

CEE Telecoms

Safe haven – 17 June 2009

Attractive valuation: cheaper than other sectors, yet stronger fundamentals

T-Hrvatski Telekom as top pick: dirt cheap with best-in-class margins and dividend yield

Not immune to recession: negative growth for 2009e, but the rate of decline remains limited

Intensifying regulatory pressure: severe MTR reductions, extension of Eurotariff

Harsh competition: falling prices, saturated mobile market, slowdown in broadband growth

Executive summary

CEE incumbents cheaper than other sectors

CEE incumbents are no longer attractively valued compared to their Western European peers. CEE incumbents are traded at premiums of around 30% in terms of P/E and just a slight discount in terms of EV/EBITDA compared to their Western European peers. Nevertheless, the CEE telecoms' shares are still cheaper than other sectors. In addition, the CEE incumbents offer higher margins from the EBITDA to the net profit level than companies in the other sectors. Furthermore, they generate strong and steady cash flows. These factors should make them an attractive and defensive investment, especially during the current economic downturn.

T-HT as top pick

Our top pick is T-Hrvatski Telekom. The shares are very cheap, with the highest dividend (above 13%) and FCF yield (13-15%) in our CEE universe. Furthermore, the company continues to perform well, despite the recession. Regulatory risk is limited. The margins are also best-in-class. The low share price and large net cash are likely to prompt the company to buy back shares in the near future, supporting (if not boosting) the share price. The 2009 outlook is conservative, given the strong 1Q09 results and the good results expected for 2Q09e (due to the Easter holiday).

Incumbents are resilient...

Telecom stocks did not fall as much as other sectors during the recession period. This could be explained by their steady and strong free cash flow, as well as conservative debt levels. Although free cash flow fell during the economic downturn, its decline remains limited to single digits. This resilience is supported by several factors preventing consumers from reducing their spending: 1) the basic nature of telecom services; 2) falling prices, even as quality and services improve; 3) the already low telecom spending compared to overall expenditure (3.3%) and earnings (1.5%); 4) new services and bundled products, which help to retain customers.

..but not immune to recession

Incumbents are not immune to the economic downturn, although their share price and operating performance have been better than other sectors. The CEE incumbents' outlooks for 2009 are lower than those for 2008. All CEE incumbents in our coverage universe expect declining revenues and EBITDA for 2009. Only Telekom Austria still expects stable EBITDA y/y, which we regard as unrealistic. The recession causes higher costs of debt, lower usage and further price pressure. Meanwhile, the accompanying CEE currency depreciation against the EUR and USD leads to higher operating expenses. Items such as IT equipment, networks, handsets and roaming are denominated in hard currency. The higher inflation rate for some countries also limits further cost savings, such as wages.

Aggressive MTR cuts could lead to lower EBITDA

Regulatory pressure is intensifying. The reduction of the mobile termination rate is accelerating. Many incumbents argue that an MTR cut would have no significant impact on EBITDA (i.e. would be EBITDA-neutral). We do not agree with this. Incumbents are normally the mobile market leader in their respective countries. Therefore, they receive high mobile interconnection revenues from other mobile operators. Due to the MTR cut, these revenues will come down. We do not expect the lower mobile interconnection costs and fixed-to-mobile interconnection costs to fully compensate for the revenue loss. As market leaders, incumbents have high on-net calls already and therefore lower mobile interconnection costs. Meanwhile, the number of fixed-to-mobile traffic minutes should be much lower than the mobile-to-mobile traffic minutes, after years of declining fixed access and growing mobile connections. Therefore, the respective cost reduction is also limited, in our opinion.

The MTR reduction should negatively affect all of our covered incumbents. The negative impact differs across incumbents, depending on the reduction level and the mobile market share. The mobile arm of TP SA is no longer the market leader in Poland, with 'only' a 31% market share as of 1Q09. Therefore, the impact of the MTR cut on EBITDA should be limited for TP SA, despite the drastic MTR reductions. Telekom Austria's EBITDA should be affected the most, due to the severe rate of reduction and the strong mobile market position. Telefónica O2 CR should have the highest risk, as the MTR based on the current glide path is still far above the EU Commission target.

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Extension of Eurotariff to hit Telekom Austria	<p>Another major regulatory decision is the extension of EU roaming tariffs (the Eurotariff). The existing roaming regulation has been extended to 2011 and will enter into force on July 1, 2009. The tariff for making roaming calls will be cut further, from EUR 0.46 (August 30, 2008) to EUR 0.35 (July 1, 2011). The rates for receiving roaming calls will also be reduced further, from EUR 0.22 (August 30, 2008) to EUR 0.11 (July 1, 2011). In our opinion, Telekom Austria should be affected the most by this new regulation, as it has the highest proportion of roaming revenues among the CEE incumbents in our coverage universe.</p>
Incumbents maintain dominant positions	<p>Incumbents continue to dominate both fixed and mobile markets in their respective countries. The covered incumbents held more than 74% of the fixed lines in their domestic markets in 2008. The fixed broadband markets are also led by the incumbents, with market shares ranging from 35% (Telefónica O2 CR) to 90% (T-Hrvatski Telekom) in 2008. In the mobile market, the share of the incumbents ranges from 32.3% (TP SA) to 58.9% (Telekom Slovenije) in 2008. With the exception of Telefónica O2 CR and TP SA, incumbents have the highest market shares in their domestic mobile markets.</p>
Competitive market with falling prices	<p>Despite their market leadership, incumbents face a real challenge in growing their revenues. This is due to continuing fixed-to-mobile substitution and intensifying competition with cable, alternative and mobile operators. Wholesale Line Rental and unbundled local loop accelerate fixed access losses, especially in Poland. Bitstream access and mobile broadband slow down fixed broadband growth. In Austria, mobile broadband access has surpassed DSL as the leading broadband access technology. Mobile revenues are expected to decline, due to the saturated penetration level, falling prices, rationalization of double/triple SMS card owners during the recession, MTR reduction and the roaming tariff cut. Incumbents therefore rely on bundled products to retain customers. Overall, the telecom market remains very competitive, marked with falling prices.</p>
Upgrade to Accumulate, reduce target price to PLN 20.5	<p>With this report, we reduce our target price for TP SA from PLN 21.6 to PLN 20.5, after considering the weak 1Q09 results and the price war in the mobile segment. The company is being battered by economic, regulatory and competitive pressures this year. Nevertheless, these risks seem to be already priced-in, as the share price has come down considerably in the past weeks. Even after lowering our estimates, the current share price level offers a decent upside. The stock went ex-dividend recently, but we expect the share price to rebound in the coming weeks as the market reaction neutralises. We therefore upgrade TP SA from Hold to Accumulate.</p>
Downgrade to Hold, target price cut to HUF 625	<p>We downgrade Magyar Telekom from Accumulate to Hold, while reducing our target price from HUF 635 to HUF 625. Considering the worsening economic situation in Hungary, with falling consumer disposable income anticipated, we regard the company's 2009 outlook as unattainable. We think a downgrade is likely. The company offers a high dividend, but this was already paid in May and the yield is only around 170bp above the government bond yield.</p>
Downgrade to Reduce, cut target price to EUR 160	<p>We downgrade Telekom Slovenije from Hold to Reduce, whilst lowering our target price from EUR 270 to EUR 160. The acquisition of Cosmofon should boost revenue growth in 2009e and 2010e. Nevertheless, the poor performance of domestic mobile and fixed operations should lead to lower EBITDA in 2009e. Higher depreciations from heavy investments and higher financing costs from the acquisition should depress earnings in the coming years. We lower our 2009e EPS estimate by 36% to EUR 9.91.</p> <p>We keep our target prices and recommendations for T-Hrvatski Telekom (Buy, HRK 300), Telefónica O2 CR (Buy, CZK 550) and Telekom Austria (Hold, EUR 11) unchanged.</p>

Valuation and recommendation

No longer attractive compared to Western European

Our peer group valuation shows that the CEE incumbents are no longer favorably valued compared to their Western European peers. CEE incumbents are traded slightly cheaper than their Western European peers in terms of EV/EBITDA, but with around 30% premium in terms of P/E. CEE incumbents offer superior dividend and FCF yields compared to their Western European counterparts. Nevertheless, macro risks for the CEE region are higher. The margins of CEE incumbents are higher than those of Western European peers, but the gap is narrowing.

Peer group comparison

CEE Operators	Cur	Price	M Cap EUR mn	P/E			EV/EBITDA			FCF yield			Dividend Yield		
				2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Magyar Telekom	HUF	611.0	2,255	7.8	8.7	8.9	3.9	4.1	4.3	12.5%	12.1%	11.7%	12.1%	12.1%	12.1%
T-Hrvatski Telekom	HRK	214.0	2,415	7.4	7.4	7.4	3.3	3.3	3.2	13.6%	14.0%	15.2%	13.4%	13.5%	13.5%
Telefónica O2 CR	CZK	424.0	5,086	11.4	10.8	10.0	4.9	5.0	4.9	11.5%	10.4%	10.8%	11.1%	10.6%	10.6%
Telekom Austria	EUR	10.5	4,821	12.8	11.5	10.3	4.6	4.6	4.5	10.1%	10.2%	10.5%	7.2%	7.2%	9.5%
Telekom Slovenije	EUR	172.1	1,118	17.4	17.4	16.9	5.5	5.3	5.1	4.7%	5.9%	6.7%	4.6%	4.6%	4.6%
TPSA	PLN	17.6	5,311	14.8	12.7	11.5	4.1	3.9	3.8	15.8%	16.1%	15.6%	9.1%	9.6%	9.6%
Median				12.1	11.1	10.2	4.4	4.4	4.4	12.0%	11.3%	11.3%	10.1%	10.1%	10.1%

Western Europe Operators	Cur	Price	M Cap EUR mn	P/E			EV/EBITDA			FCF yield			Dividend Yield		
				2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Deutsche Telekom	EUR	7.9	34,607	11.5	11.2	9.7	3.8	3.7	3.5	8.9%	9.1%	10.7%	9.6%	9.7%	10.0%
France Telecom	EUR	15.9	41,471	8.4	8.2	7.8	4.1	4.0	3.9	10.8%	10.8%	11.6%	8.9%	9.0%	9.4%
KPN	EUR	9.1	15,599	9.9	8.4	7.8	5.2	5.0	4.9	7.8%	7.8%	8.5%	7.5%	8.6%	9.1%
Portugal Telecom	EUR	6.2	5,549	10.4	9.4	7.9	4.7	4.5	4.2	5.3%	7.1%	8.7%	8.8%	9.1%	9.2%
Swisscom	CHF	313.0	11,083	8.7	8.7	8.6	5.6	5.5	5.4	7.2%	7.6%	8.1%	7.3%	7.7%	8.2%
Telenor	NOK	47.4	8,929	7.7	8.0	6.8	4.3	4.3	3.8	1.0%	4.3%	6.6%	0.4%	5.6%	6.8%
Teliasonera	SEK	38.1	15,734	9.1	8.6	8.2	6.2	6.0	5.7	5.7%	7.1%	7.3%	5.3%	5.7%	5.7%
Telefonica	EUR	15.4	72,222	9.2	8.5	7.7	5.1	5.0	4.8	8.0%	8.5%	8.8%	7.5%	8.1%	8.8%
Telecom Italia	EUR	0.9	12,591	9.2	8.9	8.0	4.5	4.3	4.0	4.4%	7.2%	8.7%	5.5%	5.5%	6.0%
Median				9.2	8.6	7.9	4.7	4.5	4.2	7.2%	7.6%	8.7%	7.5%	8.1%	8.8%

CEE Operators	EBITDA margin			EBIT margin			Net margin		
	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Magyar Telekom	38.7%	38.1%	37.6%	23.1%	22.2%	21.5%	14.3%	13.1%	12.9%
T-Hrvatski Telekom	44.4%	44.5%	44.6%	28.4%	28.6%	28.7%	26.9%	26.9%	26.8%
Telefónica O2 CR	43.5%	43.0%	43.1%	24.8%	25.6%	26.9%	19.1%	20.4%	21.7%
Telekom Austria	36.4%	36.6%	36.6%	14.2%	14.7%	15.0%	7.2%	8.0%	8.7%
Telekom Slovenije	33.9%	33.3%	33.5%	11.5%	11.3%	11.1%	7.0%	6.7%	6.8%
TPSA	38.8%	40.2%	41.0%	14.9%	16.4%	17.4%	9.1%	10.5%	11.6%
Median	38.7%	39.1%	39.3%	19.0%	19.3%	19.5%	11.7%	11.8%	12.3%

Western Europe Operators	EBITDA margin			EBIT margin			Net margin		
	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Deutsche Telekom	30.6%	30.7%	31.0%	13.1%	13.8%	14.1%	4.1%	4.8%	5.4%
France Telecom	34.3%	33.9%	33.6%	19.5%	19.4%	19.5%	9.5%	9.7%	10.1%
KPN	36.5%	37.4%	37.4%	19.9%	21.0%	20.9%	10.8%	11.9%	12.2%
Portugal Telecom	35.6%	35.6%	35.8%	16.2%	16.9%	18.0%	7.9%	8.5%	9.4%
Swisscom	38.9%	38.8%	38.7%	22.4%	22.4%	22.4%	15.4%	15.4%	15.4%
Telenor	28.7%	26.9%	28.0%	13.3%	11.5%	13.0%	9.3%	9.6%	11.0%
Teliasonera	31.4%	31.6%	32.2%	19.5%	19.7%	23.6%	17.0%	17.8%	17.8%
Telefonica	39.1%	38.8%	38.7%	23.8%	24.2%	24.6%	13.4%	13.9%	14.6%
Telecom Italia	38.8%	38.9%	39.3%	19.0%	19.4%	20.3%	6.7%	6.9%	7.5%
Median	35.6%	35.6%	35.8%	19.5%	19.4%	20.3%	9.5%	9.7%	11.0%

Source: Factset, Erste Group estimates for CEE operators

Sector Report – CEE Telecoms

Cheaper than other sectors, yet more profitable

CEE incumbents are attractively valued compared to other sectors, as seen in the following table. In addition, CEE incumbents also offer superior margins from the EBITDA to the net profit level. In our opinion, the appealing valuation, the strong cash flow and the superior margins make CEE incumbents an attractive and defensive investment. This is especially the case during an economic downturn.

Valuation comparison across sectors

Sectors	P/E		EV/EBITDA	
	2009e	2010e	2009e	2010e
EuroStoxx Basic Resources	49.5	14.4	10.0	6.8
EuroStoxx Chemicals	15.8	12.9	6.7	5.7
EuroStoxx Healthcare	15.6	13.9	9.1	8.4
EuroStoxx Banks	13.8	11.9	na.	na.
EuroStoxx Technology	12.9	12.6	8.3	6.3
EuroStoxx Food & Beverages	12.9	11.0	7.3	6.6
EuroStoxx Utilities	11.9	11.3	7.3	6.7
EuroStoxx Construction Material	11.8	11.8	7.3	6.9
EuroStoxx Industrials	11.9	12.1	6.6	6.4
EuroStoxx Oil/Gas	11.4	11.1	5.1	5.5
EuroStoxx Telecom	10.0	9.0	4.7	4.5
CEE Telecoms	12.1	11.1	4.4	4.4

Source: Factset, Erste Group estimates for CEE Telecoms

Margin comparison across sectors

Sectors	EBITDA		Net profit	
	2009e	2010e	2009e	2010e
EuroStoxx Basic Resources	6.3%	12.5%	-0.4%	3.8%
EuroStoxx Technology	10.5%	13.4%	5.0%	6.9%
EuroStoxx Industrials	12.7%	12.2%	4.9%	4.9%
EuroStoxx Chemicals	13.9%	15.9%	4.7%	5.7%
EuroStoxx Construction Material	13.9%	14.3%	3.9%	3.6%
EuroStoxx Food & Beverages	14.9%	14.6%	6.0%	5.9%
EuroStoxx Oil/Gas	16.7%	18.0%	5.8%	6.2%
EuroStoxx Healthcare	19.7%	20.0%	7.9%	10.4%
EuroStoxx Utilities	26.1%	25.8%	8.7%	8.4%
EuroStoxx Telecom	36.5%	36.7%	10.5%	10.6%
CEE Telecoms	38.7%	39.1%	19.0%	19.3%

Source: Factset, Erste Group estimates for CEE Telecoms

Dirt cheap, but with strong fundamentals

Our top pick is T-Hrvatski Telekom. The shares are the cheapest among our CEE incumbent universe, with a 38% discount in terms of P/E 2009e and a 26% discount in terms of EV/EBITDA 2009e. Meanwhile, its dividend and FCF yield for 2009e are 33% and 13% higher, respectively. The company offers not only the highest margins, from the EBITDA margin (44.4% in 2009e) to the net margin (26.9% in 2009e), but also a strong balance sheet, with a net cash position of about 28.8% of assets in 1Q09. The large net cash and current low share price indicate that a share buyback is likely in the near future, which should support or even boost the share price. The company continues to show stable performance, despite the economic downturn. The regulatory pressure remains limited as well. We view the 2009 outlook as conservative, given the strong 1Q09 results. An upgrade of the 2009 outlook is likely, if the 2Q results are as strong as we expect (boosted by the Easter holiday).

All our target prices are calculated as a 12-month target value, using the cost of equity as the compounding rate.

Sector Report – CEE Telecoms

Overview of target price and recommendations

Companies	Currency	Current price	Target price	Potential upside	Recommendation
T-Hrvatski Telekom	HRK	214.0	300.0	40%	Buy
Telefónica O2 CR	CZK	424.0	550.0	30%	Buy
TP SA	PLN	17.6	20.5	16%	Accumulate
Telekom Austria	EUR	10.5	11.0	5%	Hold
Magyar Telekom	HUF	611.0	625.0	2%	Hold
Telekom Slovenije	EUR	172.1	160.0	-7%	Reduce

Source: Erste Group estimates

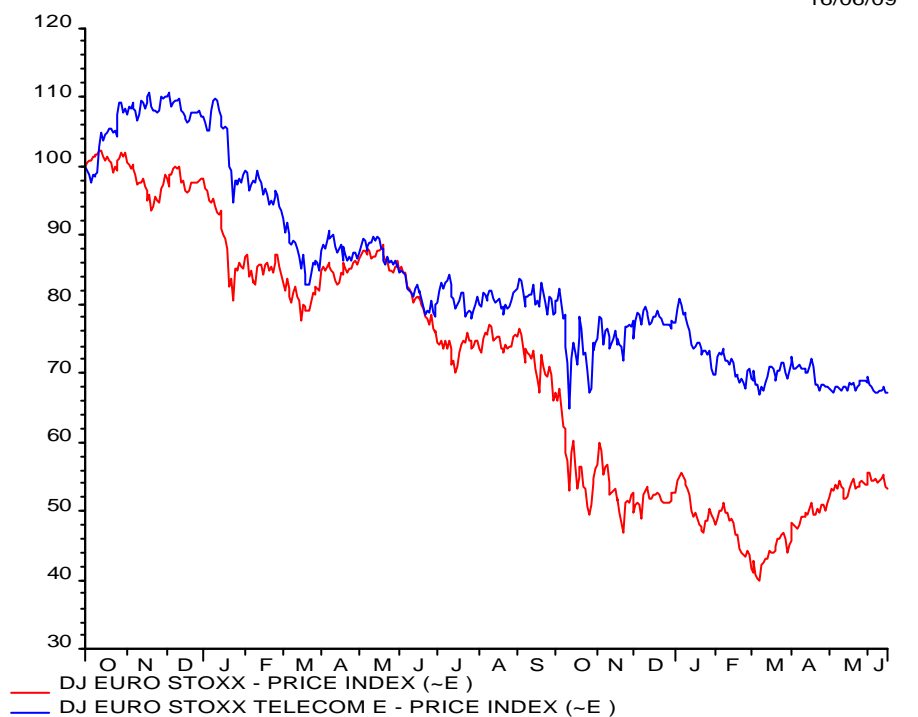
Defensive qualities confirmed

Telecom stocks have outperformed the market during the current recession period, as can be seen in the following graphs. We assume that the bear market started in October 2007, when the DAX index reached its peak level. The DJ Euro Stoxx index has lost 46.6% since October 2007, while the DJ Euro Stoxx Telecom lost only 32.8% for the same period.

