continue to expand market share and strengthen the bargaining power of its TV stations. provided, of course, that the government make the "alimony" that private networks would have to pay to public broadcasters reasonable.

Growth Opportunities

Polish Advertising Market

Net market value (PLN m)

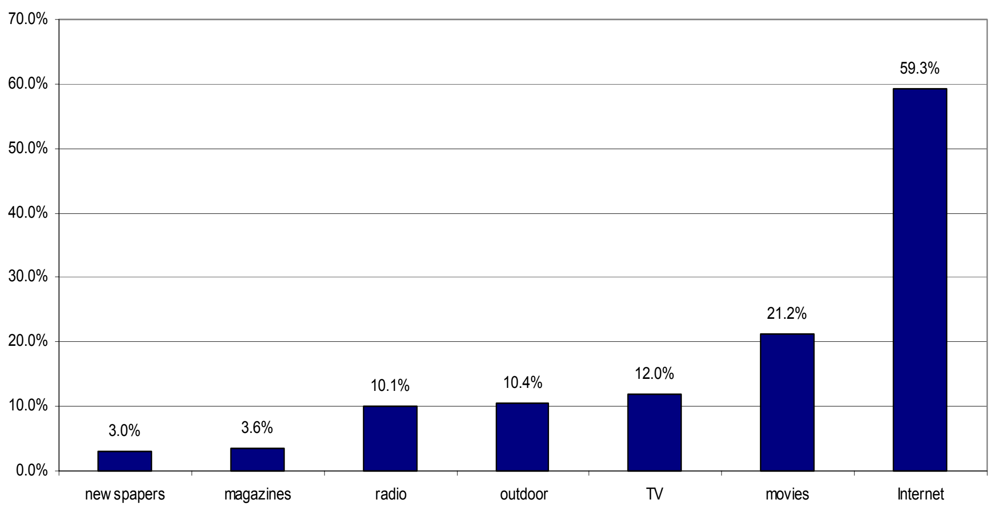


Source: Starlink

Future Outlook

The advertising market, the key driver behind TVN's revenues, moves with economic cycles. Ad expenditure is very volatile, as companies looking for savings during bad times usually cut down on promotion first. But when the economy grows, ad spending rises faster than the GDP (hence our estimates concerning future advertising expenditures in Poland, based on GDP forecasts). According to projections by the IBnGR, Polish GDP will rise at a rate of 6.1% in 2007, to slow to 5.5% in 2008, and 5.0% in 2009. Based on this, we predict that, initially, the advertising market will expand much faster than the GDP thanks to structural factors such as liberalization of the telecommunications and postal markets, and increased competition from EU companies. Furthermore, the ratio of advertising expenditures to GDP, which stood at 0.57% in 2006 compared to the EU average of ca. 0.8%, will increase. This year's snap election campaign gave a boost to the advertising industry, and we predict that the market will grow at double-digit rates for the first three years of the forecast horizon, to gradually ease to 6%, with the ratio to GDP reaching today's EU average at the end of the forecast period, at an estimated average GDP growth rate for the period of 4.8%. The average increase in advertising so calculated figures to ca. 8.1%.

Advertising market growth in Poland (2005/2006)



Source: Starlink

Television Broadcasting and Production

Advertising Revenues

According to Starlink research, television in Poland had a 49.9% share in total advertising expenditure, much more than the global average of 37.9%. Going forward, this ratio is bound to follow world trends and decrease as a result of several factors: First, as the wealth of the Polish population increases, TV stations are facing more competition from other sources of entertainment like the movies, theater, and hobby courses, but, first and foremost, broadband Internet. A UK study showed that people who use fast Internet connections spend 2.1 hours per week less on average than people with slower connections - a trend which is likely to be repeated in Poland as broadband Internet becomes more accessible. And, presuming that advertisers will be following consumers onto the World Wide Web, we predict that television's share in the advertising market will decrease to 46.5% in 2017, with an implied average ad-market growth of 7.4%.

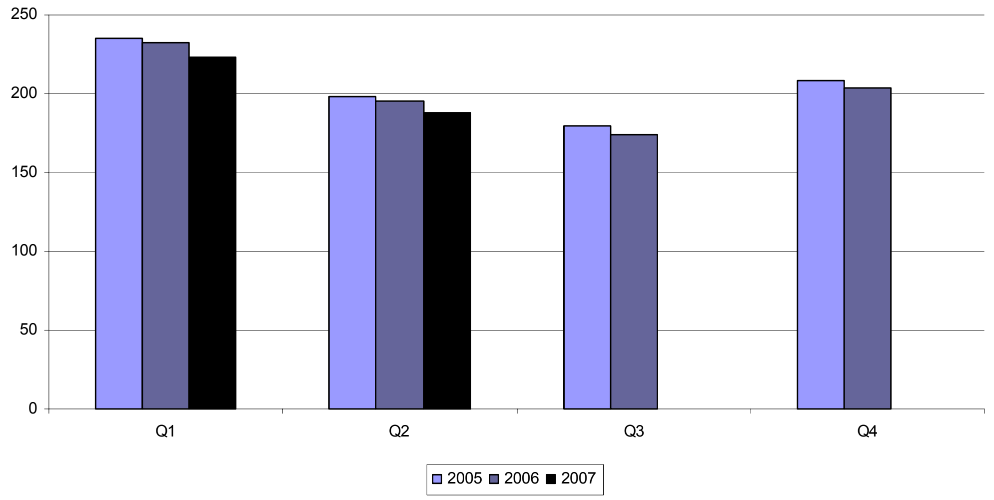
Advertising Market, TVN's ad revenue in the forecast horizon

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
advertising market value	6397	7165	7860	8528	9211	9874	10496	11125	11782	12477
TVN's market share	49.9%	49.6%	49.3%	49.0%	48.7%	48.3%	47.9%	47.5%	47.2%	46.9%
TV ad market value	3192	3554	3875	4179	4486	4769	5027	5285	5561	5852
TVN's audience share	21.5%	21.3%	21.1%	21.0%	20.8%	20.4%	20.0%	19.7%	19.4%	19.0%
TVN's share in the TV market	32.5%	32.1%	31.9%	31.7%	31.3%	30.7%	30.1%	29.6%	29.1%	28.4%
TVN's advertising revenues	1039	1142	1236	1325	1404	1464	1511	1564	1618	1662