Telecom
stocks
outperformed
market

Comparison between telecom stocks and overall market in Europe

16/06/09



Source: Thomson Datastream

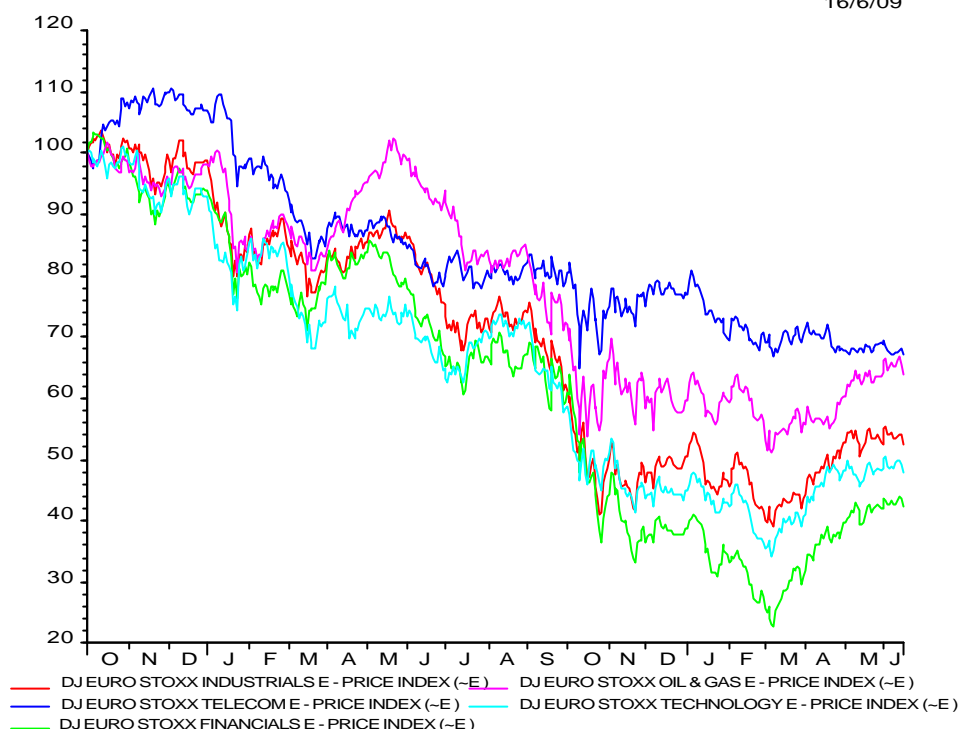
Furthermore, telecom stocks have outperformed cyclical stocks, such as banks, industrial, technology and oil/gas, as seen in the following chart. The DJ Euro Stoxx Financials fell by 57.8%, followed by the DJ Euro Stoxx Technology (52.1%), the DJ Euro Stoxx Industrials (47.6%) and the DJ Euro Oil/Gas (36.2%).

Sector Report – CEE Telecoms

Telecom
stocks
outperformed
cyclical stocks

Comparison between telecom and cyclical stocks in Europe

16/6/09



**Low
leverage**

The outperformance of the telecom sector could be attributed to its strong and steady cash flow (due to the nature of basic telecoms services), as well as its low debt levels. Within our coverage, T-Hrvatski Telekom and Telefónica O2 CR enjoy a net cash position, Telekom Austria and TP SA have BBB+ or A3 ratings, while Magyar Telekom has no credit rating, but its net debt/EBITDA has been stable and conservative at around 1x.

**Strong free
cash flow**

We expect the free cash flow of incumbents, defined as EBITDA less CAPEX, to decline in 2009 and 2010. This is mainly due to the declining EBITDA assumption. Nevertheless, both the FCF and EBITDA decline remain limited, as seen in the following table. The capital expenditure is generally on a declining trend, as incumbents control their investments to meet their cash flow targets and investments in next-generation networks are implemented selectively.

FCF and EBITDA growth for CEE incumbents

	FCF growth		EBITDA growth	
	2009e	2010e	2009e	2010e
Telekom Austria	-7.2%	-1.0%	-4.6%	-0.6%
Telefónica O2 CR	-4.5%	-6.6%	-3.5%	-2.5%
T-Hrvatski Telekom	-3.5%	5.3%	-2.0%	0.8%
Magyar Telekom	-9.4%	-4.2%	-7.1%	-3.6%
TP SA	-11.5%	0.8%	-11.9%	1.0%

Source: Erste Group estimates

We also provide in the following table an EBITDA growth comparison of banking, industrial, oil/gas and technology companies in the CEE area that we cover. The table shows that the EBITDA growth of these sectors (excluding oil/gas) is expected to decline more steeply than that of telecom.

Sector Report – CEE Telecoms

Steeper EBITDA decline in other sectors, except oil/gas

Comparison of EBITDA growth for other sectors

Companies	Sector	EBITDA growth	
		2009e	2010e
A-Tec	Industrial	-20.0%	10.5%
Andritz	Industrial	-29.1%	-7.5%
Palfinger	Industrial	-74.9%	133.9%
Winterthur	Industrial	-47.8%	10.5%
SBO	Industrial	-38.6%	-27.0%
OMV	Oil/gas	-8.2%	8.6%
INA	Oil/gas	10.6%	17.4%
PKN Orlen	Oil/gas	10.3%	6.6%
Unipetrol	Oil/gas	27.9%	26.0%
SNP Petrom	Oil/gas	-10.4%	55.3%
Asseco Poland	Technology	-14.4%	5.0%
ComArch	Technology	-4.3%	17.5%
Ericsson Nikola Tesla	Technology	-10.4%	1.9%
Sygnity	Technology	-26.2%	-8.3%
Kapsch TrafficCom	Technology	-8.4%	-3.3%
Bank Pekao	Banking	-36.0%	-16.5%
PKO BP	Banking	-25.1%	-20.1%
Raiffeisen International	Banking	-50.3%	0.4%
Komerčni banka	Banking	-35.5%	6.6%
OTP	Banking	-1.6%	20.4%

Source: Erste Group estimates

The limited EBITDA decline for incumbents is supported by the resilient revenues. Despite the recession, revenues came down only slightly in 2008 and are expected to decline generally by low single digits in 2009e and 2010e, as seen in the following table.

Limited decline in revenues

Revenue growth of CEE incumbents

	2008	2009e	2010e
Magyar Telekom	-0.5%	-4.2%	-2.2%
T-Hrvatski Telekom	-0.2%	-0.8%	0.6%
Telefónica O2 CR	2.6%	-3.0%	-1.2%
Telekom Austria	5.1%	-2.4%	-1.1%
Telekom Slovenije	8.0%	9.2%	4.7%
TPSA	-0.4%	-4.5%	-2.4%

Source: Erste Group estimates, Company data

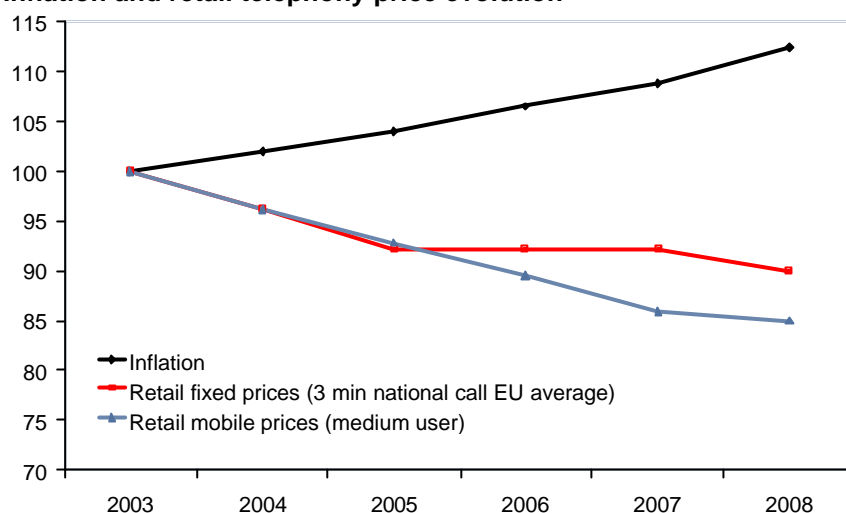
Basic services and low prices, but higher quality support sector's resilience

We attribute this resilience characteristic to the following factors:

- Telecom services, which include fixed/mobile telephony, Internet and recently IPTV, are generally viewed as basic services for households and companies. Therefore, these services would not be the first to be cut back during a recession, in our opinion.
- Prices for telecom services have come down dramatically, but the service quality has improved. In the fixed and mobile sectors, lower prices have been accompanied by increasing usage. In the broadband sector, price reductions have been accompanied by higher average bandwidth and coverage. As the CEO of T-Hrvatski Telekom mentioned at a recent investor conference, customers are getting more services/products for the same money due to falling prices. This leads to customer retention, even during a recession.

Sector Report – CEE Telecoms

Inflation and retail telephony price evolution



Source: EU Commission

Telecom spending amounts to only 1.5% of earnings

- The average telecom expenditure is relatively low and on a slowly declining trend at that. According to Eurostat, telecom spending represented 3.3% of households' total expenditure and 1.5% of average monthly earnings in the EU 27 in 2005. We think that this small proportion should support the resilience of the telecommunication business, as customers generally focus on cutting larger cost factors during a recession.

Average monthly telecom expenditure for residential*

EUR/month, incl. VAT	2000	2001	2002	2003	2004	2005	2006	2007	2008	CAGR
Telekom Austria	46.6	47.4	37.4	37.4	37.6	34.3	34.7	34.1	34.6	-3.7%
Telefónica O2 CR	50.7	49.1	43.6	43.1	40.0	43.6	46.0	46.0	46.0	-1.2%
Magyar Telekom	41.1	40.2	40.7	48.7	48.8	31.1	38.7	37.6	38.1	-0.9%
TP SA	62.3	60.5	62.3	61.4	54.6	43.8	47.2	47.2	52.4	-2.2%
Telekom Slovenije	25.2	25.0	31.5	33.4	34.1	31.2	28.4	30.7	29.2	1.9%
EU 27	44.7	42.4	41.6	41.2	38.8	36.6	37.8	38.3	38.4	-1.9%

Source: Report on Telecom Price Developments for EU Commission, Dec 2008

*) incl. national fixed/mobile calls, international calls. Standard tariffs are used, excl. any discount packages.

- New services, such as mobile Internet, IPTV, mobile TV and bundled products should help to reduce the customer churn rate, as well as to compensate for the falling prices and declining fixed access.

Overall, we think that the telecom sector offers greater resilience compared to other sectors, due to its defensive revenues and cash flow, low leverage, important role as a basic services for households and corporates, new services/products to reduce the churn rate and its already low retail prices.

Resilient, but not immune, to recession

Weaker outlook for 2009 vs. 2008

The steep decline of telecom stocks confirms that the sector is not immune to the current weak economic situation. All CEE incumbents that we cover expect falling revenues and lower to neutral EBITDA for this year. We see that the CEE incumbents' outlook for 2009 is lower than that for 2008. Macroeconomic factors such as lower consumer spending, higher average interest rates and currency devaluations have (and will continue to) put pressure on incumbents' performance.

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Incumbents' 2008 outlook

2008 outlook	Revenue	EBITDA
Telekom Austria*	5%	3%
Magyar Telekom	Stable	Slight decline
Telefónica O2 CR	2-4%	0-2%
TPSA	-1%	42-44% margin
T-HT	Stable	Decline

Source: Companies data

*) include MDC consolidation

Incumbents' 2009 outlook

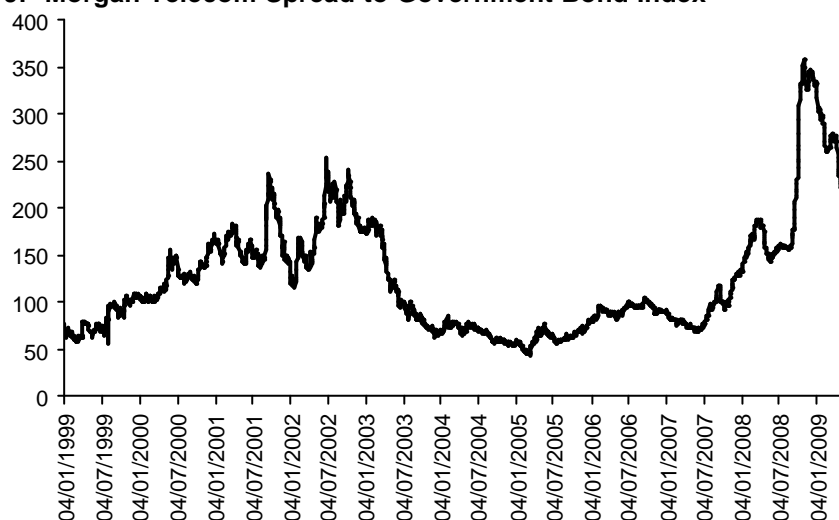
	Revenue	EBITDA
Telekom Austria	Slight decline	Stable
Magyar Telekom	Decline by 1%	Decline by 1% to 2%
Telefónica O2 CR	Decline by 3% to 0%	Decline by 4% to 0%
TPSA	Decline	Decline
T-HT	Decline	Decline

Source: Companies data

Widening credit spread

The cost of debt for incumbents rose significantly y/y. The credit spread for telecom companies peaked in November 2008 at 358bp and fortunately has come down to around 175bp, as seen in the following graph. The November 2008 peak was even higher than that from the 2001/2002 period, during which incumbents took on high debt to buy UMTS licenses.

JP Morgan Telecom Spread to Government Bond Index



Source: Bloomberg

Rising interest rates put pressure on indebted incumbents

Meanwhile, the risk-free rate (10-year government bond yield) has also increased, with the highest jump seen in Hungary. Magyar Telekom paid a 9.39% average interest rate on a related party loan in 2008, compared to 7.95% in 2007.

10 years government bond yield

	01.01.2009	16.06.2009	+/- in bps
Austria	3.884	4.343	45.9
Czech Republic	4.166	5.182	101.6
Hungary	8.277	10.240	196.3
Poland	5.386	6.345	95.9

Source: Bloomberg

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Suffering from currency devaluation

Currency devaluation continues to be an issue for CEE incumbents. TP SA suffers considerably from the declining PLN vs. EUR, as handsets, network and IT maintenance, international traffic termination and roaming costs are denominated in EUR. Nearly half of the PLN 138mn y/y increase in operating expenses in 1Q09 was attributed to the depreciation of the PLN vs. EUR. The company also incurred PLN 64mn in foreign exchange losses in 1Q09, due to the revaluation of part of a EUR-denominated debt. TP SA reported a 52% earnings decline in 1Q09. Telekom Austria was also affected by the 21% devaluation of the Belarusian ruble vs. the EUR in February 2009. Its subsidiary Velcom operates in Belarus, delivering 27% y/y organic revenue growth and 29.2% y/y organic EBITDA growth in 1Q09. Translated into EUR, the revenue and EBITDA growth amounted to only 12.9% y/y and 15% y/y, respectively.

Exchange rate development

Local currency/EUR	01.01.2009	16.06.2009	% change
Croatia (HRK)	7.32	7.27	0.6%
Czech Republic (CZK)	26.83	26.84	0.0%
Hungary (HUF)	263.65	281.53	-6.4%
Poland (PLN)	4.12	4.54	-9.2%

Source: Bloomberg

Cautious stance during recession

With the CEE countries suffering from a recession (except Poland; as seen in the following table), incumbents have become cautious with their outlook for 2009. T-Hrvatski Telekom refused to upgrade its 2009 outlook, despite the strong 1Q09 results and the expected good 2Q09 results (thanks to the Easter holiday and new Tele2 roaming business). Management pointed out instead that the recession might put pressure on revenues during the course of the year.

Real GDP growth forecast for CEE countries

	2007	2008	2009e	2010e
Austria	3.1%	1.8%	-2.7%	0.4%
Czech Republic	6.0%	3.7%	-1.7%	1.1%
Croatia	5.5%	2.4%	-4.5%	1.0%
Hungary	1.1%	0.5%	-5.1%	0.4%
Poland	6.5%	4.8%	1.2%	2.6%

Source: Erste Group estimates

Targets within reach, if economy does not worsen

Magyar Telekom highlighted the negative impact of the recession in Hungary on usage/traffic, tariff levels and customer churn, leading to lower revenues in 1Q09. The company still believes that it can reach its 2009 targets, if the economic situation does not worsen further. We fear that the impact of new austerity measures on disposable income might prevent the company from reaching its guidance. The new measures include raising VAT from 20% to 25% as of July 1 and reducing subsidies, such as family allowances, maternity allowances, gas subsidy, transport subsidy, etc.

Sector-specific issues lead to earnings volatility

High volatility of earnings growth

The economic situation is definitely one of the factors influencing the incumbents' performance. However, the incumbents' earnings growth does not always correspond with the economic growth, as shown in the following table. Furthermore, the incumbents' earnings growth exhibits high volatility. This is driven by other key factors, such as the competition level (see the next chapter), regulatory framework, corporate actions and restructuring activities.

EPS growth for CEE incumbents

	2007	2008	2009e	2010e
Telekom Austria	-8.3%	-110.1%	nm.	10.0%
Telefónica O2 CR	29.5%	12.0%	3.2%	5.3%
T-Hrvatski Telekom	11.6%	3.2%	1.8%	0.5%
Magyar Telekom	-20.3%	54.6%	-12.4%	-10.4%
TP SA	9.6%	-1.9%	-28.2%	13.5%

Source: Erste Group estimates, Companies data

Regulatory issue and restructuring amplify earnings volatility

For example, Telekom Austria's 2008 earnings dropped from EUR 492.5mn to a net loss of EUR 48.8mn, mainly due to restructuring provisions. Magyar Telekom reported a 54.6% increase in 2008 net income, affected by the lower severance charges (HUF 8.5bn in 2008, HUF 27.5bn in 2007) and one-off reversal of provisions related to fixed-to-mobile traffic revenues amounting to HUF 8.5bn. TP SA expects declining revenues in 2009, due to a regulatory impact (namely the significant Mobile Termination Rate reduction) and economic slowdown.

Regulatory pressure

In our view, the most influential regulatory measures at present are the reductions of the Eurotariff (the roaming tariff within EU member states) and the Mobile Termination Rate. Functional separation is an issue only for Poland.

Further extension and reduction for EU roaming tariffs

Eurotariff. The Eurotariff was first introduced in June 2007 and applied to voice telephony. We have seen declining roaming revenues across incumbents. This has been due not only to the lower tariff, but also the lower number of business travelers, as a result of the current recession. Telekom Austria, the most affected incumbent in our CEE universe, reported 24.4% and 32.5% y/y declines in visitor roaming revenues in 2008 and 1Q09, respectively. Visitor roaming revenues represented around 3% of Telekom Austria group's revenues. Magyar Telekom reported 9.6% and 8% declines in visitor roaming revenues in 2008 and 1Q09, respectively. Visitor roaming revenues represented less than 1% of Magyar Telekom's revenues. Retail/customer roaming (calls made by customers abroad) was not included in this number. Instead, it was blended in traffic revenues. Therefore, the actual roaming revenues were much larger.