Source: BRE Bank Securities

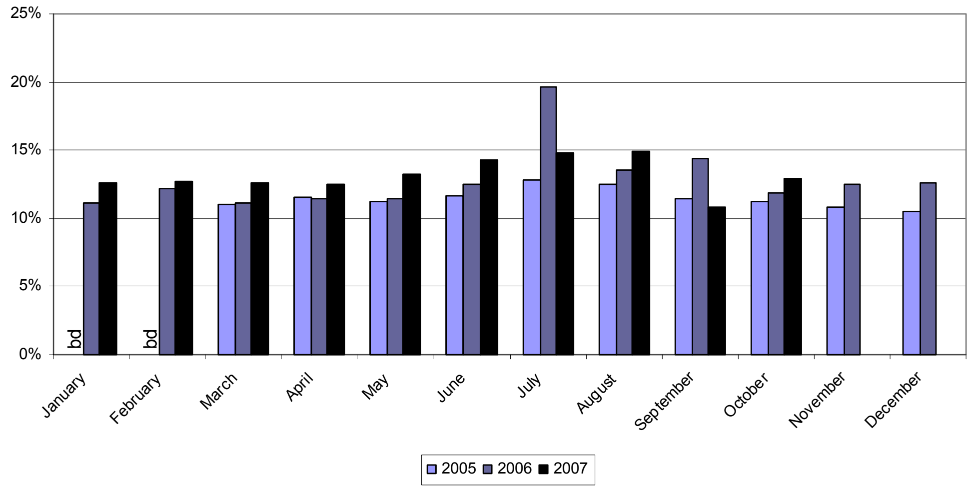
Competitive pressure will be getting stronger in the forecast horizon, as networks gain equal reach thanks to cable and satellite broadcasting technology, and as digitization of analog signal progresses. Furthermore, Polish broadcasters will face competition from foreign players attracted by our market's huge growth potential. This means viewership erosion for TVN stations. Based on historical data, we determined the relationship between TVN's all-day audience and its advertising market share, and used it to predict the impact of competition on TVN's ad revenues, assuming that the Group's ad market share will fall to 27.7% in 2017.

Average TV viewing time (minutes per day)



Source: TVN

Non-terrestrial television audience (excluding TVN stations)



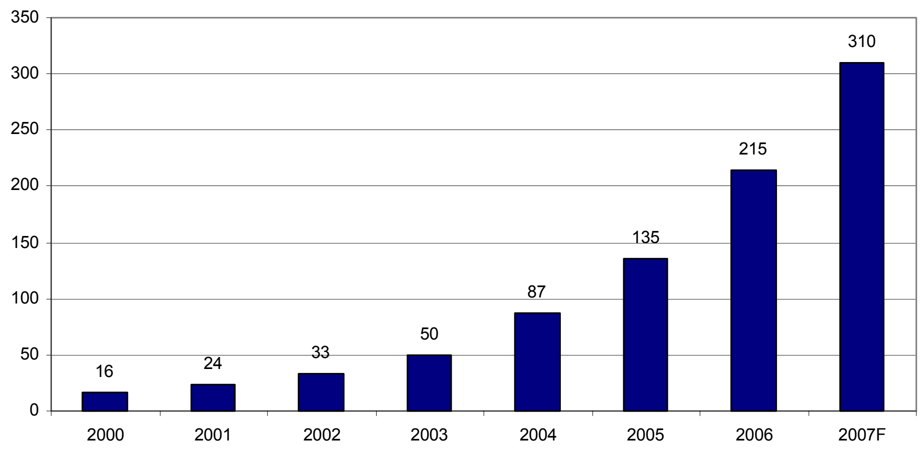
Source: TVN

Other Revenue Sources

Demand for sponsorship services is influenced by the same factors as demand for advertising, hence, TVN's revenues from both businesses display the same trends. Gains from broadcasting license fees are determined by the number of pay television subscribers, which, in turn, depends on the expansion of cable and satellite services, and, later on, also DTTV. Over the past five years, the cable and satellite subscriber base increased at an average 8.4% annually, with an upward trend. We expect this pace to be maintained in the next few years, but later, as the market becomes saturated, it will slow down from 23% in 2007 to an estimated 4% at the end of the forecast horizon. Pay-TV viewer numbers will also depend on each station's penetration of the cable and satellite audiences. In this respect, TVN 24 and TVN Meteo have the smallest growth potential as they reach approximately 75% of all cable and satellite subscribers (2006). TVN's younger channels have more to gain in this department.

TVN's home-shopping channel Mango Media is poised to unleash its revenue-generating potential for now. The home shopping industry is enjoying strong momentum in the USA and Western Europe, where its value reached $8 billion and $6.5 billion respectively in 2005, and experts predict an equally robust future for it in Central and Eastern Europe. Poland could prove less fertile ground for TV shopping due to its social structure: in the US and Western Europe, home-shopping TV's most loyal viewers are housewives (women make 70% of all customers in Europe) and seniors (ca. 55% of buyers are aged over 50). In Poland, a social group like "housewives" does not really exist, the prevailing model being a double-income household, and the purchasing power of senior citizens is a far cry from that of their Western European and US counterparts. Taking this into account, we cautiously forecast that TVN's home-shopping revenues will increase by an average 26% a year, a pace comparable with that observed in Western Europe, to approximate PLN 300m at the end of the forecast horizon.

Online advertising expenditures in Poland (PLN m)



Source: IAB Polska, BRE Bank Securities

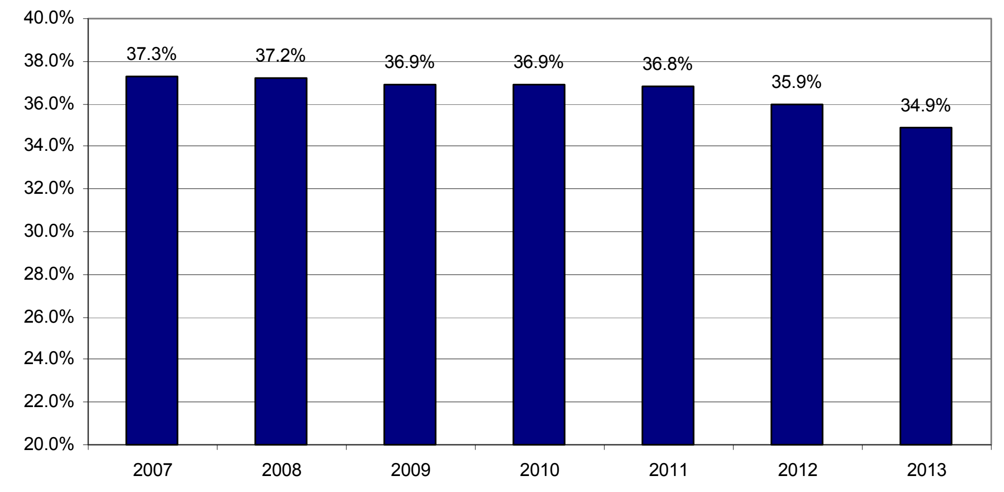
Expenses and Margins

The arrival of the News Corporation, aggressive competition from Polsat, and the inevitable digitization of television, will all take their toll on TVN's costs. To defend market share from the new rival TV Puls, the Group will have to step up expenditure on production and purchases of more expensive programs, which, if aired more frequently, will increase amortization charges, and spend more on marketing. In addition to competing for audience, TV Puls is sure to go after other networks' news and hosting talent, as well as technical staff, given its plans to increase personnel from 100 to 300 by the end of the year. The station has already convinced some reporters, mainly news anchors, to switch employers, and rival networks have to defend themselves from losing more talent by raising salaries.

As far as profit margins are concerned, they will be affected by the advancing digitization of services, and the disappearance of market entry barriers in the shape of a limited spectrum. TVN Group achieves margins around 38% from television broadcasting, much more than the 20-12% recorded by networks in mature European markets like Germany and France. Robust margins are what makes the Polish market attractive for foreign broadcasters, who will no doubt want to tap into this potential once the spectrum barriers disappear. To maintain audience share in a fiercely competitive marketplace, TVN stations will be forced to beef up expenditure. Once international players enter the playing field, margins will start to trend down toward the EU average, to reach 31.2% at the end of 2017.

Increased competition will have the biggest impact on the cost side of TVN's business, with the network spending more to keep its audience and advertising market share intact, leading to an erosion of profitability.

EBITDA margins achieved on TV broadcasting and production



Source: BRE Bank Securities

EBITDA margins achieved by foreign networks

	EBITDA margin		
	2007	**2008**	**2009**
RTL Group	16.5%	17.0%	18.0%
Mediaset	35.4%	37.3%	37.7%
ProSiebenSat 1	23.6%	25.0%	26.1%
ITV plc	16.0%	16.0%	19.1%
Gestevision Telecinco	45.2%	45.9%	44.0%
TF1	18.0%	17.6%	19.9%
Antena 3 de Television	32.4%	32.2%	31.4%
Metropole Television	22.8%	20.9%	22.9%
Maximum	45.2%	45.9%	44.0%
Minimum	16.0%	16.0%	18.0%
Median	**23.2%**	**23.0%**	**24.5%**

Source: BRE Bank Securities

New Media

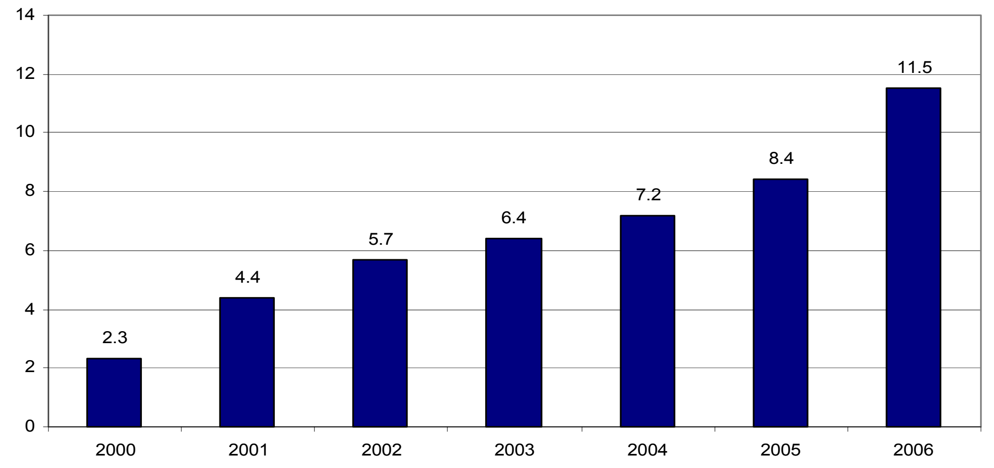
Advertising Revenues

TVN's New Media business is built around the Web portal Onet.pl which, we predict, is set to become the main driving force behind the group's future growth thanks to a rapid expansion of online advertising. Online ads account for 3.9% of overall advertising expenditure in Poland, compared to 5.6% (and counting) in the EU. The future of this industry depends on the development of the information society. At the end of 2006, 38.7% of Poles aged over 15 had Internet access, up from 28% in 2005 and 7.8% in 2000. Most Polish Internet users are people having disposable income, the prime target of marketing campaigns. The expansion of Web advertising is further driven by the widespread of broadband Internet, which enables the use of multimedia ads. Also, Internet users with fast connections spend more time on line than dial-up users, making the Web even more attractive for advertisers.

The rapid growth of Internet advertising is a worldwide trend. UK is in the lead in this respect, with Web ads accounting for 11.4% of total ad spending (14.7% in H1 2007). In Poland, spending will reach the current UK levels toward the end of our forecast horizon (14.6%, implying annual growth by ca. 22%).