The existing roaming regulation has been extended and will enter into force on July 1, 2009. The new regulation includes:

- Further reduction in voice roaming tariffs (all prices per minute, excluding VAT)

Eurotariff regulation

Euro cents	EU roaming rules 2007			New EU roaming rules 2009		
	30-Aug-07	30-Aug-08	30-Aug-09*	01-Jul-09	01-Jul-10	01-Jul-11
Calls made from abroad	49	46	43	43	39	35
Receive calls whilst abroad	24	22	19	19	15	11

Source: EU Commission

*) superseded by new EU roaming rules 2009

- Introducing the principle of per-second billing after the first 30 seconds for roaming calls made and from the first second for receiving roaming calls

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- Introducing a data roaming wholesale cap of EUR 1/MB by July 1, 2009, compared to an average price of EUR 1.68/MB. The cap will fall to EUR 0.8/MB by July 1, 2010, and to EUR 0.5/MB by July 1, 2011.
- Capping SMS charges while abroad at 4 EUR cents for wholesale and 11 EUR cents for retail

In our opinion, Telekom Austria should be affected the most by this new regulation, as it has the highest roaming proportion compared to other CEE incumbents in our coverage universe.

MTR is still 4-5x costs

Mobile Termination Rate. We have seen regulators becoming more aggressive in setting their MTR targets, i.e. lower and faster, as seen in the following tables. The aim is to make the MTR closer to its respective costs, leading to lower retail prices and higher usage. According to the EU Commission, MTR is still 4-5 times above the cost of providing the service. In addition, it is typically 10 times higher than fixed termination, with fixed termination rates ranging on average less than 1 eurocent per minute and MTR ranging to 8.55 eurocents per minute. The high MTR are thus an indirect subsidy for the larger mobile operators, paid by all fixed operators, smaller mobile operators and all consumers. At the current advanced stage of mobile network development, such a huge gap between fixed and mobile termination rates can no longer be justified.

Some current glide paths are not aggressive enough

The EU Commission aims to bring down the MTR to between 1.5 and 3 eurocents by 2012. As the new MTR glide paths in Poland, Hungary and the Czech Republic still derive a higher MTR than the aforementioned EU targets, we think further MTR reductions in these countries are unavoidable. In Croatia (non-EU), the MTR was reduced from March 2009 by 14.5% to HRK 0.672 (EUR 9.1 cents/minute), but it is still clearly above the EU average.

MTR glide path in Poland

Period	groszy	% change
May 08 - Dec 08	33.87	-15.3%
Jan - June 09	21.62	-43.0%
From July 09	16.77*	-39.6%

Source: UKE

*) equal to EUR 3.86 cents

MTR glide path in Hungary

Period	HUF	% change
01-Jan-09	16.84	-16.8%
01-Jan-10	14.13	-16.1%
01-Dec-10	11.86*	-16.1%

Source: NHH

*) equal to EUR 4.29 cents

MTR glide path in Austria

Period	EUR cents	% change
01-Jul-08	5.72	-11.0%
01-Jan-09	4.50	-21.3%
01-Jul-09	3.88	-13.8%
01-Jan-10	3.26	-16.0%
01-Jul-10	2.63	-19.3%
01-Jan-11	2.01	-23.6%

Source: RTR

MTR glide path in Czech Republic

Period	CZK	% change
1 April 06- 31Jan 09	2.99	na.
1 Feb 09- 30Jun 09	2.65	-11.4%
1 Jul 09- 31Dec 09	2.31	-12.8%
From 1 Jan 10	1.96*	-15.2%

Source: RTR

*) equal to EUR 7.36 cents

The MTR has always been symmetric in Czech Republic, whilst in Hungary as of 2009. In Austria, the new glide path has retroactively applied a symmetric MTR since 1 July 2008. The MTR in Poland is only symmetric for the three major mobile operators (Orange, Polkomtel, PTC), whilst new players P4 and CenterNet still enjoy up to 141% higher MTR. The maximum asymmetry in Poland is governed according to the following schedule and will expire in 2014. Asymmetry brings higher profits to new entrants whose economy of scale is still limited due to late market entry.

Maximum asymmetry for MTR between SMP players and new entrants in Poland

	Jul-09	Jan-10	Jul-10	Jan-11	Jul-11	Jan-12	Jul-12	Jan-13	Jul-13	Jan-14
Max level of asymmetry	141%	126%	110%	94%	79%	63%	47%	31%	16%	0%

Source: UKE

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MTR lowers mobile interconnection revenues Generally, the MTR reduction leads to lower mobile revenues. TP SA reported a 12.2% y/y decline in wholesale revenues in 1Q09, primarily attributable to MTR reductions. Telefónica O2 CR reported a 5.7% y/y decline in mobile interconnection revenues, due to both MTR reductions and lower visitor roaming. Mobile interconnection/wholesale revenues generally represent 7-10% of an incumbent's revenues. The mobile interconnection business includes not only mobile termination, but also international transit and fixed-to-mobile termination.

Interconnection costs also decline Nevertheless, the MTR cut also reduces mobile interconnection costs. The fixed-to-mobile interconnection costs should also decline, if the fixed-to-mobile termination rate declines automatically in line with the MTR cut.

MTR cut might not be EBITDA-neutral Most incumbents claim that the MTR cut has a neutral effect on EBITDA. We do not think this is the case, due to the following:

- Mobile termination delivers a high margin. Based on the EU Commission's data, the current MTR is still 4-5x the respective cost. This implies a 75% to 80% margin.
- Incumbents normally are also the mobile market leaders. As they have the largest market share, they will have the largest amount of mobile calls terminated in their networks and therefore receive the largest amount of interconnection revenues in the market.
- Mobile interconnection costs will come down, as asymmetric MTR disappears. Incumbents will also pay less to other mobile network operators. Nevertheless, incumbents are generally the mobile market leaders and have high on-net calls. Therefore, incumbents' interconnection costs are generally already lower than those for other operators.
- Fixed-to-mobile interconnection costs will come down, as the rate should come down in line with the MTR reduction. Nevertheless, the number of fixed-to-mobile traffic minutes should be much lower than the mobile-to-mobile traffic minutes, after years of declining fixed access and growing mobile connections.
- Therefore, we think that the loss of mobile interconnection revenues will not be compensated for by the lower mobile and fixed-to-mobile interconnection costs (i.e. not EBITDA-neutral). The revenue-generating minutes of use (not the free ones) would have to increase considerably to achieve an EBITDA-neutral scenario. Based on our simulation, total minutes would need to increase by 15-20% to compensate for a 50% decline in MTR. We calculate that EBITDA generated from mobile interconnections would decline by up to 15% due to a 50% MTR cut, depending on the usage growth.
- Finally, lower MTR should also lead to lower retail prices in the market. This would also negatively affect mobile traffic revenues and EBITDA.

The MTR reduction should negatively affect all of our covered incumbents. The negative impact differs across incumbents, depending on the reduction level and the mobile market share. The mobile arm of TP SA is actually not the market leader in Poland, with "only" a 31% market share as of 1Q09. Therefore, the impact of the MTR cut on EBITDA should be limited for TP SA, despite the severe rate cuts. Telekom Austria should be affected the most, due to the severe rate of reduction and the strong mobile market position. Telefónica O2 CR should have the highest risk, as the MTR based on the current glide path is still far above the EU Commission target.

Functional separation. This is an issue only for TP SA in Poland. The objective of functional separation is to establish a separate wholesale unit, which is independent of TP SA. This would enable the TP retail arm to use TP infrastructure under the same terms and conditions as alternative operators. According to the Polish regulator UKE, this should make unbundled local loops more popular. In the long run, it should also stimulate the development of infrastructure, as a result of increased investment by alternative operators and the incumbent.

The EU Commission holds that a functional separation can only be regarded as the last resort remedy, should all other efforts to establish effective competition have failed. An approval by the EU Commission is also required.

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Functional separation is threat for TP SA

TP SA has suggested a less invasive procedure, which would still lead to transparent and equal treatment for alternative operators. UKE meanwhile continues with its own proceedings. The whole situation creates uncertainty for TP SA, but we do not expect the company to implement a functional separation in the near future. Under the current Polish legal framework, there is still ambiguity of the legal basis for implementing functional separation. The company would undoubtedly appeal such a decision and launch legal proceedings, delaying the process possibly for some years.

We expect regulatory decisions to continue reducing incumbents' future revenues and profitability. The EU roaming tariff will be further reduced, affecting Telekom Austria the most. The MTR reduction across the region will reduce mobile revenues and, in our opinion, EBITDA. It will also bring a new wave of retail price reduction. Functional separation issue creates uncertainty for TP SA.

Competitive landscape

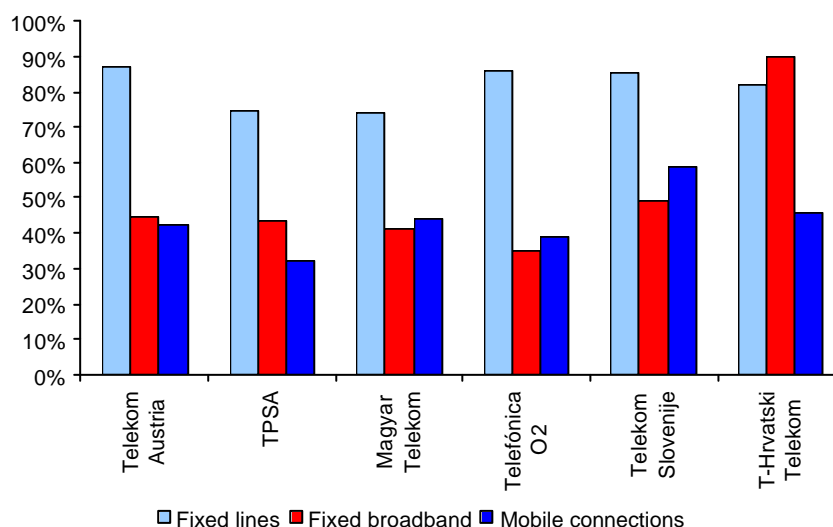
Overview

Incumbents maintain dominant position

Incumbents continue to dominate both fixed and mobile markets in their respective countries. In fixed access, incumbents in our covered countries - Austria, Croatia, Czech Republic, Hungary, Poland and Slovenia - commanded at least 74% of the market in 2008. Telekom Austria held the highest market share in fixed lines with 87% (3Q08), followed by Telefónica O2 and Telekom Slovenije, both controlling an 86% share. Magyar Telekom took the lowest share of the fixed access market among our covered incumbents with only 74%. In the fixed broadband market, incumbents dominate with market shares ranging from 35% (Telefónica O2) to 90% (T-Hrvatski Telekom).

In the mobile market, incumbents' market shares range from 32.3% (TP SA) to 58.9% (Telekom Slovenije) in 2008. Incumbents have the highest market share in their domestic mobile market, except for Telefónica O2 and TP SA. In the case of the former, T-Mobile is the leader in the Czech Republic with a 1.3 percentage point higher subscriber market share than Telefónica O2, while Orange (TP SA) in Poland is trailing Polkomtel by 0.7% percentage points (in terms of subscribers).

CEE Incumbents' market shares (2008)



Source: EU Commission, national regulation agencies, company data, Erste Group Research

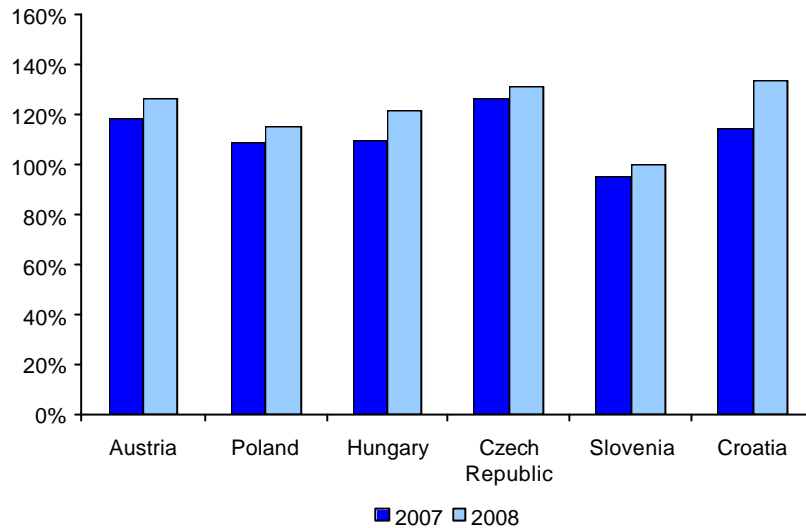
Fixed-to-mobile substitution clearly visible

Fixed line penetration continues to decline. The Czech Republic recorded the lowest penetration levels at 21.1% (of population) in 2008, indicating the strong fixed-to-mobile substitution in this country. Fixed line penetration is highest in Croatia, with 41.7% in 2008. Meanwhile, mobile penetration continues to rise. Croatia, again, recorded the highest penetration at 133.6% (of

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population) in 2008 while Slovenia marked the low end of the spectrum with 100.1%. Postpaid subscribers dominate the mobile market in Austria and Slovenia with 65% and 63%, respectively, in October 2008. In contrast, the majority of subscribers were prepaid customers in Croatia (about 70%), Hungary (59%), Poland (58%) and Czech Republic (53%) in the same period.

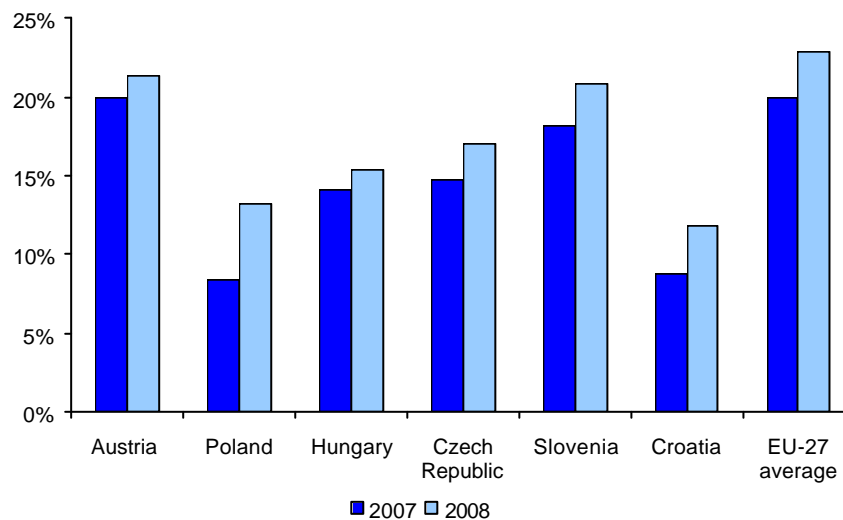
Mobile Penetration 2007, 2008



Source: EU Commission, national regulation agencies, company data, Erste Group Research

All the countries in our coverage show fixed broadband penetration below the EU-27 average of 22.9% of population (January 2009), according to the EU Commission. Croatia has the lowest penetration at about 11.8%, while Austria shows the highest rate at 21.4%.

Fixed broadband penetration 2007, 2008



Source: EU Commission, national regulation agencies, company data, Erste Group Research

Austria

Telekom Austria leader, highly competitive mobile market

The telecom services sector in Austria is dominated by Telekom Austria, which has an 87.3% share in fixed lines (3Q08), a 44.8% share in retail fixed broadband connections (3Q08) and a 42.5% share in mobile connections (December 2008). UPC is the main competitor in the fixed-line market (especially broadband) and T-Mobile is the main competitor in the mobile market. Fixed-line penetration continues to decline, with population penetration down to 24.2% in 3Q08, driven by fixed-to-mobile substitution. Mobile penetration continues to rise, reaching 126.6% in 2008. Despite market consolidation, the mobile market remains highly competitive, with strong price pressure. Fierce price competition has extended to mobile broadband, which is still enjoying solid growth.

Fixed-line market

Product bundles are main attraction

Telekom Austria is far and away the market leader in the fixed-line market in Austria. Its main competitor, in our view, is the largest cable operator, UPC. Nevertheless, as seen in the following table, Telekom Austria generates much greater fixed-line revenues (around 5.6 times) than UPC. The latter uses its own cable network for densely populated areas (Vienna, Graz, Klagenfurt) and mostly LLU (inode) where cable is not available. Telekom Austria, on the other hand, operates the only nationwide network, underpinning its dominant position in the market (87.3% of total fixed lines in 3Q08). Both UPC and Telekom Austria are attracting the most customers with product bundles at low prices, offering triple-play (cable TV, broadband, fixed telephony) and quadruple-play packages (IPTV, broadband, fixed and mobile telephony), respectively. Competing with the popularity of mobile services (phone and, increasingly, broadband), the incumbent operator has been very aggressive with promotions on its bundled offerings (Kombipaket) in a thus far successful effort to decelerate fixed access line loss. According to the EU Commission, 83% of subscribers in Austria used Telekom Austria for direct access (July 2008). Based on fixed traffic, Telekom Austria held a 62.8% share in 2008, compared to 59.9% in 2007 (source: Telekom Austria).

Leading fixed line players

Type	Operators	Revenues 08	No. of lines 08
Incumbent	Telekom Austria	2,039	2,337
Alternative operator	Tele2UTA	204	n.a.
Cable TV operator	UPC	365	n.a.

Source: Erste Group Research, companies data

Sluggish fixed broadband growth

Fixed-line penetration stood at 57% of households in 2008 and continues to shrink (albeit at a slower pace), driven mainly by fixed-to-mobile substitution. There were 2.68mn (-3.2% y/y) fixed lines in 3Q08, compared with 10.26mn (+6.7% y/y) active mobile SIM cards in the same period, according to RTR (national regulation authority). The total voice market shares (traffic) in 3Q08 were 26.2% fixed and 73.7% mobile telephony.

Fixed line penetration

	2004	2005	2006	2007	3Q08
Number of lines (000)	3,048	2,964	2,882	2,733	2,679
of which residential	2,351	2,252	2,166	2,019	2,019
As % of household	69.0%	65.0%	62.0%	57.0%	57.0%
As % of population	28.9%	27.4%	26.2%	24.2%	24.2%

Source: RTR Telekom Monitor

Fixed broadband penetration rose to 48% of households or 21.4% of the population by 3Q08, with 1.711mn connections (+10.1% y/y), according to RTR. Penetration stood below the EU-27 average for the same period at 22.9% of the population. Telekom Austria had a 44.8% share in fixed broadband connections in 3Q08, compared to 38.9% in 3Q07. There has been a marked slowdown in broadband market growth, as the increase in connections has come down from as high as 8% q/q in 4Q05 to as little as 0.2% q/q in 3Q08. DSL dominates the fixed broadband connections segment and its share is rising at the expense of cable modem. Telekom Austria was able to increase its share of total broadband access strongly (from 40% at the end of 2007 to 45% in 3Q08), proving the effectiveness of its product bundles introduced at the end of 2007.

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The popularity of local loop unbundling is growing among resellers, while the use of bitstream access (BSA) on Telekom Austria's network is declining.