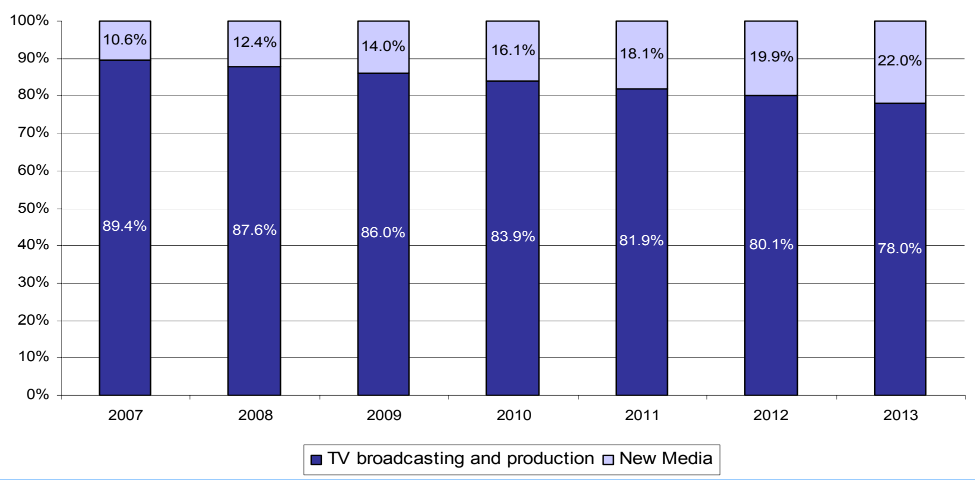
Onet.pl will have a hard time defending its 33.8% market share in this fast-moving environment, so attractive for new players who face much lower entry barriers than in the television market. We predict that, going forward, the portal will see shrinking market share, which will drop to 28.8% at the end of our forecast horizon.

Polish Internet users aged over 15 (millions)



Source: SMG/KRC NetTrack, December 2000-2006

TVN's revenues by source

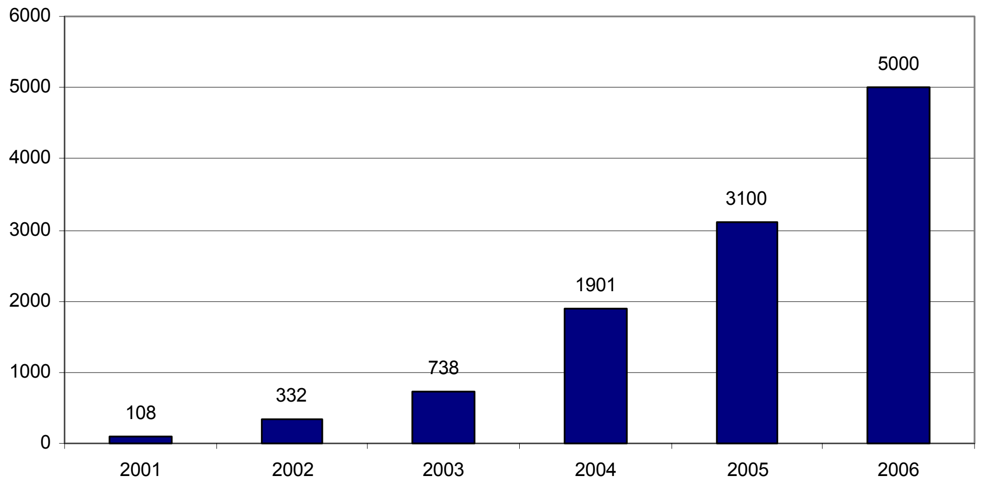


Source: BRE Bank Securities

Other Revenue Sources

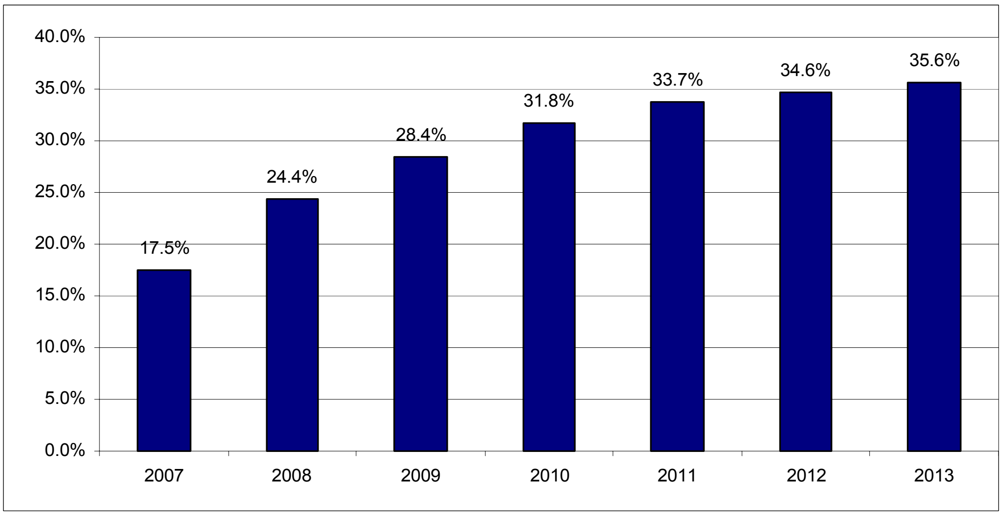
In addition to advertising, Onet.pl generates revenues from a wide range of Web-based services, such as e-mail accounts, a dating service, e-commerce, auctions, etc. The most profitable of these businesses is the dating site Sympatia.pl, and paid media downloads. As the number of Internet users and broadband connections increases, revenues from these two lines will expand at a similar pace as advertising revenues. Overall, Onet.pl's earnings momentum will be different in different lines of business. Paid e-mail accounts have reached maturity, and are not likely to see much more growth. On the other hand, revenues generated by the dating service are expected to rise a bit faster than the number of Internet users as the Web becomes more and more interactive. But the most rapid growth will be observed in downloads and e-commerce. Over the past six years, overall turnover from online sales surged almost 50-fold, reaching PLN 5bn in 2006, and is bound to ride the upward momentum as Internet access becomes more widespread. In turn, music and video downloads will be driven by the expansion of broadband connections. We estimate that these revenues will increase 33% a year on average, to reach PLN 338 million at the end of our forecast horizon.