Fixed broadband connections

In thousands	2004	2005	2006	2007	3Q08
Fixed broadband (000)	870	1,172	1,432	1,622	1,711
As % of household	25%	34%	41%	46%	48%
As % of population	11%	14%	17%	20%	21%
Breakdown of connections (%)					
DSL	44%	40%	40%	40%	45%
BSA (Telekom Austria)		9%	9%	7%	4%
LLU	7%	9%	12%	14%	14%
Total DSL connections	51%	58%	60%	61%	63%
Cable modem	47%	41%	38%	36%	34%
Fixed broadband revenues (EURmn)	95.4	113.4	137.3	129.7	126.3

Source: RTR Telekom Monitor, Statistics Austria for number of population

Mobile market

Mobile penetration at 126.6%

Mobile penetration reached 126.6% in 2008, with 10.6mn (+7.6%) subscribers. According to the EU Commission, 65% of mobile subscribers in October 2008 were post-paid subscribers. There are four infrastructure players operating in the market, with mobilkom austria the market leader. A first wave of consolidation has already taken place in this competitive market, with T-Mobile acquiring tele.ring in 2006 and mobilkom austria acquiring the mobile operation of Tele2 (MVNO) in March 2008.

Mobile market share based on number of subscriptions

	2002	2003	2004	2005	2006	2007	2008
Mobile penetration	83.1%	89.7%	98.0%	106.0%	114.2%	118.3%	126.6%
Total number of subscriptions (000)	6,756	7,300	7,990	8,676	9,381	9,825	10,575
% yoy		8.1%	9.5%	8.6%	8.1%	4.7%	7.6%
mobilkom austria	44.4%	43.3%	41.0%	39.1%	38.7%	40.3%	42.5%
T-Mobile (incl. tele.ring)	30.2%	28.5%	26.0%	24.2%	33.9%	33.3%	32.2%
Orange	20.7%	19.4%	20.0%	20.7%	22.0%	20.4%	20.0%
3 Austria			2.0%	4.2%	5.4%	6.0%	6.2%

Source: Erste Group Research, company data

Price pressure

Despite market consolidation, competition remains intense, with sustained pressure on call prices. In addition, lower mobile termination rates and EU roaming charges mandated by regulators put additional pressure on mobile market revenues. As a result, mobilkom austria's revenues remained flat, while the number of subscribers grew by a healthy 13.5% y/y in 2008. Moreover, T-Mobile even reported a significant drop in revenues (-8.2% y/y), while its customer base increased by 3.9% y/y.

Key performance indicators of mobile players

Dec. 08	mobilkom austria	T-Mobile	Orange	3 Austria
Revenues (EUR mn)	1,668	1,085	592	170
Number of subscribers (000)	4,496	3,400	2,054	654
Market share	42.5%	32.2%	20.0%	6.2%
% prepaid	30.4%	35.0%	na.	26%
Blended ARPU (EUR/month)	28.3	26.0	na.	33

Source: Companies data, RTR

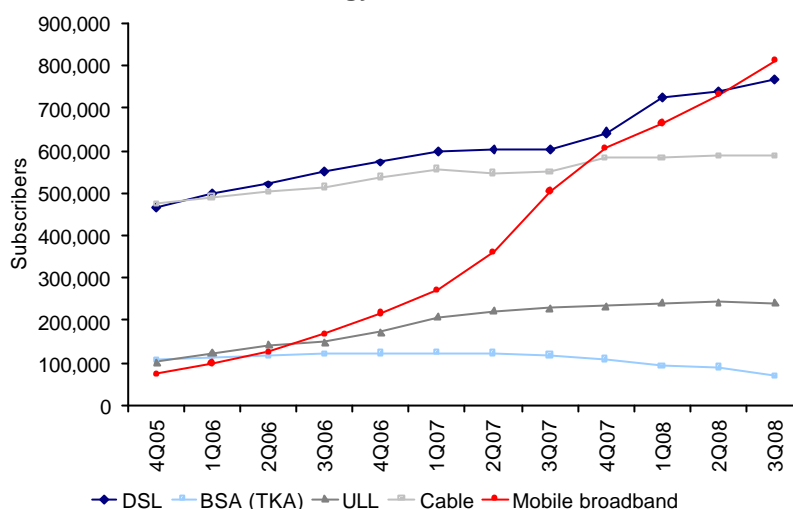
Mobile broadband surging, surpassing DSL

Mobile broadband continued to grow rapidly in 2008 and the mobile broadband penetration rate in Austria stood at 22.8% in January 2009, well ahead of the EU average of 13% (according to the EU Commission). There were 813,000 (+61% y/y) mobile broadband connections in 3Q08, according to RTR. This represents 32.2% of total broadband connections (vs. 26.7% in 3Q07), surpassing DSL (30.3%) as the leading broadband access technology in Austria. This dynamic was driven by fierce price competition, leading customers to use mobile access as their only broadband connection, instead of it merely being a complement to fixed broadband. According to Telekom Austria's 1Q09 report, the mobile broadband market's strong growth continued in 2009, reaching about 1.1mn total connections at the end of 1Q09, with mobilkom austria holding

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a market share of about 39.8%. However, according to the EU Commission, the bandwidth of mobile broadband services remains low in practice compared to fixed broadband and customers are becoming aware of capacity constraints in mobile networks.

Broadband access technology in Austria



Source: RTR

Croatia

T-HT dominates all segments

The telecom services sector in Croatia is dominated by T-Hrvatski Telekom, which commands an 82% share in fixed telephony revenues, a 90.1% share in fixed broadband connections and a 45.9% share in mobile connections, with 48.5% of mobile revenues at the end of 2008. Optima Telekom, in our view, is the main competitor in the fixed-line market and VIPnet is the main competitor in the mobile market. Fixed-line penetration remains high, with population penetration of 41.7% in 2008, despite ongoing fixed-to-mobile substitution. Mobile penetration continues to rise sharply, reaching 133.6% in 2008. Since Tele2 entered the mobile market in 4Q05 with its aggressive pricing strategy, competition has intensified and larger players continue to lose market share and face a declining ARPU.

Fixed-line market

Alternatives stronger, but remain inferior

T-Hrvatski Telekom, through its fixed-line arm T-Com, is the clear market leader in the fixed-line market in Croatia. T-Com is the only player that operates nationwide. Its competitors operate only in major cities such as Zagreb, Split, Rijeka, Osijek and Zadar. T-Com's main competitors, in our view, are Optima Telekom and H1 Telekom. Reports have surfaced in the media that these two alternative operators are considering a merger, as their financial status may have taken a hit from the economic crisis. A possible combination of the 233,000 subscribers of Optima Telekom and 100,000 subscribers of H1 Telekom (source: BMI) would create an alternative operator of reasonable size, but still considerably smaller than T-Com, with more than 1.5mn fixed-line customers. According to the T-HT's internal estimate, it had an 82% share of fixed telephony revenues in 2008. Despite a clearly visible drop (its market share in 2007 was 88% and 91% in 2006), T-Com remains the dominant player in the fixed-line market.

Fixed-line penetration stable

Fixed-line penetration stood at a high 41.7% (residential and business), remaining stable in 2008. Fixed-to-mobile substitution is the main threat for the fixed-line business. There were approximately 1.85mn fixed lines (including residential and business) in 2008, compared with 5.88mn (+14.5% y/y) mobile connections, according to the regulator.

Fixed line penetration

	2007	2008
Total lines (residential and business)	1,846.7	1,850.9
As % of population	41.6%	41.7%

Source: Hakom

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Fixed broadband up sharply

Fixed broadband penetration rose sharply to 11.8% of the population (from 6.6% in 1H07) at the end of 2008, with 524,683 connections, compared to 293,000 connections in 1H07, according to Hakom. Despite the strong increase in fixed broadband connections, penetration stood well below the EU-27 average for the same period at 22.9% of the population. T-HT, as the market leader, had a 90.1% share in fixed broadband connections at end-2008. At 94.6%, DSL dominates fixed broadband connections. The low cable TV penetration in Croatia was the main reason for the low number of cable modem connections in the country.

Fixed broadband connections

	2008
Number of broadband lines (000)	525
As % of population	11.8%
As % of household	30%
Breakdown of broadband lines (000)	
ADSL	496
Cable modem	20
Other	8
Breakdown of broadband lines (000)	
ADSL	94.6%
Cable modem	3.9%
Other	1.5%
Share of T-HT in total BB lines	90.1%
T-HT BB lines (000)	473

Source: Hakom, T-HT

Mobile market

Mobile penetration above 130%

Mobile penetration reached 133.6% in 2008 (according to Telekom Austria), with 5.9mn (+16.8%) subscribers. There are three infrastructure players in the market and T-Mobile (T-HT) has the leadership slot. Nevertheless, T-Mobile's market share has continued to decline since the market entry of price leader Tele2 in October 2005. Tele2 has had a national roaming agreement with T-Mobile since June 1, 2008. TelCro Grupa may be the first MVNO to enter the Croatian market after receiving the green light at the end of 2008.

Mobile market share based on number of subscriptions

	2003	2004	2005	2006	2007	2008
Mobile penetration	57.8%	64.5%	82.9%	99.7%	115.0%	133.6%
Total number of subscriptions (000)	2,551	2,842	3,655	4,396	5,034	5,880
Market share:						
T-Mobile	52.5%	54.0%	52.0%	49.1%	47.4%	45.9%
VIPnet	47.5%	46.0%	44.1%	43.5%	43.3%	42.2%
Tele2			3.8%	7.4%	9.3%	11.9%

Source: T-HT, VIPnet, Erste Group Research

High pre-paid proportion, falling call prices

The Croatian mobile market is still heavily dominated by pre-paid customers (about 70% of total customers). Nevertheless, there is a clear trend towards larger share of post-paid customers, with T-Mobile increasing its post-paid percentage from 28.7% in 2007 to 30.1% in 2008 and VIPnet from 20.5% to 22.7% in the same period. With penetration already above 130%, a high pre-paid customer base and an aggressive pricing strategy from Tele2 and VIPnet, it is no surprise that mobile call prices have come under pressure. By way of example, T-Mobile's average revenue per user (ARPU) fell by 9.2% y/y in 2008. Nevertheless, mobile operators still experienced revenue growth, with T-Mobile at 5.8% y/y and VIPnet at 2.3% y/y, driven mainly by the double-digit subscriber growth.

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Key performance indicators of mobile players

Dec 08	T-Mobile	VIPnet	Tele2
Revenues (HRK mn)	4,194	3,861	583
Number of subscribers (000)	2,690	2,487	703
Market share	45.9%	42.2%	11.9%
% prepaid	69.9%	77.2%	na.
Blended ARPU (HRK/month)	119	108	na.

Source: Companies data

Czech Republic

The telecom services sector in the Czech Republic is dominated by incumbent Telefónica O2 CR, which had 86% of total fixed lines, a 35% share in broadband connections and a 39% share in mobile connections in 2008. Alternative operator GTS Novera and cable operator UPC, in our view, provide the main competition in the fixed-line market. In the mobile market, T-Mobile is the biggest competitor; its number of subscribers was even higher than that of Telefónica O2 CR. Fixed-to-mobile substitution is very strong in this country. Fixed-line penetration decreased slightly to 21% of the population in 2008, with high mobile penetration, reaching 131% in the same period.

Fixed-line market

Incumbent clear market leader

Telefónica O2 CR is the clear market leader in the fixed-line market in the Czech Republic. According to the EU Commission, 95.7% of fixed-line subscribers used Telefónica O2 CR as their direct access in July 2008. Telefónica O2 CR's main competitors are alternative operators GTS Novera and Ceske Radiokomunikace, as well as cable operator UPC. Nevertheless, as seen in the following table, Telefónica O2 CR still generates much larger fixed-line revenues compared to its closest competitors and it had an approximately 65% market share in 2008. In 2007, GTS Novera, which focuses on corporate clients, held a market share of about 15% in terms of revenues. Alternative players compete predominantly in the business segment and international calls. At the end of 2008, Telekom Austria sold its Czech subsidiary, Telekom Austria Czech Republic, which operated under the VOLNY brand, to Dial Telecom.

Leading fixed line players

Type	Operators	Revenues 08 (CZK mn)
Incumbents	Telefónica O2	30,021
Alternative operators	GTS Novera	5,765*
	Ceske Radiokomunikace	
	Dial Telecom	
Cable operators	UPC	4,412*

Source: Erste Group Research

*2007 revenue

According to the EU Commission, cable TV penetration stood at 9.6% of the population in 2008, with UPC holding an estimated market share of 70% of the cable TV market. IPTV, mainly used to boost the attractiveness of product bundles, experienced significant growth in 2008, but its role in the Czech TV market remains marginal. Telefónica O2 CR reported roughly 115,000 IPTV customers at the end of 2008 (+56.4% y/y).

Fixed line penetration

	2004	2005	2006	2007	2008
Number of lines (000)	3,428	3,217	2,600	2,347	2,213
As % of household	60.0%	54.0%	43.0%	37.0%	36.0%
As % of population	33.6%	31.4%	25.3%	22.7%	21.1%

Source: Czech Statistical Office, Telefónica O2 estimates

Strong fixed-to-mobile substitution

Fixed-line penetration stood at 36% of households or 21.1% of the population in 2008. The number of total fixed lines decreased by 134,000. This is mainly due to the strong effect of fixed-to-mobile substitution in the Czech Republic, which is also visible in the traffic figures reported by the incumbent. The proportion of mobile traffic in total traffic grew from 76% in 2007 to 81% in 2008.

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Broadband connections

In thousands	2005	2006	2007	2008
Household with broadband lines (000)	709	1,250	1,690	2,128
As % of population (excluding mobile BB)	6.0%	10.6%	14.7%	17.1%
Breakdown of broadband lines (%)				
ADSL	39.5%	39.5%	36.3%	32.9%
Wireless local loop (WiFi, FWA)	29.6%	29.6%	30.8%	34.8%
Cable modem	18.8%	18.4%	18.3%	18.8%
Mobile broadband (CDMA, UMTS)	9.9%	9.6%	10.9%	13.5%

Source: CTU, Telefónica O2 CR, EU Commission

Healthy broadband growth, wireless local loops leading technology

Fixed broadband penetration rose to 17.1% of the population at the end of 2008, which is below the EU-27 average of 22.9%. Total broadband connections (including mobile broadband) rose to an estimated 2.1mn (+24.7% y/y). ADSL and wireless local loop make up the majority of broadband connections, which is unusual in the EU. This is because alternative operators in the Czech Republic tend to use wireless local loop to compete with the incumbent. Wholesale broadband is not favored by alternative operators. At the end of 2008, Telefónica O2 CR reported only 50,100 unbundled local loops and 52,000 wholesale ADSL connections, which is a decline of 16% compared to last year. This is tiny compared with 740,000 wireless local loop connections. According to the EU Commission, three major players left the residential DSL market in 2007 and 2008, claiming that the wholesale pricing does not provide sufficient profit margin.

Market share of fixed broadband connections

Number of connections (000)	2005	2006	2007	2008
Telefónica O2	273.7	250.8	508.2	578.5
UPC	113.8	185.6	248.9	312.0
Market share				
Telefónica O2	38.6%	20.1%	30.1%	31.4%
UPC	16.1%	14.8%	14.7%	17.0%

Source: CTU, Telefónica O2, UPC

TEF O2: Including mobile broadband, the broadband market share was 34.5% in 2008.

Telefónica O2 CR, as the market leader, had a 31.8% share in fixed broadband connections in 2008. Including mobile broadband connections, its share rose to 34.5% in 2008. Within the DSL market, Telefónica O2 CR enjoyed an estimated 83% retail market share. The next largest player in the broadband market is UPC, with a 17.1% total market share.

Mobile market

Mobile penetration reached 131%

Mobile penetration reached 131% in 2008, with 13.6mn (+3.7%) subscribers. According to the EU Commission, the proportion of pre-paid customers decreased to 53% in October 2008, from 55% in the previous year. Accordingly, the number of post-paid subscriptions rose from 5.9mn in 2007 to 6.4mn in 2008, while the number of pre-paid users remains flat.

Mobile market share based on number of subscriptions

	2002	2003	2004	2005	2006	2007	2008
Mobile penetration	84.4%	95.2%	105.6%	115.1%	120.1%	126.8%	131.0%
Total number of subscriptions (000)	8,610	9,709	10,783	11,776	12,326	13,088	13,570
of which prepaid	6,732	7,268	7,733	7,834	7,369	7,198	7,192
of which postpaid	1,879	2,440	3,049	3,942	4,957	5,889	6,378

Source: Czech Statistical Office, companies data, EU commission

Four network operators, no MVNOs

There are four infrastructure players in the market, with Telefónica O2 CR and T-Mobile between them controlling almost 80% of the market (based on the number of subscribers). U:fon entered the market in May 2007, using the CDMA network. It focuses on providing mobile broadband services. There are currently no MVNOs in the market.

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Key performance indicators of mobile players

Dec. 08	Telefónica O2	T-Mobile	Vodafone	U:fon
Revenues (CZK mn)	33,566	33,100	na.	na.
Number of subscribers (000)	5,257	5,422	2,892	100
Market share	38.7%	40.0%	21.3%	0.7%
% prepaid	52.1%	53.7%	n.a.	na.
Blended ARPU (CZK/month)	519	500	583	na.

Source: Companies data

Despite tough competition, high penetration rates and falling prices, T-Mobile reported a slight increase in blended ARPU of 2.9%, while this figure declined only marginally for Telefónica O2 CR. This was achieved by migrating pre-paid customers to post-paid contracts (the proportion of pre-paid customers dropped from 56.2% to 52.1% and 57.7% to 53.7% for Telefónica O2 CR and T-Mobile, respectively).

Hungary

Three incumbents, led by Magyar Telekom

The telecom services sector in Hungary is dominated by Magyar Telekom, which held on to a 74% share in fixed lines, a 41% share in fixed broadband connections and a 44% share in mobile connections at the end of 2008. There are three incumbents in Hungary and their combined market share based on revenues was 82% in 2008, according to the EU Commission. Magyar Telekom is the biggest incumbent in Hungary. Its main competitor in the fixed-line business is the second largest incumbent, HTCC, followed by UPC. T-Mobile (part of Magyar Telekom) is the leader in the mobile market, followed by Pannon (Telenor). Fixed-line penetration fell steadily, to 30.8% of the population in 2008, while mobile penetration reached 121.8% in the same period, indicating continuing fixed-to-mobile substitution.

Fixed-line market

MTel holds 74% of fixed lines

The fixed-line market in Hungary in recent years has been characterized by falling penetration rates, declining from the peak of 38% in 2000 to 30.8% in 2008, primarily a result of the rapid increase of the mobile penetration rate. Magyar Telekom remains the clear market leader in the fixed-line market in Hungary, holding a 74% share of fixed lines at the end of 2008, distantly followed by the other incumbent, HTCC, with a 12% share. The fixed-line market in Hungary is divided into 54 concession areas, which are split up among the three incumbents: Magyar Telekom with 39 concession areas, HTCC with 14 concession areas and UPC Hungary with one concession area. The combined fixed-line market share (revenues) of these three incumbents was 82% in 2008, according to the EU Commission.

As mentioned above, the fixed-line penetration stood at 30.8% of the population in 2008, with 3.1mn lines (-4.8% y/y). Fixed-to-mobile substitution continues to be the main factor in the decline in lines. Competitive pressures also played an important role, as Magyar Telekom continues to suffer from the popularity of cable access in Hungary, reporting 9.6% fewer lines in 2008.