e-commerce sales in Poland incl. online stores and auctions (PLN m)



Source: eCard SA, Allegro, IAB Polska

EBITDA margin achieved by TVN's New Media business



Source: BRE Bank Securities

Expenses and Margins

The main cost driver in the New Media segment are salaries. Since these are fixed costs, they will not grow at the rapid pace seen in revenues. Maintenance and rental expenses, consulting fees, and access costs, will also climb at slower rates. Meanwhile, marketing and promotional activity will likely be more intense as TVN fights to defend its market position against increasing competition. In result, Onet.pl will be expanding its EBITDA margin throughout the forecast horizon, from 18% now to 35.5% in FY2017.

EBITDA margins achieved by international Web portals

	EBITDA margin		
	2007	2008	2009
Yahoo! Inc	37.6%	38.0%	38.7%
RealNetworks Inc	9.2%	10.3%	11.8%
Baidu.com Inc	43.8%	44.0%	44.8%
Amazon.com Inc	7.4%	7.4%	8.5%
eBay	37.9%	37.8%	37.4%
Google Inc	42.3%	43.2%	42.7%
Maximum	43.8%	44.0%	44.8%
Minimum	7.4%	7.4%	8.5%
Median	**37.7%**	**37.9%**	**38.1%**

Source: BRE Bank Securities

Valuation

Valuation Summary

	PLN m	9M TP	per share	weight
DCF Valuation	7064.3	7637.0	22.0	50%
Relative Valuation	5847.7	6321.8	18.2	50%
Average		**6 979.4**	**20.1**	

Assumptions

1. DCF forecast horizon is ten years (FY2007-FY2016).
2. Risk-free rate is 5.5% (yield on 10Y Treasury bonds).
3. Dividend payout ratio at 50% throughout the forecast horizon.
4. FCF growth beyond the forecast horizon at 4.0%.
5. DCF model factors in management stock options valued using the Black-Scholes model for dividend-paying stocks.
6. The options were priced based on per-share price as adopted in initial DCF valuation.
7. Relative valuation does not reflect the impact of callable bond revaluations.

DCF Valuation

(PLN m)	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2016+
Sales revenue	**1 508.0**	**1 713.1**	**1 914.2**	**2 134.7**	**2 358.8**	**2 573.8**	**2 784.9**	**2 995.8**	**3 223.0**	**3 434.9**	**3 621.3**
change	*29.4%*	*13.6%*	*11.7%*	*11.5%*	*10.5%*	*9.1%*	*8.2%*	*7.6%*	*7.6%*	*6.6%*	*5.4%*
EBITDA	**530.8**	**609.7**	**683.4**	**770.4**	**855.5**	**918.6**	**976.4**	**1 030.4**	**1 085.1**	**1 131.6**	**1 171.0**
EBITDA margin	*35.2%*	*35.6%*	*35.7%*	*36.1%*	*36.3%*	*35.7%*	*35.1%*	*34.4%*	*33.7%*	*32.9%*	*32.3%*
Amortization and depreciation	70.0	75.5	77.9	86.1	97.2	100.4	102.7	104.3	106.0	108.3	109.7
Management stock options	45.0	45.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**460.8**	**534.2**	**605.6**	**684.3**	**758.3**	**818.1**	**873.7**	**926.1**	**979.1**	**1 023.3**	**1 061.3**
EBIT margin	*30.6%*	*31.2%*	*31.6%*	*32.1%*	*32.1%*	*31.8%*	*31.4%*	*30.9%*	*30.4%*	*29.8%*	*29.3%*
Tax rate on EBIT	87.5	101.5	115.1	130.0	144.1	155.4	166.0	176.0	186.0	194.4	201.7
NOPLAT	**373.2**	**432.7**	**490.5**	**554.3**	**614.2**	**662.7**	**707.7**	**750.1**	**793.1**	**828.8**	**859.7**
CAPEX	-155.0	-232.9	-193.5	-170.2	-125.1	-122.9	-119.7	-115.9	-124.6	-132.8	-109.7
Working capital	-65.5	-39.0	-38.2	-41.9	-42.9	-41.7	-41.1	-41.2	-44.5	-41.8	-36.8
Other	0.0	30.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	**297.8**	**281.4**	**336.6**	**428.2**	**543.4**	**598.6**	**649.7**	**697.3**	**729.9**	**762.5**	**822.9**
WACC	*10.1%*	*10.1%*	*10.1%*	*10.1%*	*10.1%*	*10.1%*	*10.1%*	*10.1%*	*10.1%*	*10.1%*	*10.6%*
discount factor	*99.2%*	*90.1%*	*81.8%*	*74.3%*	*67.5%*	*61.3%*	*55.6%*	*50.5%*	*45.9%*	*41.7%*	*37.7%*
PV FCF	295.4	253.5	275.3	318.1	366.5	366.7	361.4	352.2	334.8	317.6	4 695.5

	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2016+
WACC	***10.1%***	***10.1%***	***10.1%***	***10.1%***	***10.1%***	***10.1%***	***10.1%***	***10.1%***	***10.1%***	***10.1%***	***10.6%***
Cost of debt	*6.8%*	*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%*	*5.8%*	*5.6%*
Risk premium	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*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%*	*19.0%*
Net debt / EV	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*0.0%*
Cost of equity	*10.8%*	*10.8%*	*10.8%*	*10.8%*	*10.8%*	*10.8%*	*10.8%*	*10.8%*	*10.8%*	*10.8%*	*10.6%*
Risk premium	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Beta	1.0	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	*4.0%*
Terminal value	12 467.7
Discounted terminal value (PV TV)	4 695.5
Discounted FCF in the forecast horizon	3 241.5
Equity value	7 937.0
Net debt	740.8
Other non-operating assets	0.0
Minority interests	0.0
Management stock options	131.9
Equity value	7 064.3
Number of shares (millions)	346.9
Equity value per share (PLN)	**20.4**
Cost of equity (9M)	*8.1%*
Target Price	**22.0**
EV/EBITDA('07) for the target price	15.0
P/E('07) for the target price	24.3
TV to EV	59%