Fixed line penetration

	Dec. 06	Dec. 07	Dec. 08
Number of lines (000)	3,350	3,251	3,094
As % of household	66.3%	64.4%	61.3%
As % of population	33.3%	32.3%	30.8%

Source: NHH's monthly flash report on wireline, Dec 08, 07, 06

MTel battling line loss, cable still popular

The cable TV market (34.6% of TV subscribers) is still very fragmented, with several hundred operators, although the biggest four cover about 70-75% of the market. UPC Hungary is the leading cable operator, followed by T-Kabel (Magyar Telekom), Fibernet and DIGI. These operators have been successful in offering product bundles (TV, telephone, Internet). In an effort to slow line loss, Magyar Telekom enhanced its bundled products by launching satellite TV service, enabling the company to offer product packages nationwide. By 1Q09, the incumbent added 47,000 customers for its new service after its introduction a quarter earlier. Furthermore, Magyar Telekom announced the roll-out of a fiber-to-the-home (FTTH) network and upgrades to

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its cable network in September 2008, with the goal of connecting 780,000 households to fiber, while upgrading a further 380,000 with EuroDocsis 3.0 technology by end-2013.

Fixed broadband connections

	Dec. 06	Dec. 07	Dec. 08
Number of lines (000)	998	1,428	1,537
As % of population	9.9%	14.2%	15.4%
Breakdown of lines:			
xDSL	61.4%	52.2%	51.7%
Cable modem*	38.6%	47.8%	48.3%

Source: NHH, EU Commission

* Data is estimated based on NHH data of four largest cable operators

Fixed broadband growth decelerates

Fixed broadband penetration increased to 15.4% in December 2008, from 14.2% in 2007. After strong broadband growth in 2007 (+43% y/y), the increase in 2008 was limited to 7.6% y/y, leaving the broadband penetration rate well below the EU-27 average of 22.9%. One of the main reasons behind the slowing momentum in fixed broadband is the growing popularity of mobile broadband connections. In Hungary, roughly half of the fixed broadband lines are based on xDSL technology, while the other half is cable connections. The former is dominated by Magyar Telekom, with a share of 79% in DSL lines at the end of 2008. In terms of speed, only about 40% of connections offered bandwidths above 2Mbps, while the EU average for that range is at roughly 75% (according to the EU commission, July 2008).

In the wholesale market, operators relying on local loop unbundling are scarce, with only 11,597 unbundled local loops reported by July 2008. In contrast, the number of bitstream access lines reached 204,280 in 2008.

Mobile market

Little movement among three operators

In Hungary, there are three infrastructure players in the market, among which T-Mobile (Magyar Telekom) is the market leader. While the market shares of the three mobile network operators basically remained at the same level for several years, the number of total subscribers showed healthy growth in 2008, reaching 12.2mn (+10.8% y/y) and pushing the mobile penetration rate to 121.8%. Approximately 59.4% of mobile customers were pre-paid in 2008, declining only mildly compared to 60.7% in 2007. All operators have a UMTS license and the National Communication Authority (intending to promote competition) received four bids in a tender for a fourth license, but later (March 2009) called it off, due to the economic crisis.

Mobile market share based on number of subscriptions

	2003	2004	2005	2006	2007	2008
Total number of subscriptions (000)	7,945	8,727	9,320	9,966	11,030	12,224
Penetration (as % of population)	78.5%	86.4%	92.4%	99.0%	109.7%	121.8%
T-Mobile	47.9%	46.2%	45.2%	45.0%	45.2%	44.2%
Pannon (Telenor)	35.4%	34.1%	33.6%	33.7%	33.4%	33.9%
Vodafone	16.8%	19.7%	21.2%	21.4%	21.4%	21.9%

Source: NHH, total number of active mobile SIM cards

ARPU declining

Falling call prices and lower mobile termination rates have put pressure on revenue growth. T-Mobile Hungary reported flat revenues, despite its subscriber number growing by 10.4% y/y in 2008. Pannon even reported a revenue decline of 2.1% y/y, while increasing its subscriber base by 10.6% y/y in 2008. The average revenue per minute (ARPU/MOU), which gives an indication of call prices, fell by about 10% for T-Mobile and by about 7% for Pannon.

Another explanation for the deterioration of ARPU while subscriber numbers are growing is the rising popularity of mobile broadband, diluting ARPU somewhat. The number of mobile Internet subscriptions climbed to a total of 566,000 as of April 2009, which translates into a mobile broadband penetration rate of about 5.6% of the population. The distribution of market shares is slightly different for the mobile broadband market than it is for the mobile market overall, with T-Mobile holding a 49.4% market share, followed by Vodafone with 27.1% and Pannon with 23.5% in April 2009.

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Key performance indicators of mobile players

Dec. 08	T-Mobile	Pannon	Vodafone
Revenues (HUF mn)	280,626	188,400	na.
Number of subscribers (000)	5,362	3,730	2,572
Market share	44.2%	33.9%	21.9%
% prepaid	61.5%	58.7%	56.2%
Blended ARPU (HUF/month)	4,087	4,218	4,846
% yoy	-10.0%	-7.2%	-6.3%

Source: Companies data, NHH for market shares

Poland

Fixed-line controlled by TP SA, mobile market evenly split

The telecom services sector in Poland is dominated by the TP SA Group, with a 74.9% share in fixed lines, a 39.1% share in fixed broadband volume and a 32.3% share in mobile connections in 1Q09. TP SA competes with cable operators, such as UPC, and alternative operators (mainly Netia and Dialog) in the area of fixed lines. The mobile market is quite evenly split between the three largest operators: Orange (TP SA), PTC (T-Mobile) and Polkomtel. The fourth operator, Play, came to the market in 1Q07. Its market share, which rose to 4.6% by the end of 2008, remains small. MVNOs are also active in the market, but again their market share is tiny, with less than 1% of retail customers at the end of 2008. Fixed-line penetration continues to decline, with population penetration down to 27.7% in 4Q08, driven by fixed-to-mobile substitution. Mobile penetration continues to rise, reaching 115.5% in the same period. The Polish telecom market value grew by 5.5% y/y in 2008, rebounding nicely, after it was limited to only 1.4% y/y in 2007, due to price competition and regulatory tariff reductions (source: TP SA estimates).

Fixed-line market

Netia new number two

TP SA is the market leader in the fixed voice market in Poland, with a 74.9% share of retail access lines and a 77.4% share of fixed voice traffic in 1Q09 (source: TP SA). TP SA's market share has declined from 78% of fixed voice traffic and from 80.1% of retail access in 1Q08. After Netia acquired Tele2 in September 2008, it became the incumbent's largest competitor in the national fixed voice market (10% market share), followed by Dialog (5%) and the major cable operators, led by Multimedia Polska and UPC Polska.

Fixed line market share based on subscriber lines

Players	2006	2007	2008
TPSA	83%	82%	75%
Tele2	8%	4%	-
Dialog	3%	4%	5%
Netia	3%	4%	10%
Cable	-	3%	5%
Others	4%	3%	5%

Source: Company data

Continued migration to mobile, alternative operators favor WLR

Fixed-line penetration continues to decline, from 28.6% in 2007 to 27.7% at the end of 2008, driven by fixed-to-mobile substitution. There were 10.6mn (-2.7% y/y) fixed lines at the end of 2008, compared with 43.9mn (+5.8% y/y) mobile subscribers. The number of lines of alternative operators increased from 1.4mn in 2007 to 1.7mn at the end of 2008. Over the same period, the number of rented wholesale lines (WLR) rose from 0.6mn to 0.9mn, despite some regulatory uncertainty (17 dispute resolution decisions, according to the EU Commission). With the acquisition of Tele2, Netia is now by far the largest user of WLR services, with 72% of lines, followed by Dialog, which accounts for 17% of WLR lines. Previously, Netia relied mostly on its own access network, while Tele2 was the main user of WLR (78% of WLR lines in 2007). The use of local loop unbundling (LLU) was still negligible in 2008 (1,600 lines), while it picked up somewhat in 1Q09 (3,800 lines), after the UKE (the national regulation authority) slashed the reference unbundling offer in December 2008, reducing prices from PLN 36 to PLN 22. The new reference offer makes LLU an attractive alternative to WLR and bitstream access (BSA).

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Fixed line penetration

	2006	2007	2008
Number of lines (mn)	11.5	10.9	10.6
As % of household	82.0%	77.0%	74%
As % of population	30.1%	28.6%	27.7%
Breakdown of fixed lines			
TP retail lines	10.1	8.9	8.0
Alternative operators (estimated)	1.4	1.4	1.7
Wholesale line rental	0.0	0.6	0.9

Source: TPSA

Low broadband penetration, but rising sharply

Fixed broadband penetration continued its rapid growth, standing at 13.2% of the population in January 2009, with 5mn connections (+57.7% y/y), according to the EU Commission. Despite the swift increase, the penetration rate stood well below the EU-27 average for the same period at 22.9% of the population. The bandwidths provided in Poland were also among the slowest in the EU, with 83.1% falling in the range of 144Kbps and 2Mbps, compared to an average of 25.1% for that range in the EU.

Approximately 63% of the fixed broadband connections are xDSL, with the remaining 37% made up by alternative technologies, such as cable. Competition from these cable and alternative operators using bitstream access have eroded TP SA's retail market share to 43.6% in January 2009 (Erste Group estimate, includes Orange BSA service). BSA lines grew from 132,000 at the end of 2007 to 348,000 a year later, with Netia operating the most BSA lines.

Fixed broadband penetration

	Jan 07	Jan 08	Jan 09
Number of fixed broadband lines (000)	1,996	3,186	5,024
As % of population	5.2%	8.4%	13.2%
xDSL	1,494	2,221	3,159
As % of total fixed broadband lines	74.9%	69.7%	62.9%
Other technologies	461	936	1,865
As % of total fixed broadband lines	23.1%	29.4%	37.1%

Source: EU Commission, Eurostat

Mobile market

Active user penetration above 100%

Mobile penetration reached 115.5% in 2008, with 43.9mn (+5.8% y/y) subscribers. However, this includes 4-6mn inactive subscribers, according to the EU Commission. Adjusting for inactive subscribers, the mobile penetration rate stood at 101% in October 2008. According to the EU Commission, only 42% of mobile subscribers in October 2008 were post-paid subscribers (vs. 38% in October 2007).

Play grabbing market share, more operators to enter

There are four mobile network operators in the Polish market. The market shares of the three largest players (Polkomtel, Orange and PTC) all declined slightly, as Play, the latest entrant, managed to attract over 2mn subscribers by year-end 2008. Polkomtel now has the market leader status in terms of subscribers, surpassing Orange. In 2009, three new mobile operators - CenterNET, Mobyland and Aero 2 - might enter the market, all having received licenses from the UKE, but with none commencing operations at this point. Nonetheless, as the license agreements that were awarded in 2007 require coverage of 15% of the population by the end of 2009, we should see activity from new entrants in 2009.

According to the EU Commission, there were 11 MVNOs active in Poland in 2008. However, only one managed to attract more than 100,000 subscribers and the total market share was less than 1% in 2008. The national regulator, UKE, aims to introduce some action plans that could increase the MVNOs' subscriber market share to 10-15% by the end of 2010.

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Mobile market share based on number of subscriptions

	2002	2003	2004	2005	2006	2007	2008
Mobile penetration	36.4%	45.6%	60.4%	76.4%	96.3%	108.9%	115.5%
Total number of subscriptions (mn)	13.9	17.4	23.1	29.2	36.7	41.5	43.9
Orange	20.2%	15.7%	16.3%	19.3%	34.0%	34.2%	32.3%
PTC (T-Mobile)	34.7%	41.5%	48.7%	40.8%	32.4%	31.4%	30.2%
Polkomtel	45.1%	42.8%	35.0%	39.9%	33.6%	32.4%	33.0%
Play (started March 16, 2007)						2.1%	4.6%

Source: UKE, companies data

Competition-driven price reduction and regulatory-driven mobile termination rate reduction have put pressure on market revenue growth. According to TP SA estimates, the total value of the mobile market grew by 10% y/y in 2008, while total subscriber growth amounted to 5.7% y/y. After a year of steep drops in retail prices in 2007, customers enjoyed further cuts in 2008 and retail tariffs remained among the lowest in the EU (according to the EU Commission).

Key performance indicators of mobile players

Dec. 08	Orange	PTC	Polkomtel	Play
Revenues (PLN mn)	8,635	7,920	8,482	84
Number of subscribers (000)	14,182	13,273	14,474	2,000
Market share	32.3%	30.2%	33.0%	4.6%
% prepaid	56.5%	52.3%	54.6%	n.a
Blended ARPU (PLN/month)	50.0	50.0	48.8	n.a

Source: Companies data

Polkomtel new market leader

In 2008, Polkomtel saw the strongest increase in its subscriber base among the top three operators (+7.6%), thus surpassing Orange. While Orange could not attract a significant number of customers in 2008, it did manage to raise ARPU slightly by migrating pre-paid users to post-paid. As a result, it grew its revenues by 7% y/y. PTC also increased its revenues (+8.8% y/y) by decreasing the proportion of pre-paid customers, thus lifting ARPU mildly (from PLN 48.2 in 2007 to PLN 50 in 2008).

Slovenia

The telecom services sector in Slovenia is dominated by the incumbent Telekom Slovenije, which commands an 85.6% share of fixed-line access, a 49.1% share in fixed broadband access and a 58.9% share in mobile subscribers in 2008. The main competitors are the largest cable operator, UPC Slovenia, and alternative operators such as T-2 and Amis. Fixed-line penetration continues to decline, with population penetration down to 31.9% in 2008, driven by fixed-to-mobile substitution and the growing popularity of VoIP services. Mobile penetration continued to rise in 2008, reaching 100.1%, according to national regulator APEK.

Fixed-line market

Telekom Slovenije dominant

Telekom Slovenije is the leader in the fixed-line market in Slovenia, holding a market share of 85.6% of fixed-line access in 2008 (including VoIP access). The incumbent's main competitors in 2008 were T-2, with a 7.9% fixed access market share (up from 4.8% in 2007), UPC, with a 2.9% market share (vs. 1.2% in 2007), and Amis holding 1.7% of all Slovenian fixed access (up from 0.8% in 2007). The leading cable operator, UPC Slovenia, which is the country's second largest Internet service provider, with 40% of the Slovenian pay-TV market, was sold by Liberty Global to Mid Europa Partners, a private equity firm, at the beginning of May 2009.

Leading fixed line players

Type	Operators
Incumbents	Telekom Slovenije
Alternative operators	T-2 Amis
Cable operator	UPC Slovenia

Source: Erste Group Research

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VoIP emerging rapidly

VoIP connections continued to grow rapidly in 2008, with the access number increasing from 121,747 to 232,840 (+91.2% y/y). VoIP represented 26.4% of fixed access at year-end 2008, compared to 14.2% a year earlier and just 1% of fixed access in 1Q06, according to APEK. The incumbent Telekom Slovenije supplied 46.4% of VoIP connections in 2008 (compared to 48.1% at end-2007), followed by alternative operator T-2, with 29.7% of the segment's total (down from 33.7% in 2007), and cable operator UPC Slovenia holding a 10.8% share (vs. 8.2% in 2007).

Healthy broadband growth, FTTH gaining

The number of fixed lines continues to decline (excluding VoIP connections), driven by fixed-to-mobile substitution. At the end of 2008, there were 648,657 fixed lines, down 11.7% compared to the year before. Fixed-line population penetration amounted to 31.9% (against 36.3% in the previous year), compared to mobile population penetration of 100.1% at the end of 2008.

Fixed line penetration

	2006	2007	2008
Number of lines (000)	792,123	734,619	648,657
As % of population	39.4%	36.3%	31.9%
VoIP	60,798	121,747	232,840

Source: Statistical Office of the Republic of Slovenia, APEK, Telekom Slovenije

Fixed broadband penetration stood at 20.8% of the population at end-2008, with about 420,000 connections (+21% y/y). Penetration stood slightly below the EU-27 average for the same period, 22.9% of the population. Approximately 67% of fixed broadband connections are xDSL, while cable modem represented about 22.3% of fixed broadband connections. Fiber-to-the-home connections (FTTH) showed strong growth in 2008, already representing 10.4% of fixed broadband lines (vs. 3.6% in 2007). Telekom Slovenije is actively expanding its FTTH coverage and plans to invest up to EUR 450mn by 2015 to reach 70% household coverage.

Fixed broadband penetration

	Jan 07	Jan 08	Dec 08
Number of fixed broadband lines (000)	279.7	347.5	420.4
As % of population	14.8%	18.2%	20.8%
xDSL	194.3	246.9	281.7
As % of total fixed broadband lines	72.2%	70.8%	67%
Cable modem	81.6	87.4	93.7
As % of total fixed broadband lines	25.8%	23.5%	22.3%
FTTH	4.5	11.1	43.7
As % of total fixed broadband lines	1.6%	3.2%	10.4%

Source: APEK, Telekom Slovenije

Telekom Slovenije held a 49.1% share in fixed broadband connections in 2008, with alternative operators T-2 and Amis lagging in the distance, with 18.2% and 8.7% market shares, respectively, according to national regulator APEK. The DSL retail broadband market remains dominated by the incumbent, with a 67.8% market share in December 2008.

Cable TV losing, IPTV rising

Telekom Slovenije launched its IPTV service back in 2003. By the end of 2008, it had a 19% share of the pay-TV market. The largest player in the pay-TV market, UPC Slovenia, held a 40% share in 2008. In general, cable TV still has control of the pay-TV market, with a 64% share in 2008, but its popularity is deteriorating quickly, as the share of cable TV connections came down from 81% at end-2007, according to APEK.

Mobile market

Mobile penetration 100.1%, below EU average

Mobile penetration surpassed the 100% mark in 2008, reaching 100.1% at year-end, with 2.06mn subscribers, 6.7% more than a year earlier. The relatively low mobile penetration rate compared to the EU-27 average of 118.9% may result from the regulator only counting active SIM cards (used within 30 days). According to the EU Commission, 63% of mobile subscribers in October 2008 were post-paid subscribers (60% in the previous year). The incumbent's mobile arm, Mobitel, still dominates the market, with a 58.9% share of subscribers in 2008, despite losing a considerable share to its competitors (65.5% market share in 2007). Mobitel's market share in the business segment is even higher at about 80%, according to the EU Commission.

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Competition hurting market leader

The second-largest player, Si.Mobil (owned by Telekom Austria), has steadily increased its market share to 27.8% in 2008 (up from 25.8% in 2007). Tasmobil is the third infrastructure mobile operator, which entered the market on October 31, 2007. In 2008, Tasmobil grew its market share from 0.6% at the beginning of the year to 5.8% at year-end. T-2 entered the market in 2008 after purchasing a UMTS licence in 2006 and attracted 0.3% of total subscribers by the end of year. At the end of 2008, two MVNOs operated in Slovenia, Debitel and Izimobil, both using Mobitel's mobile network.

Mobile market share based on number of subscriptions

	2006	2007	2008
Mobile penetration	91.0%	95.2%	100.1%
Total number of subscriptions (000)	1,819	1,929	2,058
Subscribers (000)			
Mobitel	1,279	1,263	1,212
Si.Mobil	421	497	571
Tasmobil	0	14	119
Debitel (MVNO)	96	108	99
Izimobil (MVNO)	23	46	52
T-2			6
Market share			
Mobitel	70.3%	65.5%	58.9%
Si.Mobil	23.1%	25.8%	27.8%
Tasmobil	0.0%	0.6%	5.8%
Debitel (MVNO)	5.3%	5.6%	4.8%
Izimobil (MVNO)	1.3%	2.4%	2.6%
T-2	0.0%	0.0%	0.3%

Source: Companies data, APEK

Si.Mobil showing dynamic

Mobitel revenues grew by a mere 3.7% y/y in 2008 to EUR 450.5mn; meanwhile, its number of subscribers even fell by 4% to 1.21mn. Intense competition, especially with Si.Mobil and Tasmobil, the new entrant, were responsible for the decline. Si.Mobil increased its subscriber numbers by 14.9% to 571,000. As a result of the larger subscriber base and a slightly increasing ARPU in 2008 (EUR 24 in 2008 vs. EUR 23 in 2007), revenues grew by almost 11% in 2008 to EUR 189.5mn. Si.Mobil positions itself as the price leader in the post-paid segment. As a result, the company raised its number of post-paid subscribers by 20.6% y/y in 2008 to 375,300, which represented 65.8% of total subscribers. Mobitel, by comparison, was only able to increase its number of post-paid customers by 1.5% y/y to 775,700.

Key performance indicators of leading mobile players

Dec 08	Mobitel	Si.Mobil
Revenues (EUR mn)	450.5	189.5
Number of subscribers (000)	1,212	571
Market share	58.9%	27.8%
% prepaid	35.9%	34.2%
Blended ARPU (EUR/month)	26	24

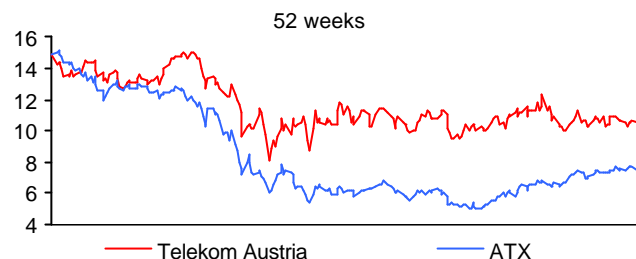
Source: Companies data

Telekom Austria Hold

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EUR mn	2008	2009e	2010e	2011e
Net sales	5,170.3	5,046.7	4,990.8	4,991.5
EBITDA	1,295.6	1,837.9	1,827.6	1,826.8
EBIT	135.5	714.5	732.0	748.9
Net result after min.	-48.8	363.2	399.5	436.6
EPS (EUR)	-0.11	0.82	0.91	1.02
CEPS (EUR)	3.66	3.07	3.38	3.51
BVPS (EUR)	4.69	4.75	4.47	4.27
Div./share (EUR)	0.75	0.75	0.75	1.00
EV/EBITDA (x)	6.8	4.6	4.6	4.5
P/E (x)	-93.4	12.8	11.5	10.3
P/CE (x)	2.8	3.4	3.1	3.0
Dividend Yield	7.3%	7.2%	7.2%	9.5%



Performance	12M	6M	3M	1M
in EUR	-29.7%	-8.5%	3.3%	2.2%

Share price (EUR)	10.48	Reuters	TELA.VI	Free float	72.6%
Number of shares (mn)	460.0	Bloomberg	TKA AV	Shareholders	ÖIAG (27.4%)
Market capitalization (EUR mn)	4,820.8	Div. Ex-date	26/05/08		
Enterprise value (EUR mn)	8,534.8	Target price	11.0	Homepage:	www.telekom.at

Turbulence in the East

- Major international wireless operations, such as those in Bulgaria, Belarus and Croatia, are under economic pressure, negatively affecting reported revenue and EBITDA growth. The Slovenian mobile operation is under harsh competitive pressure, while the start-up operation in Serbia is also under economic pressure.
- Regulatory issues, such as the severe mobile termination rate reduction and the further reduction of the Eurotariff, should weigh on domestic mobile revenue and EBITDA.
- A civil servant reduction has been implemented, but the state is unlikely to take over the redundant civil servants in the foreseeable future.
- We reduce our estimates, following the weak 1Q09 results, the lowered 2009 revenue guidance and the further reduction of the Eurotariff. We lower our EPS estimates for 2009e and 2010e by 5% to EUR 0.82 and 7% to EUR 0.91, respectively. We also think that the stable EBITDA guidance is a best-case scenario that is getting harder to reach.
- After considering the lower estimates and the narrowing credit spread (from 325bp to 200bp), we maintain our target price for Telekom Austria at EUR 11. The peer group comparison remains unfavorable, with a 6% premium in terms of P/E 2009e and a 6% premium in terms of EV/EBITDA 2009e.
- We therefore maintain our cautious stance and reiterate our Hold recommendation.

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Investment case. We summarize the investment highlights for Telekom Austria as follows:

- **Major international wireless operations under pressure.** The mobile operations in Bulgaria, Belarus, Croatia and Slovenia contributed around 50% to wireless revenues and around 33% to group revenues in 2008. Their contribution to wireless and group EBITDA amounted to 58.3% and 60.4%, respectively. These operations play an important role in driving the growth for the group.

Lower revenue and EBITDA growth in Bulgaria

However, the operations in Bulgaria and Belarus are under macroeconomic and competitive pressure. Mobiltel in Bulgaria reported a 2.8% revenue decline and a 12.3% adjusted EBITDA decline in 1Q09, as customers chose cheaper products. Higher discounts granted also led to lower average prices. The Bulgarian lev has not been devalued yet, but the risk is significant. If this currency devalues, the reported operating results will be even worse.

Devaluation in Belarus

Meanwhile, the 21% devaluation of the Belarusian ruble in 1Q09 negatively impacted the reported revenue and EBITDA growth. The reported revenue growth in 1Q09 amounted to 12.9% y/y, compared to 27% y/y growth in the local currency. The reported EBITDA growth amounted to 15% y/y, compared to 29.2% y/y growth in the local currency.

Losing Tele2 account in Croatia

Vipnet in Croatia suffered from the expiry of its Tele2 national agreement (switch to T-Hrvatski Telekom) in June 2008. This led to a 9.5% y/y revenue drop and 22.7% y/y EBITDA decline in 1Q09. The negative effect will continue until 2Q09 only.

Harsh competition in Slovenia

Si.mobil faces intensifying competition in Slovenia. Although the number of subscribers grew by 13.5% y/y in 1Q09, revenues rose by only 3.6% y/y. Meanwhile, EBITDA dropped by 30%. The harsh competition has led to lower tariffs and heavy marketing.

In addition, the company sees economic pressures in Serbia, where Telekom Austria has a start-up operation. Serbia's economy is in contract in 2009, with real GDP down 2.1% y/y, the unemployment rate up to 18% and RSD/EUR devaluation of 15.6%, according to our estimate. This should negatively affect revenue and EBITDA growth.

Aggressive MTR cut and further reduction of Eurotariff

- **Regulatory pressure intensifies.** The further reduction of the Eurotariff and the aggressive new MTR reduction schedule, as discussed in the previous section, should put mobilkom austria's revenues and EBITDA under pressure.
- **Civil servant reduction implemented since 4Q08.** The company plans to cut 1,250 full-time employees in the wireline segment by December 31, 2009. As of March 31, 2009, 654 employees were released from work and will continue to receive full salary until retirement. Meanwhile, 334 employees accepted a golden handshake. The measures should improve 2009 EBITDA by approximately EUR 35mn and 2010-onwards by EUR 50mn/year. The company made EUR 632.1mn provision in 4Q08 for the restructuring, which is interest-bearing at a 6% rate.

State unlikely to take over redundant civil servants

At a glance, the benefit of the restructuring looks minor compared to the enormous provisions and respective interests. Telekom Austria hopes that the government will take over the staff released from work. However, in the current economic crisis, the government has neither the intention nor the budget to help Telekom Austria.

Shares remain expensive

- **Shares unfortunately not a bargain.** The stock is traded with a premium of about 6% in terms of 2009e P/E compared to CEE peers'. The 2009e EV/EBITDA is 6% above the average for CEE. The dividend yield of 7.2% in 2009e is also below the CEE average of 10.1% and the western European average of 7.5%. Some of the premium can be attributed to the attractive international wireless assets. However, the major international operations are under economic pressure. A takeover fantasy emerges now and then, but we do not see it as likely in the foreseeable future.

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2009 outlook and beyond. There is no further consolidation from acquisitions this year. Therefore, the company expects to achieve the following targets:

Revenue outlook recently downgraded

- Revenues: Slightly weaker than ~EUR 5.1bn (2008: EUR 5.1703bn)
The revenue guidance was lowered on May 13, 2009. The company expects the economic slowdown to reduce international transit volume, leading to lower wireline wholesale revenues. The reduction in MTR in Austria should lower mobile interconnection revenues. The recession should lead to a longer handset holding period and a preference for cheaper handsets, thereby lowering mobile equipment revenues.

EBITDA target seems hard to reach

- EBITDA at ~EUR 1.9bn (2008: EUR 1.93bn, excluding a EUR 632.1mn restructuring provision)
Despite lowering its revenue guidance, the company maintained its EBITDA outlook. This was due to the low-margin nature of the international transit business. Meanwhile, low mobile equipment sales should also lead to low equipment costs. Lastly, the company expects that the lower mobile interconnection revenues will be fully compensated for by the lower mobile interconnection costs, the lower fixed-to-mobile interconnection costs and the positive effect from the early expiry of the asymmetric MTR.
- CAPEX at ~EUR 800mn (2008: EUR 756.2mn), excluding fiber roll-out
- Operating FCF or EBITDA less CAPEX at ~EUR 1.1bn (2008: EUR 1.17bn)
- Dividend of EUR 0.75 minimum or 65% of net income

The long-term targets for 2009-12 announced at the Capital Markets day on January 29, 2009, are as follows:

- Revenues: Slight growth after 2009
- EBITDA: Stable after 2009
- CAPEX: Around EUR 0.8bn in 2010 and 13% of sales in 2012, excluding fiber roll-out
- FCF: Around EUR 3.2bn

Cash distribution policy. In our opinion, the cash distribution policy remains clear and generous with a stable dividend.

Maintain solid investment grade

- Rating floor BBB (investment grade), threshold 1.8-2x net debt/EBITDA
Telekom Austria aims to keep a solid investment grade, with an absolute rating floor at BBB, and sets a threshold of 1.8-2x net debt/EBITDA. This threshold will be reviewed in 2010. A pre-condition for acquisitions or a share buyback is the preservation of a solid investment grade. There is currently no potential acquisition target, according to the company.
- Share buyback on hold
Telekom Austria has earmarked EUR 1.75bn/year for growth investments and a share buyback. The share buyback program has been postponed, following the MDC acquisition in 4Q07, as the net debt/EBITDA exceeds the 2x threshold. A potential buyback will be evaluated after the 2Q09 results, with a focus on the state of financial markets and the sustainability of operating performance.
- 65% payout ratio, but aims to distribute a minimum dividend of EUR 0.75

Downgrade 2009e and 2010e estimates

Change in estimates. Following the weak 1Q09 results, we downgrade our estimates again, as seen in the following table. We reduce our 2009 revenue estimates for wireline wholesale, wireless roaming and equipment. In addition, we also incorporate the new reduction of the Eurotariff in our 2010 forecast.

Change in estimates

EURmn	2009e			2010e		
	Old	New	%+/-	Old	New	%+/-
Revenues	5,104	5,047	-1%	5,092	4,991	-2%
EBITDA	1,859	1,838	-1%	1,865	1,828	-2%
EBIT	735	715	-3%	769	732	-5%
Net income	380	363	-5%	431	400	-7%
EPS (EUR)	0.86	0.82	-5%	0.99	0.91	-8%
DPS (EUR)	0.75	0.75	0%	0.75	0.75	0%

Source: Erste Group estimates

Sector Report – CEE Telecoms

**Maintain Hold
and target
price of
EUR 11**

Valuation and recommendation. After considering the lower estimates and the narrowing credit spread (from 325bp to 255bp), we maintain our target price for Telekom Austria at EUR 11. The peer group comparison shows that Telekom Austria is traded at a 6% premium in terms of EV/EBITDA 2009e and a 6% premium in terms of P/E 2009e. The company's margin falls below the average CEE range.

Telekom Austria's current premium valuation does not bode well, given its struggling CEE operations. We also think that the company's EBITDA outlook for 2009 is a best-case scenario, which is getting tougher to reach. We therefore maintain our cautious stance and reiterate our Hold recommendation.

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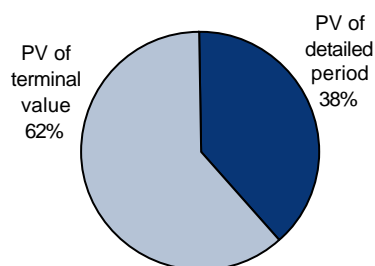
WACC calculation

	2009e	2010e	2011e	2012e	2013e	2014e (TV)
Risk free rate	5.8%	5.8%	5.8%	5.8%	5.8%	5.5%
Equity risk premium	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	10.3%	10.3%	10.3%	10.3%	10.3%	10.0%
Cost of debt	7.8%	7.8%	7.8%	7.8%	7.8%	7.5%
Effective tax rate	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
After-tax cost of debt	6.2%	6.2%	6.2%	6.2%	6.2%	5.9%
Equity weight	50%	50%	50%	50%	50%	50%
WACC	8.2%	8.2%	8.2%	8.2%	8.2%	7.9%

DCF valuation

(EUR mn)	2009e	2010e	2011e	2012e	2013e	2014e (TV)
<i>Sales growth</i>	-2.4%	-1.1%	0.0%	0.6%	0.8%	0.5%
EBIT	715	732	749	724	775	773
EBIT margin	14.2%	14.7%	15.0%	14.4%	15.3%	15.2%
Tax rate	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Taxes on EBIT	-150	-154	-157	-152	-163	-162
- Cash costs of redundant civil servants	-35	-50	-50	-50	-50	-50
NOPLAT	529	528	542	522	563	560
+ Depreciation	1,123	1,096	1,078	1,110	1,067	800
Capital expenditures / Depreciation	71.2%	73.0%	74.2%	72.1%	75.0%	100.0%
+/- Change in working capital	-39	-37	-37	-38	-40	0
Chg. working capital / chg. Sales	31.3%	65.6%	-5203.4%	-130.9%	-107.1%	0.0%
- Capital expenditures	-800	-800	-800	-800	-800	-800
Free cash flow to the firm	814	787	783	793	789	560
<i>Terminal value growth</i>						0.5%
Terminal value						7,593
Discount factor	1	1	1	1	1	1
Discounted free cash flow - Dec 31 2008	752	672	617	578	531	5,088
Enterprise value - Dec 31 2008	8,239					
Minorities	0					
Non-operating assets	0					
Net debt	4,038					
Other adjustments	0					
Equity value - Dec 31 2008	4,201					
Number of shares outstanding (mn)	442					
Cost of equity	10.3%					
12M target price per share (EUR)	11.0					
Current share price (EUR)	10.5					
Up/Downside	5.0%					

Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBIT margin				
		14.2%	14.7%	15.2%	15.7%	16.2%
WACC	6.9%	12.0	12.5	13.1	13.6	14.2
	7.4%	10.9	11.5	12.0	12.5	13.0
	7.9%	10.0	10.5	11.0	11.5	12.0
	8.4%	9.3	9.7	10.2	10.6	11.1
	8.9%	8.6	9.0	9.4	9.8	10.3
		Terminal value growth				
		-0.5%	0.0%	0.5%	1.0%	1.5%
WACC	6.9%	11.0	12.0	13.1	14.4	15.9
	7.4%	10.2	11.0	12.0	13.1	14.4
	7.9%	9.4	10.2	11.0	12.0	13.1
	8.4%	8.8	9.4	10.2	11.0	12.0
	8.9%	8.2	8.8	9.4	10.2	11.0

Source: Erste Group estimates

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Income Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, EUR mn, 31/12)	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
Net sales	4,759.56	4,918.96	5,170.32	5,046.67	4,990.79	4,991.49
Invent. changes + capitalized costs	0.00	0.00	0.00	0.00	0.00	0.00
Total revenues	4,759.56	4,918.96	5,170.32	5,046.67	4,990.79	4,991.49
Other operating revenues	59.17	85.13	88.87	86.75	85.79	85.80
Material costs	-385.22	-405.69	-428.32	-428.97	-424.22	-424.28
Personnel costs	-768.28	-797.84	-1,454.64	-832.70	-813.50	-813.61
Other operating expenses	-1,758.41	-1,945.68	-2,080.67	-2,033.81	-2,011.29	-2,012.57
EBITDA	1,906.82	1,854.90	1,295.57	1,837.94	1,827.57	1,826.83
Depreciation/amortization	-1,134.41	-1,093.48	-1,160.12	-1,123.43	-1,095.55	-1,077.94
EBIT	772.41	761.42	135.46	714.51	732.02	748.89
Financial result	-114.51	-153.59	-211.84	-254.82	-226.31	-196.26
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	657.90	607.83	-76.38	459.70	505.71	552.63
Income taxes	-96.06	-115.34	27.62	-96.54	-106.20	-116.05
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-0.02	-0.01	-0.01	0.00	0.00	0.00
Net result after minorities	561.82	492.48	-48.77	363.16	399.51	436.58
Balance Sheet	2006	2007	2008	2009e	2010e	2011e
(IAS, EUR mn, 31/12)						
Intangible assets	3,043.71	4,372.58	4,224.15	3,869.54	3,546.85	3,253.19
Tangible assets	3,215.96	3,186.46	2,975.95	3,007.14	3,034.28	3,049.99
Financial assets	86.40	74.49	114.83	114.83	114.83	114.83
Total fixed assets	6,346.07	7,633.53	7,314.94	6,991.51	6,695.96	6,418.01
Inventories	111.30	128.30	128.49	120.11	118.78	118.80
Receivables and other current assets	772.21	844.44	827.26	810.62	801.65	801.76
Other assets	190.43	168.89	256.01	284.74	283.17	283.19
Cash and cash equivalents	139.68	228.59	470.76	470.76	470.76	470.76
Total current assets	1,213.62	1,370.22	1,682.52	1,686.23	1,674.36	1,674.51
TOTAL ASSETS	7,559.69	9,003.74	8,997.45	8,677.74	8,370.31	8,092.52
Shareholders'equity	2,823.48	2,565.25	2,155.54	2,187.04	2,054.75	1,963.27
Minorities	0.04	0.05	0.05	0.05	0.05	0.05
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	0.00	0.00	630.00	560.23	548.21	535.52
Other LT provisions	111.57	202.63	178.82	120.74	117.96	117.97
Interest-bearing LT debts	2,750.14	2,793.83	2,917.40	2,817.40	2,182.40	2,082.40
Other LT liabilities	217.21	884.77	895.18	931.04	930.32	930.33
Total long-term liabilities	2,967.34	3,678.60	3,812.58	3,748.45	3,112.72	3,012.73
Interest-bearing ST debts	562.09	1,236.07	961.49	807.10	1,296.38	1,222.43
Other ST liabilities	1,095.17	1,321.15	1,258.97	1,254.13	1,240.24	1,240.54
Total short-term liabilities	1,474.25	2,379.46	2,066.29	1,859.36	2,336.99	2,263.31
TOTAL LIAB., EQUITY	7,559.69	9,003.74	8,997.45	8,677.74	8,370.31	8,092.52
Cash Flow Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, EUR mn, 31/12)						
Cash flow from operating activities	1,589.93	1,741.96	1,563.85	1,350.19	1,478.24	1,501.99
Cash flow from investing activities	-971.61	-1,669.87	-854.91	-800.00	-800.00	-800.00
Cash flow from financing activities	-610.52	16.82	-466.77	-550.19	-678.24	-701.99
CHANGE IN CASH, CASH EQU.	7.80	88.91	242.17	0.00	0.00	0.00
Margins & Ratios	2006	2007	2008	2009e	2010e	2011e
Sales growth	9.0%	3.3%	5.1%	-2.4%	-1.1%	0.0%
EBITDA margin	40.1%	37.7%	25.1%	36.4%	36.6%	36.6%
EBIT margin	16.2%	15.5%	2.6%	14.2%	14.7%	15.0%
Net profit margin	11.8%	10.0%	-0.9%	7.2%	8.0%	8.7%
ROE	19.6%	18.3%	-2.1%	16.7%	18.8%	21.7%
ROCE	10.4%	8.9%	1.1%	7.6%	7.8%	8.7%
Equity ratio	37.3%	28.5%	24.0%	25.2%	24.5%	24.3%
Net debt	3,172.6	3,801.3	4,038.1	3,714.0	3,556.2	3,369.6
Working capital	-451.1	-1,178.1	-639.8	-457.9	-945.8	-872.0
Capital employed	6,324.8	7,454.0	7,267.7	6,952.9	6,659.3	6,381.2
Inventory turnover	0.0	0.0	0.0	0.0	0.0	0.0