Sensitivity Analysis

	FCF growth in perpetuity				
	2.0%	**3.0%**	**4.0%**	**5.0%**	**6.0%**
WACC +1.0ppt	16.3	17.4	18.7	20.4	22.7
WACC +0.5ppt	17.5	18.7	20.2	22.3	25.1
WACC	18.7	20.2	22.0	24.5	28.2
WACC -0.5ppt	20.2	21.9	24.1	27.3	31.9
WACC -01.0ppt	21.8	23.8	26.6	30.6	36.7

Per-share value (unadjusted)

	FCF growth in perpetuity				
	2.0%	3.0%	4.0%	5.0%	6.0%
WACC +1.0ppt	15.3	16.3	17.5	19.2	21.4
WACC +0.5ppt	16.4	17.5	19.0	21.0	23.7
WACC	17.6	19.0	**20.7**	23.2	26.6
WACC -0.5ppt	19.0	20.6	22.7	25.8	30.2
WACC -1.0ppt	20.5	22.5	25.1	28.9	34.8

Value of option underlying instruments

	FCF growth in perpetuity				
	2.0%	3.0%	4.0%	5.0%	6.0%
WACC +1.0ppt	187.78	199.61	214.55	234.02	260.45
WACC +0.5ppt	200.67	214.54	232.31	255.91	288.76
WACC	215.14	231.51	**252.84**	281.78	323.31
WACC -0.5ppt	231.49	250.97	276.83	312.83	366.39
WACC -1.0ppt	250.09	273.48	305.21	350.74	421.56

Options

	FCF growth in perpetuity				
	2.0%	3.0%	4.0%	5.0%	6.0%
WACC +1.0ppt	69.71	81.02	95.31	113.93	139.20
WACC +0.5ppt	82.04	95.29	112.29	134.86	166.28
WACC	95.87	111.53	**131.92**	159.61	199.33
WACC -0.5ppt	111.51	130.13	154.87	189.30	240.54
WACC -1.0ppt	129.30	151.66	182.01	225.56	293.32

Per-share value adjusted for stock options

	FCF growth in perpetuity				
	2.0%	3.0%	4.0%	5.0%	6.0%
WACC +1.0ppt	15.1	16.1	17.3	18.8	21.0
WACC +0.5ppt	16.2	17.3	18.7	20.6	23.3
WACC	17.3	18.6	**20.4**	22.7	26.1
WACC -0.5ppt	18.6	20.2	22.3	25.2	29.5
WACC -1.0ppt	20.1	22.0	24.6	28.3	34.0

9M per-share target adjusted for stock options

	FCF growth in perpetuity				
	2.0%	3.0%	4.0%	5.0%	6.0%
WACC +1.0ppt	16.3	17.4	18.7	20.4	22.7
WACC +0.5ppt	17.5	18.7	20.2	22.3	25.1
WACC	18.7	20.2	**22.0**	24.5	28.2
WACC -0.5ppt	20.2	21.9	24.1	27.3	31.9
WACC -1.0ppt	21.8	23.8	26.6	30.6	36.7

Relative Valuation

Web portals like the TVN Group's Onet.pl are expanding rapidly everywhere in the world, and are usually higher priced in stock exchanges than television networks. Taking this into account, we wanted to avoid undervaluing the Group, and made separate relative valuations for the two main lines, television and Web services. We attached a 20% premium to the broadcasting business as a reward for the higher margins it is expected to achieve in the initial years of the forecast horizon compared to Western European broadcasters .

Revenues, EBITDA by business segment

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues:	1508.0	1713.1	1914.2	2134.7	2358.8	2573.8	2784.9	2995.8	3223.0	3434.9	3621.3
Television	1348.1	1501.3	1645.7	1790.8	1933.0	2062.9	2173.4	2298.9	2433.4	2542.9	2640.1
New Media	159.9	211.8	268.5	343.9	425.8	510.9	611.5	697.0	789.6	892.1	981.3
EBITDA:	530.8	609.7	683.4	770.4	855.5	918.6	976.4	1030.4	1085.1	1131.6	1171.0
Television	502.8	558.1	607.3	661.1	711.9	741.5	759.0	781.2	802.6	813.3	822.8
New Media	28.0	51.6	76.2	109.3	143.6	177.0	217.4	249.2	282.5	318.3	348.2

P/E, EV/EBITDA multiples for foreign TV networks

		EV/EBITDA			P/E		
	Price	2007	2008	2009	2007	2008	2009
RTL Group		9.8	8.6	7.6	17.3	16.4	15.3
Mediaset		6.4	5.8	5.4	14.6	14.0	12.9
ProSiebenSat 1		8.4	6.1	5.5	15.4	11.4	9.5
ITV plc		12.0	11.6	9.2	21.2	19.0	15.1
Gestevision Telecinco		8.6	8.1	8.2	13.6	13.1	12.9
TF1		8.7	8.3	6.9	14.7	12.8	10.9
Antena 3 de Television		7.5	7.2	6.7	11.0	10.6	10.4
Metropole Television		7.1	6.9	6.0	13.4	13.8	11.2
Maximum		12.0	11.6	9.2	21.2	19.0	15.3
Minimum		6.4	5.8	5.4	11.0	10.6	9.5
Median		**8.5**	**7.7**	**6.8**	**14.6**	**13.5**	**12.1**
TVN	23.8	**16.5**	**14.4**	**12.6**	**25.9**	**21.8**	**18.6**
premium / discount		94.8%	87.7%	85.5%	76.9%	61.8%	54.2%