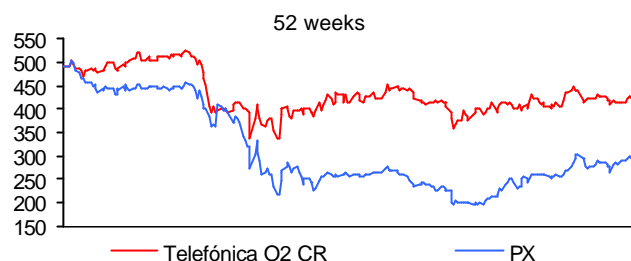
Source: Company data, Erste Group estimates

Telefónica O2 CR Buy

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CZK mn	2008	2009e	2010e	2011e
Net sales	64,655.0	62,718.7	61,969.5	62,745.0
EBITDA	28,312.0	27,309.5	26,635.0	27,041.2
EBIT	15,380.0	15,537.3	15,880.4	16,873.7
Net result after min.	11,628.0	11,998.7	12,640.4	13,597.2
EPS (CZK)	36.10	37.25	39.24	42.22
CEPS (CZK)	69.81	73.44	72.50	73.93
BVPS (CZK)	242.69	229.94	222.19	219.40
Div./share (CZK)	50.00	47.00	45.00	45.00
EV/EBITDA (x)	4.7	4.9	5.0	4.9
P/E (x)	11.7	11.4	10.8	10.0
P/CE (x)	6.1	5.8	5.8	5.7
Dividend Yield	11.8%	11.1%	10.6%	10.6%



Performance	12M	6M	3M	1M
in CZK	-13.5%	-1.5%	3.2%	-0.5%
in EUR	-22.2%	-4.1%	2.2%	-0.3%

Share price (CZK)	424.00	Reuters	SPTT.Pr	Free float	30.6%
Number of shares (mn)	322.1	Bloomberg	SPTT CP	Shareholders	Telefónica (69.4%)
Market capitalization (CZK mn / EUR mn)	136,566 / 5,086	Div. Ex-date	15/09/08		
Enterprise value (CZK mn / EUR mn)	133,341 / 4,965	Target price	550.0	Homepage:	www.cz.o2.com

Weathering the storm

- We reiterate our Buy recommendation and target price of CZK 550 for Telefónica O2 CR.
- We continue to recommend Telefónica O2 CR, due to its relative resilience in the current weak economic environment and its stronger performance compared to other CEE incumbents. The net cash position protects the company from a significant rise in financial costs. The Slovak operation continues to perform well and is on track to reach its break-even target by the end of 2009 or beginning of 2010.
- Telefónica O2 CR is not immune to the economic downturn. Nevertheless, the damage seems to be limited. Revenues and OIBDA are expected to decline by a low single digit this year. Special items such as a real estate gain and settlement from T-Mobile also provide additional support.
- The cash distribution policy is generous. The double-digit dividend yield, with the ex date on September 7, 2009, is very attractive and should provide support to the share price.

Sector Report – CEE Telecoms

Investment case. We summarize the investment highlights of Telefónica O2 CR as follows:

Strong fundamentals

- **Above-average margins, stable earnings growth.** Telefónica O2 CR offers above-average margins, with an expected OIBDA margin of above 43% and net margin rising to around 21% by 2011e. This is despite the start-up losses of the new mobile venture in Slovakia. The company has delivered a consistently strong financial performance on both the top and bottom lines. The strong growth in the retail broadband and IT services segment should minimize the decline in the fixed telephony segment. We expect the company to deliver an earnings CAGR of 5.4% for 2008-2011e.

Strong growth in Slovak mobile unit

- **Start-up operation under control.** The new mobile operation in Slovakia, which was launched in February 2007, had 365,000 active customers, or about a 6.7% market share in 1Q09. Post-paid customers reached 118,000 (+58.8% y/y), representing 32.3% of the total customers. Around 83% of Telefónica O2 customers' calls are conducted through its own mobile network. After the bad debt problems in 1Q08, the company has been selective in gaining customers. The company offers instead simple SIM-only products, therefore avoiding handset subsidies. Revenues from the operation reached around CZK 1bn in 2008 and around CZK 300mn (+40% y/y) in 1Q09. We expect the Slovak mobile unit to reach CZK 1.3bn in revenues in 2009e. In addition, the operation is on track to meet the break-even target by the end of 2009 or beginning of 2010.

Not immune to recession...

- **Resilience during recession period.** The effect of the economic downturn has been visible in the mobile segment. Lower mobile usage led to falling traffic revenues by 14% y/y. The foreign exchange movement put pressure on the OIBDA margin of roughly one percentage point, as 20% of purchases were based in foreign currency. In addition, the company also incurred foreign exchange losses related to the EUR 115mn bond outstanding.

...but damage is limited

Indeed, the revenue and OIBDA outlook is be negative this year. Nevertheless, the level of decline remains contained to low single digits. Revenues are supported by government contracts, growth in the Slovak mobile operation, growth in domestic retail broadband and IPTV, as well as the slowdown in fixed access loss (thanks to bundled products). Recently, the company received a CZK 570mn contract from the Ministry of Agriculture. OIBDA for 2009e will be supported by special items, such as a CZK 340mn real estate gain and a CZK 900mn settlement from T-Mobile. The net cash position should protect the company from the rising cost of debt. Furthermore, we expect the CZK/EUR exchange rate to strengthen to 25 in 2H09e and to below 24 in 2010e. This should limit the foreign exchange losses from 2H09e onwards.

- **Premium justified.** The peer group comparison shows that Telefónica O2 CR shares are traded at an 11% premium based on EV/EBITDA 2009e. Nevertheless, it is traded at a 6% discount based on P/E 2009e, it offers an above-average margin, a double-digit dividend yield and a strong balance sheet (net cash of CZK 3.2bn in 2009e). The company has a good track record in meeting its guidance and has delivered good results despite the recession.

2009 outlook and beyond. The outlook for 2009 is realistic and the company is on track to reach it, in our opinion. Management reiterated the guidance for 2009 during the 1Q09 results announcement as follows:

Affected by MTR cut and lower mobile usage

- Business revenues -3% to 0% y/y. During the 1Q09 conference call, management indicated that mobile revenue would continue to decline this year, due to the MTR reduction and lower customer usage. The mobile segment used to be one of the growth drivers for the company. Management still expects IT services revenue to grow, although not as strongly as in previous years. Retail broadband should grow further, albeit at a slower rate. Bundled products and competition have led to lower average prices for broadband products.
- OIBDA -4% to 0% y/y, excluding impairment and brand fees. The company incurred gains of CZK 340mn in 1Q09 from the sale of its former headquarters. In addition, the company received around a CZK 900mn settlement from T-Mobile in 2Q09, following an agreement between the two parties related to interconnection disputes. Both items are already included in the guidance.

Sector Report – CEE Telecoms

- Operating cash flow (OIBDA minus CAPEX) +2% to +5% y/y.

The company maintains its long-term guidance (2006-2010e) announced during Telefónica's investor conference in October 2007, as follows:

Telefónica O2 CR's long-term guidance	
	CAGR 2006-2010e
Revenue	1-4%
OIBDA, before exceptionals	1-3%
Capex cumulative 2007-2010e	CZK 30-40bn (EUR 1-1.4bn)
Fixed line	
No. of fixed lines	-7-9%
No. of ADSL (incl. wholesale)	20-25%
No. of IPTV clients (000)	320
Mobile	
No. of mobile subs	1-3%
MOU mobile	8-10%
Data ARPU	5-7%
% non SMS	55%
% contract	50%
Slovakia	
Market share	14-17%
Cumulative capex 2007-2010e	CZK 4.5-7.2bn

Source: Telefónica O2 CR (October 11, 2007)

Generous dividend

Cash distribution policy. The dividend policy is to distribute as much as possible, but in consideration of the retained earnings and cash flow. The company can only legally pay dividends up to the parent company's retained earnings level. Due to this legal restriction, we expect the dividend/share in 2009e to amount to CZK 47, compared to CZK 50 in 2008.

Confirm Buy and target price of CZK 550

Valuation and recommendation. We confirm our Buy recommendation and target price of CZK 550. The shares are not the cheapest in our CEE incumbent universe. Nevertheless, they are supported by strong fundamentals. The double-digit dividend yield (with the ex date on September 7, 2009) is very attractive and should provide support to the share price. The company is not immune to the current recession, but the damage seems to be limited.

Sector Report – CEE Telecoms

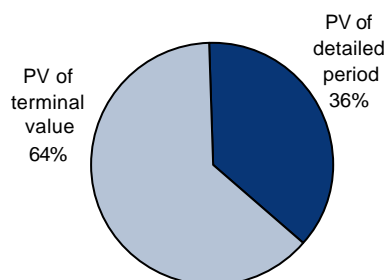
WACC calculation

	2009e	2010e	2011e	2012e	2013e	2014e (TV)
Risk free rate	5.2%	5.2%	5.2%	5.2%	5.2%	5.0%
Equity risk premium	5.8%	5.8%	5.8%	5.8%	5.8%	5.5%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	11.0%	11.0%	11.0%	11.0%	11.0%	10.5%
Cost of debt	7.2%	7.2%	7.2%	7.2%	7.2%	7.0%
Effective tax rate	24.0%	24.0%	24.0%	24.0%	24.0%	20.0%
After-tax cost of debt	5.5%	5.5%	5.5%	5.5%	5.5%	5.6%
Equity weight	100%	100%	100%	100%	100%	95%
WACC	11.0%	11.0%	11.0%	11.0%	11.0%	10.3%

DCF valuation

(CZK mn)	2009e	2010e	2011e	2012e	2013e	2014e (TV)
<i>Sales growth</i>	611.4%	-1.2%	1.3%	1.3%	1.5%	1.0%
EBIT	15,537.3	15,880.4	16,873.7	17,907.1	19,055.1	18,463.2
<i>EBIT margin</i>	24.8%	25.6%	26.9%	28.2%	29.5%	28.3%
<i>Tax rate</i>	24.0%	24.0%	24.0%	24.0%	24.0%	20.0%
Taxes on EBIT	-3,729.0	-3,811.3	-4,049.7	-4,297.7	-4,573.2	-3,692.6
NOPLAT	11,808.4	12,069.1	12,824.0	13,609.4	14,481.9	14,770.6
+ Depreciation	11,772.2	10,754.6	10,167.4	9,434.9	8,704.7	8,000.0
<i>Capital expenditures / Depreciation</i>	68.0%	80.0%	84.6%	91.2%	98.8%	100.0%
+/- Change in working capital	-245.2	-256.2	15.7	116.0	111.6	0.0
<i>Chg. working capital / chg. Sales</i>	-0.5%	34.2%	2.0%	14.2%	11.9%	0.0%
- Capital expenditures	-8,000.0	-8,600.0	-8,600.0	-8,600.0	-8,600.0	-8,000.0
Free cash flow to the firm	15,335.4	13,967.5	14,407.1	14,560.2	14,698.2	14,770.6
<i>Terminal value growth</i>						1.0%
Terminal value						161,191.8
Discounted free cash flow - Dec 31 2008	13,821.9	11,346.6	10,548.6	9,608.6	8,742.3	94,926.0
Enterprise value - Dec 31 2008	148,993.9					
Minorities	0.0					
Non-operating assets	0.0					
Net debt	-3,920.0					
Other adjustments	0.0					
Equity value - Dec 31 2008	152,913.9					
Number of shares outstanding (mn)	322.1					
Cost of equity	11.0%					
12M target price per share (CZK)	550.0					
Current share price (CZK)	424.0					
<i>Up/Downside</i>	29.7%					

Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBIT margin				
		27.3%	27.8%	28.3%	28.8%	29.3%
WAC	9.3%	577.9	584.7	591.4	598.2	604.9
	9.8%	556.8	563.2	569.5	575.9	582.3
	10.3%	538.0	544.0	550.0	556.1	562.1
	10.8%	521.1	526.8	532.5	538.3	544.0
	11.3%	505.9	511.3	516.8	522.2	527.6
		Terminal value growth				
		0.0%	0.5%	1.0%	1.5%	2.0%
WAC	9.3%	550.0	569.5	591.4	616.1	644.2
	9.8%	532.5	550.0	569.5	591.4	616.1
	10.3%	516.8	532.5	550.0	569.5	591.4
	10.8%	502.4	516.8	532.5	550.0	569.5
	11.3%	489.4	502.4	516.8	532.5	550.0

Source: Erste Group Research

Sector Report – CEE Telecoms

Income Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, CZK mn, 31/12)	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
Net sales	61,311.00	63,033.00	64,655.00	62,718.68	61,969.46	62,745.05
Invent. changes + capitalized costs	0.00	0.00	0.00	0.00	0.00	0.00
Total revenues	61,311.00	63,033.00	64,655.00	62,718.68	61,969.46	62,745.05
Other operating revenues	911.00	553.00	484.00	466.65	461.22	466.04
Material costs	-15,423.00	-17,102.00	-18,586.00	-17,561.23	-16,793.72	-16,878.42
Personnel costs	-7,093.00	-7,109.00	-7,106.00	-7,055.85	-7,002.55	-7,090.19
Other operating expenses	-11,800.00	-11,342.00	-11,135.00	-11,258.73	-11,999.36	-12,201.32
EBITDA	27,906.00	28,033.00	28,312.00	27,309.52	26,635.04	27,041.16
Depreciation/amortization	-16,746.00	-14,435.00	-12,932.00	-11,772.20	-10,754.63	-10,167.41
EBIT	11,160.00	13,598.00	15,380.00	15,537.32	15,880.42	16,873.75
Financial result	-220.00	-88.00	-32.00	-154.35	120.03	122.78
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	10,940.00	13,510.00	15,348.00	15,382.96	16,000.45	16,996.53
Income taxes	-2,920.00	-3,124.00	-3,720.00	-3,384.25	-3,360.10	-3,399.31
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Net result after minorities	8,020.00	10,386.00	11,628.00	11,998.71	12,640.36	13,597.22
Balance Sheet	2006	2007	2008	2009e	2010e	2011e
(IAS, CZK mn, 31/12)						
Intangible assets	21,628.00	21,805.00	22,348.00	20,700.70	19,300.50	18,110.32
Tangible assets	78,958.00	71,809.00	63,429.00	61,304.10	60,549.68	60,172.44
Financial assets	471.00	953.00	522.00	522.00	522.00	522.00
Total fixed assets	101,057.00	94,567.00	86,299.00	82,526.80	80,372.18	78,804.76
Inventories	987.00	853.00	779.00	736.05	703.88	707.43
Receivables and other current assets	8,346.00	8,556.00	9,429.00	8,927.38	8,820.74	8,931.14
Other assets	26.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	7,461.00	9,576.00	7,116.00	6,421.05	5,776.63	6,411.40
Total current assets	16,820.00	18,985.00	17,324.00	16,084.48	15,301.25	16,049.96
TOTAL ASSETS	117,877.00	113,552.00	103,623.00	98,611.28	95,673.42	94,854.73
Shareholders'equity	88,481.00	82,792.00	78,168.00	74,062.21	71,564.34	70,667.51
Minorities	0.00	0.00	0.00	0.00	0.00	0.00
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
Other LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	9,156.00	3,062.00	3,098.00	3,098.00	3,098.00	3,098.00
Other LT liabilities	7,339.00	5,955.00	3,879.00	3,762.83	3,717.88	3,764.41
Total long-term liabilities	16,495.00	9,017.00	6,977.00	6,860.83	6,815.88	6,862.41
Interest-bearing ST debts	207.00	6,207.00	98.00	98.00	98.00	0.00
Other ST liabilities	12,694.00	15,536.00	18,380.00	17,590.24	17,195.20	17,324.81
Total short-term liabilities	12,901.00	21,743.00	18,478.00	17,688.24	17,293.20	17,324.81
TOTAL LIAB., EQUITY	117,877.00	113,552.00	103,623.00	98,611.28	95,673.42	94,854.73
Cash Flow Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, CZK mn, 31/12)						
Cash flow from operating activities	24,456.00	23,886.00	21,842.00	23,525.72	23,138.76	23,780.29
Cash flow from investing activities	-6,041.00	-5,701.00	-2,227.00	-8,000.00	-8,600.00	-8,600.00
Cash flow from financing activities	-14,595.00	-16,083.00	-22,075.00	-16,220.67	-15,183.18	-14,545.52
CHANGE IN CASH, CASH EQU.	3,822.00	2,115.00	-2,460.00	-694.95	-644.42	634.77
Margins & Ratios	2006	2007	2008	2009e	2010e	2011e
Sales growth	0.5%	2.8%	2.6%	-3.0%	-1.2%	1.3%
EBITDA margin	45.5%	44.5%	43.8%	43.5%	43.0%	43.1%
EBIT margin	18.2%	21.6%	23.8%	24.8%	25.6%	26.9%
Net profit margin	13.1%	16.5%	18.0%	19.1%	20.4%	21.7%
ROE	8.7%	12.1%	14.4%	15.8%	17.4%	19.1%
ROCE	7.9%	11.2%	14.0%	15.9%	17.0%	18.8%
Equity ratio	75.1%	72.9%	75.4%	75.1%	74.8%	74.5%
Net debt	1,902.0	-307.0	-3,920.0	-3,225.1	-2,580.6	-3,313.4
Working capital	3,893.0	-2,758.0	-1,154.0	-1,603.8	-1,992.0	-1,274.8
Capital employed	97,722.0	88,440.0	78,127.0	74,600.0	72,701.6	71,118.5
Inventory turnover	18.1	18.6	22.8	23.2	23.3	23.9

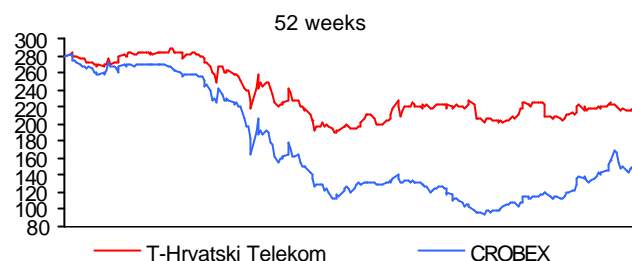
Source: Company data, Erste Group estimates

T-Hrvatski Telekom Buy

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HRK mn	2008	2009e	2010e	2011e
Net sales	8,816.0	8,747.6	8,796.8	8,849.3
EBITDA	3,964.2	3,885.3	3,917.0	3,947.9
EBIT	2,602.2	2,487.7	2,519.4	2,540.6
Net result after min.	2,309.9	2,352.5	2,365.4	2,369.5
EPS (HRK)	28.21	28.73	28.89	28.94
CEPS (HRK)	45.12	45.81	45.95	46.12
BVPS (HRK)	151.91	150.62	150.74	150.76
Div./share (HRK)	29.99	28.73	28.89	28.94
EV/EBITDA (x)	2.8	3.3	3.3	3.2
P/E (x)	7.1	7.4	7.4	7.4
P/CE (x)	4.4	4.7	4.7	4.6
Dividend Yield	15.1%	13.4%	13.5%	13.5%



Performance	12M	6M	3M	1M
in HRK	-23.6%	9.7%	5.0%	-1.4%
in EUR	-23.7%	8.6%	7.5%	0.3%

Share price (HRK)	214.00	Reuters	HT.ZA	Free float	38.4%
Number of shares (mn)	81.9	Bloomberg	HTRA CZ	Shareholders	Deutsche Telekom (51.0%)
Market capitalization (HRK mn / EUR mn)	17,524 / 2,415	Div. Ex-date	17/04/08		Rep. of Croatia (3.6%)
Enterprise value (HRK mn / EUR mn)	12,630 / 1,741	Target price	300.0	Homepage:	www.t.ht.hr

Plain sailing

- We reiterate our Buy recommendation and target price of HRK 300 for T-Hrvatski Telekom.
- The peer group comparison shows that T-Hrvatski Telekom shares are cheap, with a 38% discount in terms of P/E 2009e and a 26% discount in terms of EV/EBITDA 2009e. The steep discount is unjustified, given its best-in-class margins and relative resilience in the current weaker economic situation. Regulatory pressure remains limited, as Croatia is not part of the EU.
- The large net cash position of around 28.8% of assets in 1Q09 should boost the financial results, support a 100% payout and enable a share buyback. Considering the current low share price, we think that the company is likely to buy back shares in the near future, which should support or even boost the share price.
- Despite the recession in Croatia, the company has shown stable 1Q09 results. The higher average interest rate even boosted the financial results, thanks to the high net cash position.
- The integration of T-Com and T-Mobile into a single business unit should bring more stability to revenues and the EBITDA margin.
- We view the 2009 outlook as conservative, given the strong 1Q09 results and the likely positive impact of the Easter holiday on the 2Q09e results.