Relative valuation of the TV broadcasting and production sector

Multiple-based price	PLN m	weight
EV/EBITDA	4509.9	50%
P/E	5690.6	50%
Implied value	**5100.3**	

EV/EBITDA multiples of foreign Web portals

	EV/EBITDA		
	2007	2008	2009
Yahoo! Inc	16.1	13.4	11.1
RealNetworks Inc	11.7	8.7	6.7
Baidu.com Inc	101.4	54.0	33.9
Amazon.com Inc	29.2	20.9	14.7
eBay	14.0	11.3	9.0
Google Inc	26.8	18.7	14.4
Maximum	101.4	54.0	33.9
Minimum	11.7	8.7	6.7
Median	**21.5**	**16.0**	**12.8**

Relative Valuation, New Media

Multiple-based price	PLN m	weight
EV/EBITDA	747.4	100%
Implied	**747.4**	

Relative Valuation Summary

Sector value	PLN m
TV broadcasting and production	5100.3
New Media	747.4
Implied value of TVN Group	**5847.7**

Income Statement

(PLN m)	2005	2006	2007F	2008F	2009F	2010F	2011F
Sales revenue	**860.3**	**1 165.0**	**1 508.0**	**1 713.1**	**1 914.2**	**2 134.7**	**2 358.8**
change	*20.0%*	*35.4%*	*29.4%*	*13.6%*	*11.7%*	*11.5%*	*10.5%*
Advertising revenues	708.4	941.6	1 172.1	1 319.8	1 454.0	1 592.6	1 715.7
Other revenues	151.9	223.4	335.9	393.3	460.1	542.0	643.2
Cost of goods sold	**602.0**	**759.6**	**1 002.3**	**1 133.9**	**1 263.6**	**1 405.3**	**1 555.6**
license amortization	103.8	112.3	150.3	173.8	197.3	223.4	251.6
COGS	170.1	308.5	408.4	469.5	530.1	597.3	669.4
salaries	127.0	74.3	120.2	138.2	156.1	175.9	197.1
broadcasting	51.7	43.8	45.1	46.5	47.9	49.3	50.8
amortization and depreciation	38.6	51.4	70.0	75.5	77.9	86.1	97.2
marketing and promotion	24.2	36.9	58.6	74.6	92.1	113.3	137.1
rentals	19.7	23.8	23.8	24.8	25.7	17.8	3.5
copyright fees	26.0	47.5	49.4	50.9	52.4	54.0	56.1
revaluation of receivables	1.3	0.2	0.2	0.2	0.2	0.2	0.2
other	39.5	60.9	76.1	79.9	83.9	88.1	92.5
Other net operating profit	2.4	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**256.0**	**348.4**	**460.8**	**534.2**	**605.6**	**684.3**	**758.3**
change	*43.7%*	*36.1%*	*32.3%*	*15.9%*	*13.4%*	*13.0%*	*10.8%*
EBIT margin	*29.8%*	*29.9%*	*30.6%*	*31.2%*	*31.6%*	*32.1%*	*32.1%*
Profit on financing activity	8.2	-64.3	-72.0	-67.6	-58.9	-46.7	-29.3
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	**264.2**	**284.1**	**388.7**	**466.6**	**546.6**	**637.6**	**729.0**
Tax	-54.3	-54.2	-73.9	-88.7	-103.9	-121.1	-138.5
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Net income	**209.2**	**186.3**	**314.9**	**378.0**	**442.8**	**516.4**	**590.5**
change	*6.6%*	*-11.0%*	*69.0%*	*20.0%*	*17.1%*	*16.6%*	*14.3%*
margin	*24.3%*	*16.0%*	*20.9%*	*22.1%*	*23.1%*	*24.2%*	*25.0%*
Amortization and depreciation	38.6	51.4	70.0	75.5	77.9	86.1	97.2
EBITDA	**294.6**	**399.8**	**530.8**	**609.7**	**683.4**	**770.4**	**855.5**
change	*40.5%*	*35.7%*	*32.8%*	*14.9%*	*12.1%*	*12.7%*	*11.0%*
EBITDA margin	*34.2%*	*34.3%*	*35.2%*	*35.6%*	*35.7%*	*36.1%*	*36.3%*
Shares at year-end (millions)	64.0	343.5	346.9	346.9	346.9	346.9	346.9
EFS	3.3	0.5	0.9	1.1	1.3	1.5	1.7
CEFS	3.9	0.7	1.1	1.3	1.5	1.7	2.0
ROAE	*59.7%*	*22.8%*	*23.4%*	*24.1%*	*24.5%*	*24.8%*	*24.7%*
ROAA	*21.6%*	*12.8%*	*15.6%*	*17.5%*	*19.1%*	*21.2%*	*23.6%*

Balance Sheet

(PLN m)	2005	2006	2007F	2008F	2009F	2010F	2011F
ASSETS	**1 441.4**	**2 578.7**	**2 913.9**	**3 205.7**	**3 529.7**	**3 901.6**	**4 315.2**
Fixed assets	**944.7**	**1 958.7**	**2 073.3**	**2 247.7**	**2 380.1**	**2 482.6**	**2 529.9**
Property, plant and equipment	139.7	196.0	251.2	353.5	428.7	483.4	501.6
Intangible assets	167.7	1 642.2	1 671.9	1 727.0	1 767.5	1 796.9	1 806.7
Long-term programming assets	55.0	105.3	134.9	151.8	168.5	186.8	206.1
Assets held for sale	9.2	4.7	4.7	4.7	4.7	4.7	4.7
Bond receivables from subsidiaries	561.6	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax asset	9.2	6.2	6.2	6.2	6.2	6.2	6.2
Other fixed assets	2.2	4.3	4.4	4.4	4.5	4.5	4.6
Current assets	**496.7**	**620.0**	**840.5**	**958.0**	**1 149.6**	**1 419.0**	**1 785.3**
Short-term programming assets	151.1	186.4	239.0	269.1	298.6	331.0	365.3
Trade receivables	137.3	185.3	239.6	272.2	304.2	339.2	374.8
Derivative instruments	97.7	128.1	128.1	128.1	128.1	128.1	128.1
Prepayments	26.8	15.6	20.1	22.6	25.1	27.8	30.7
Taxes receivable	3.1	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
Cash and cash equivalents	80.8	104.6	213.7	266.1	393.6	592.9	886.4

(PLN m)	2005	2006	2007F	2008F	2009F	2010F	2011F
LIABILITIES	**1 441.4**	**2 578.7**	**2 913.9**	**3 205.7**	**3 529.7**	**3 901.6**	**4 315.2**
Equity	**396.7**	**1 237.2**	**1 459.6**	**1 680.1**	**1 933.9**	**2 229.0**	**2 561.2**
Share capital	64.0	68.7	69.4	69.4	69.4	69.4	69.4
Share premium reserve	-0.6	77.1	77.1	77.1	77.1	77.1	77.1
Retained earnings	333.3	1 091.4	1 313.1	1 533.7	1 787.4	2 082.5	2 414.8
Long-term liabilities	**888.8**	**1 017.6**	**1 054.9**	**1 083.0**	**1 110.8**	**1 141.1**	**1 173.3**
Senior Notes (9.5%)	843.5	841.9	829.7	829.7	829.7	829.7	829.7
Long-term derivatives	0.0	1.1	1.1	1.1	1.1	1.1	1.1
Deferred tax reserve	45.3	174.6	224.1	252.3	280.0	310.3	342.5
Long-term liabilities	**155.9**	**323.9**	**399.4**	**442.5**	**485.0**	**531.5**	**580.7**
Trade creditors	56.0	152.1	195.1	219.6	243.8	270.2	298.2
Bond interest payable	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Taxes payable	6.6	52.7	52.7	52.7	52.7	52.7	52.7
Other	89.6	115.5	148.1	166.7	185.0	205.0	226.3

Debt	847.2	845.4	833.3	833.3	833.3	833.3	833.3
Net debt	204.9	740.8	619.5	567.2	439.6	240.4	-53.1
(Net debt / Equity)	*51.7%*	*59.9%*	*42.4%*	*33.8%*	*22.7%*	*10.8%*	*-2.1%*
(Net debt / EBITDA)	0.7	1.9	1.2	0.9	0.6	0.3	-0.1
BVPS	6.2	3.6	4.2	4.8	5.6	6.4	7.4

Cash Flows

(PLN m)	2005	2006	2007F	2008F	2009F	2010F	2011F
Cash flows from operating activities	**236.6**	**446.8**	**440.8**	**510.2**	**569.1**	**637.7**	**706.2**
EBITDA	294.6	399.8	530.8	609.7	683.4	770.4	855.5
Working capital	-25.1	51.8	-65.5	-39.0	-38.2	-41.9	-42.9
Tax	-54.3	-54.2	-73.9	-88.7	-103.9	-121.1	-138.5
Provisions	21.5	49.3	49.4	28.2	27.7	30.3	32.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flows from investing activities	**-40.0**	**-756.3**	**-155.0**	**-232.9**	**-193.6**	**-170.3**	**-125.2**
CAPEX	-49.0	-120.6	-155.0	-232.9	-193.5	-170.2	-125.1
Capital investments	13.1	-1 242.7	0.0	0.0	0.0	0.0	0.0
Other (non-cash)	-4.1	607.1	0.0	0.0	0.0	0.0	0.0
Cash Flows	**-181.7**	**244.9**	**-177.3**	**-225.0**	**-247.9**	**-268.1**	**-287.5**
Debt	-83.1	-1.6	-12.2	0.0	0.0	0.0	0.0
Dividends/buy back	-119.5	0.0	-93.1	-157.4	-189.0	-221.4	-258.2
Derivatives	-61.8	-29.3	0.0	0.0	0.0	0.0	0.0
Interest paid	-81.6	-91.9	-84.1	-82.6	-82.6	-82.6	-82.6
Interest received	-1.8	8.3	12.0	15.0	23.7	35.9	53.3
F/X differences	13.2	0.0	0.0	0.0	0.0	0.0	0.0
Other	153.0	-80.5	0.0	0.0	0.0	0.0	0.0
Change in cash	**15.0**	**-64.6**	**108.5**	**52.3**	**127.6**	**199.2**	**293.5**
Cash at the end of period	80.7	16.1	213.1	266.1	393.6	592.9	886.4
DPS (PLN)	1.9	0.0	0.3	0.5	0.5	0.6	0.7
FCF	168.4	321.6	267.7	281.4	381.6	473.2	588.4
(CAPEX / Sales)	*5.7%*	*10.4%*	*10.3%*	*13.6%*	*10.1%*	*8.0%*	*5.3%*

Market multiples

	2005	2006	2007F	2008F	2009F	2010F	2011F
P/E	7.2	43.7	26.1	21.8	18.6	15.9	13.9
P/CE	6.1	34.3	21.4	18.1	15.8	13.6	12.0
P/BV	3.8	6.6	5.6	4.9	4.3	3.7	3.2
P/S	1.8	7.0	5.5	4.8	4.3	3.9	3.5
FCF/EV	*9.8%*	*3.6%*	*3.0%*	*3.2%*	*4.4%*	*5.6%*	*7.2%*
EV/EBITDA	5.8	22.2	16.7	14.4	12.7	11.0	9.5
EV/EBIT	6.7	25.5	19.2	16.5	14.3	12.4	10.8
EV/S	2.0	7.6	5.9	5.1	4.5	4.0	3.5
DYield	*7.9%*	*0.0%*	*1.1%*	*1.9%*	*2.3%*	*2.7%*	*3.1%*
Price (PLN)							
Shares at year-end (millions)	64.0	343.5	346.9	346.9	346.9	346.9	346.9
MC (PLN m)	1516.1	8141.2	8222.1	8222.1	8222.1	8222.1	8222.1
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	1 721.0	8 882.0	8 841.6	8 789.3	8 661.7	8 462.4	8 168.9

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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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