Sector Report – CEE Telecoms

Investment case. We summarize the investment highlights for T-Hrvatski Telekom as follows:

Best-in-class margin, but limited earnings growth

- **Above-average margins, limited growth.** T-HT offers above-average margins, from EBITDA through to net. We expect T-HT's EBITDA and net margins in 2009e to reach 44.4% and 26.9%, respectively. Despite the liberalization of the fixed-line market in 2005 and the competitive mobile market (with 135.8% penetration in 1Q09), the margin level has remained high. Regulatory pressure is still limited, as Croatia has not joined the EU. On the other side, we see limited growth prospects for the company. The fixed telephony segment continues to decline, while the broadband and mobile growth slows down. We therefore estimate EPS growth of just 0.9% CAGR 2008-2011e.

Strong 1Q09 results, despite recession

- **Resilience during recession.** The company continues to report stable results, despite the ongoing recession in Croatia. The National Bank expects a 4% decline in GDP for 2009. We expect the HRK/EUR exchange rate to weaken this year from the current 7.3 to 7.5-7.6. The 1Q09 results were nevertheless stronger than expected, with 2.1% y/y revenue growth, 2.3% y/y EBITDA growth and 6.4% y/y net income growth. Thanks to the company's large net cash position, the higher average interest rate even boosted the financial results in 1Q09.

We expect share buybacks in near future

- **High net cash.** T-HT is sitting on a substantial pile of cash, with a net cash position of HRK 4.1bn, or about 28.8% of assets in 1Q09. This net cash position will not come down materially, even if the company pays out 100% of its earnings every year. The company has several options:
 - Extraordinary dividend. An extraordinary dividend would only be possible after a capital reduction. The company has no intention of distributing an extraordinary dividend.
 - Acquisitions. The company wants to increase its 39.1% stake in HT Mostar. However, the privatization has not taken place and the timeline is currently unknown.
 - Share buyback - up to 10% by October 2010. The current free float amounts to 38.4%, which is not large enough to support an all-out 10% share buyback. The company can also buy from existing major shareholders, such as the state (3.6%) or the War Veterans' Fund (7.0%). The latter already sold its INA stake and therefore is not expected to sell its stake in T-HT. Considering the current low share price, we think that the company is likely to buy back some shares in the near future, which should support or even boost the share price.

Share overhang no longer an issue

- **Share overhang issue has subsided.** The Croatian government has reduced its stake in the company from 9.5% to 3.6% by selling shares to former/present employees (4.3%) and distributing bonus shares to Croatian citizens who hold the shares for an uninterrupted period of one year from the IPO date (1.6%). There are lock-up periods for the shares given to former/present employees, with the last lock-up period to expire on June 29, 2009. So far, the trading volume has been stable (instead of increasing). Furthermore, the low share price might not induce these shareholders to sell at the moment.

The War Veterans' Fund still holds 7% of T-Hrvatski Telekom shares, despite the expiry of the lock-up period in April 2008. We have no visibility about the Fund's plan for this stake. However, as mentioned earlier, we do not expect the Fund to sell T-HT shares. Overall, we think that the share overhang risk has subsided.

Shares are bargain

- **Maintain Buy and target price of HRK 300.** The shares are still traded at 25-26% discounts in terms of EV/EBITDA and 27-38% discounts in terms of P/E compared to CEE peers. The steep discount is unjustified, given its best-in-class margins and relative resilience in the current weaker economic situation.

Sector Report – CEE Telecoms

Outlook 2009 too conservative

2009 outlook and beyond. T-Hrvatski Telekom confirmed its conservative guidance in its 1Q09 results announcement, as follows:

- Revenues: decline, of which the fixed-line and wholesale segments should see lower revenues. The mobile segment should see stable revenues, despite the MTR reduction of 14.5% from March 2009. The Internet segment should see significant revenue growth.
- EBITDA: decline
- EBITDA margin: decline
- Capital expenditure: stable at 2008 level

We view the guidance as conservative, given the strong 1Q09 results and the expected positive impact of the Easter holiday on the 2Q09 results. Management refused to upgrade the guidance, due to the weak economic conditions. The 1Q09 results showed a double-digit decline in mobile ARPU and MOU, which could indicate some economic pressure. Nevertheless, it was hard to tell whether the decline was driven by the economic pressure or the promotion factor. We continue to believe that the company should weather the recession better than its CEE peers, thanks to its strong market leadership, cost control and large net cash position.

The company does not provide any long-term outlook. We expect revenues to remain stable at a CAGR 2008-2011e of 0.1%, driven by mobile and broadband revenue growth. In addition, we see the T-HT group experiencing a declining EBITDA margin from 45% in 2008 to about 44.6% in 2011e, driven by stiffening competition, falling prices and mounting acquisition and retention costs. This margin level is nevertheless still above the CEE average. Strong financial results should support earnings growth at a CAGR 2008-2011e of 0.9%.

Reorganization to retain customers

Integration of T-Com and T-Mobile. As part of Deutsche Telekom's strategy, T-Hrvatski Telekom has started to combine T-Com and T-Mobile into a single business unit; it should take effect on January 1, 2010. The fixed and mobile networks are converging after all. Customers will receive integrated offers from a single source, rather than from T-Com or T-Mobile separately. Recently, the company launched Full Internet, which is flat rate Internet access via DSL, WLAN, and mobile broadband. These measures will require efficient management by one unit. T-Hrvatski Telekom aims to reduce the management positions by 30% by July 2009.

Eventually, the company targets the following:

- Enhance customer retention
- Boost revenue over medium term
- Reduce costs in processes, IT systems, campaigns

The company does not quantify the respective costs/benefits from this reorganization. In our opinion, the move will bring more stability to revenues and the EBITDA margin in the medium term, rather than increasing them.

100% payout standard

Cash distribution policy. The dividend payout policy is 50-100% of the company's distributable profits in the preceding years (subject to factors such as the company's financial position and working capital needs). Nevertheless, the company has historically paid out 100% of its earnings as an ordinary dividend. We assume a dividend payout of 100%, supported by the company's strong cash generation and balance sheet.

Change in estimates. Following the strong 1Q09 results, we slightly adjust our revenue estimates, as seen in the following table.

Change in estimates

HRKmn	2009e			2010e		
	Old	New	% +/-	Old	New	% +/-
Revenues	8,688	8,748	0.7%	8,734	8,797	0.7%
EBITDA	3,860	3,885	0.6%	3,891	3,917	0.7%
EBIT	2,463	2,488	1.0%	2,494	2,519	1.0%
Net income	2,332	2,353	0.9%	2,344	2,365	0.9%
EPS (HRK)	28.48	28.73	0.9%	28.63	28.89	0.9%
Dividend (HRK)	28.48	28.73	0.9%	28.63	28.89	0.9%

Source: Erste Group estimates

Sector Report – CEE Telecoms

Confirm Buy and target price of HRK 300

Valuation and recommendation. We maintain our target price of HRK 300 and reiterate our Buy recommendation. The peer group comparison shows that T-Hrvatski Telekom shares are cheap, with a 38% discount in terms of P/E 2009e and a 26% discount in terms of EV/EBITDA 2009e. In our opinion, the steep discount is unjustified, given its best-in-class margins and relative resilience in the current weak economic situation.

Sector Report – CEE Telecoms

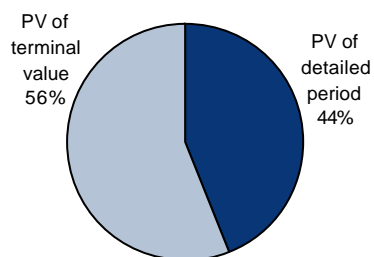
WACC calculation

	2009e	2010e	2011e	2012e	2013e	2014e (TV)
Risk free rate	7.5%	7.5%	7.5%	7.5%	7.5%	7.0%
Equity risk premium	6.5%	6.5%	6.5%	6.5%	6.5%	6.1%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	14.0%	14.0%	14.0%	14.0%	14.0%	13.1%
Cost of debt	9.5%	9.5%	9.5%	9.5%	9.5%	9.0%
Effective tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
After-tax cost of debt	7.6%	7.6%	7.6%	7.6%	7.6%	7.2%
Equity weight	100%	100%	100%	100%	100%	100%
WACC	14.0%	14.0%	14.0%	14.0%	14.0%	13.1%

DCF valuation

(HRK mn)	2009e	2010e	2011e	2012e	2013e	2014e (TV)
<i>Sales growth</i>	-0.8%	0.6%	0.6%	0.5%	0.8%	0.5%
EBIT	2,487.7	2,519.4	2,540.6	2,561.1	2,571.8	2,563.4
<i>EBIT margin</i>	28.4%	28.6%	28.7%	28.8%	28.7%	28.5%
<i>Tax rate</i>	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Taxes on EBIT	-497.5	-503.9	-508.1	-512.2	-514.4	-512.7
NOPLAT	1,990.2	2,015.5	2,032.5	2,048.9	2,057.4	2,050.7
+ Depreciation	1,397.6	1,397.6	1,407.3	1,405.8	1,405.4	1,200.0
<i>Capital expenditures / Depreciation</i>	116.5%	110.1%	100.1%	94.0%	91.3%	100.0%
+/- Change in working capital	51.3	-0.8	-6.4	-6.8	3.0	0.0
<i>Chg. working capital / chg. Sales</i>	-75.0%	-1.7%	-12.1%	-15.0%	4.5%	0.0%
- Capital expenditures	-1,627.7	-1,539.0	-1,408.0	-1,321.8	-1,283.3	-1,200.0
Free cash flow to the firm	1,811.3	1,873.3	2,025.3	2,126.0	2,182.6	2,050.7
<i>Terminal value growth</i>						1.0%
Terminal value						17,117.3
<i>Discount factor</i>	0.88	0.77	0.67	0.59	0.52	0.46
Discounted free cash flow - Dec 31 2008	1,588.9	1,441.5	1,367.0	1,258.8	1,133.6	8,802.2
Enterprise value - Dec 31 2008	15,591.9					
Minorities	365.0					
Non-operating assets	0.0					
Net debt	-5,176.0					
Other adjustments	0.0					
Equity value - Dec 31 2008	20,402.9					
Number of shares outstanding (mn)	81.9					
Cost of equity	14.0%					
12M target price per share (HRK)	300.0					
Current share price (HRK)	214.0					
<i>Up/Downside</i>	40.2%					

Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBIT margin				
		27.5%	28.0%	28.5%	29.0%	29.5%
WAC	12.1%	306.7	309.2	311.6	314.1	316.6
	12.6%	300.8	303.2	305.6	307.9	310.3
	13.1%	295.4	297.7	300.0	302.2	304.5
	13.6%	290.5	292.7	294.8	297.0	299.2
	14.1%	285.9	288.0	290.1	292.2	294.3
		Terminal value growth				
		0.0%	0.5%	1.0%	1.5%	2.0%
WAC	12.1%	300.0	305.6	311.6	318.3	325.6
	12.6%	294.8	300.0	305.6	311.6	318.3
	13.1%	290.1	294.8	300.0	305.6	311.6
	13.6%	285.7	290.1	294.8	300.0	305.6
	14.1%	281.6	285.7	290.1	294.8	300.0

Source: Erste Group estimates

Sector Report – CEE Telecoms

Income Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, HRK mn, 31/12)	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
Net sales	8,636.00	8,838.00	8,816.00	8,747.62	8,796.77	8,849.32
Invent. changes + capitalized costs	0.00	0.00	0.00	0.00	0.00	0.00
Total revenues	8,636.00	8,838.00	8,816.00	8,747.62	8,796.77	8,849.32
Other operating revenues	203.00	253.00	274.00	220.00	240.00	240.00
Material costs	-2,954.00	-3,239.00	-3,987.80	-3,927.68	-3,967.34	-3,991.05
Personnel costs	-1,243.00	-1,278.00	-1,202.00	-1,207.17	-1,205.16	-1,203.51
Other operating expenses	-601.00	-619.00	64.00	52.49	52.78	53.10
EBITDA	4,041.00	3,955.00	3,964.20	3,885.26	3,917.04	3,947.86
Depreciation/amortization	-1,470.00	-1,436.00	-1,362.00	-1,397.56	-1,397.64	-1,407.27
EBIT	2,571.00	2,519.00	2,602.20	2,487.70	2,519.41	2,540.59
Financial result	216.00	568.00	339.70	452.98	437.40	421.26
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	2,787.00	3,087.00	2,941.90	2,940.68	2,956.81	2,961.86
Income taxes	-573.00	-616.00	-632.00	-588.13	-591.36	-592.37
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Net result after minorities	2,214.00	2,471.00	2,309.90	2,352.55	2,365.44	2,369.48
Balance Sheet	2006	2007	2008	2009e	2010e	2011e
(IAS, HRK mn, 31/12)						
Intangible assets	1,204.00	1,082.00	1,049.00	1,084.55	1,083.02	1,039.95
Tangible assets	6,244.00	6,153.00	6,428.00	6,622.56	6,765.47	6,809.30
Financial assets	113.00	393.00	404.00	401.21	398.42	395.64
Total fixed assets	7,561.00	7,628.00	7,881.00	8,108.31	8,246.92	8,244.88
Inventories	175.00	230.00	314.00	309.27	312.39	314.26
Receivables and other current assets	1,167.00	1,297.00	1,330.00	1,320.89	1,337.11	1,353.95
Other assets	140.00	144.00	165.00	165.00	165.00	165.00
Cash and cash equivalents	6,415.00	5,993.00	5,489.00	5,209.33	5,080.79	5,078.62
Total current assets	7,897.00	7,664.00	7,298.00	7,004.49	6,895.29	6,911.83
TOTAL ASSETS	15,458.00	15,292.00	15,179.00	15,112.80	15,142.21	15,156.71
Shareholders'equity	12,731.00	12,575.00	12,440.00	12,333.91	12,344.04	12,345.29
Minorities	0.00	0.00	0.00	0.00	0.00	0.00
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	296.00	291.00	292.00	293.26	292.77	292.37
Other LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	24.00	20.00	21.00	22.19	23.44	24.77
Other LT liabilities	152.00	143.00	128.00	128.00	128.00	128.00
Total long-term liabilities	176.00	163.00	149.00	150.19	151.44	152.77
Interest-bearing ST debts	6.00	0.00	0.00	0.00	0.00	0.00
Other ST liabilities	2,249.00	2,263.00	2,298.00	2,335.44	2,353.96	2,366.28
Total short-term liabilities	1,879.00	1,885.00	2,006.00	2,043.44	2,061.96	2,074.28
TOTAL LIAB., EQUITY	15,458.00	15,292.00	15,179.00	15,112.80	15,142.21	15,156.71
Cash Flow Statement	2006	2007	2008	2009e	2010e	2011e
(IAS,HRK mn, 31/12)						
Cash flow from operating activities	3,875.00	3,155.00	3,547.93	3,802.64	3,761.78	3,769.97
Cash flow from investing activities	-4,686.00	1,592.00	0.00	-1,627.66	-1,539.03	-1,408.02
Cash flow from financing activities	2,632.00	-5,169.00	-2,434.63	-2,454.65	-2,351.28	-2,364.12
CHANGE IN CASH, CASH EQU.	1,821.00	-422.00	1,113.30	-279.67	-128.54	-2.17
Margins & Ratios	2006	2007	2008	2009e	2010e	2011e
Sales growth	0.3%	2.3%	-0.2%	-0.8%	0.6%	0.6%
EBITDA margin	46.8%	44.7%	45.0%	44.4%	44.5%	44.6%
EBIT margin	29.8%	28.5%	29.5%	28.4%	28.6%	28.7%
Net profit margin	25.6%	28.0%	26.2%	26.9%	26.9%	26.8%
ROE	18.4%	19.5%	18.5%	19.0%	19.2%	19.2%
ROCE	29.1%	32.1%	28.5%	26.9%	26.6%	26.6%
Equity ratio	82.4%	82.2%	82.0%	81.6%	81.5%	81.5%
Net debt	-6,089.0	-5,682.0	-5,176.0	-4,893.9	-4,764.6	-4,761.5
Working capital	5,878.0	5,635.0	5,127.0	4,796.0	4,668.3	4,672.5
Capital employed	6,794.0	7,036.0	7,392.0	7,568.0	7,707.5	7,711.8
Inventory turnover	16.8	16.0	14.7	12.6	12.8	12.7

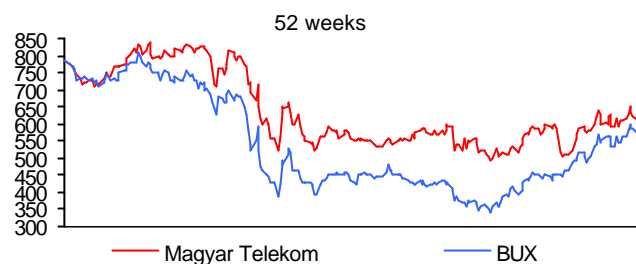
Source: Company data, Erste Group estimates

Magyar Telekom from Accumulate to Hold

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HUF mn	2008	2009e	2010e	2011e
Net sales	673,056.0	644,618.7	630,419.7	626,299.4
EBITDA	268,378.0	249,287.0	240,189.9	235,488.6
EBIT	162,258.0	149,185.4	140,025.1	134,804.9
Net result after min.	93,008.0	81,518.1	73,014.6	71,627.0
EPS (HUF)	89.40	78.36	70.18	68.85
CEPS (HUF)	191.12	174.58	166.47	165.63
BVPS (HUF)	516.44	509.07	493.43	476.35
Div./share (HUF)	74.00	74.00	74.00	74.00
EV/EBITDA (x)	3.3	3.9	4.1	4.3
P/E (x)	6.0	7.8	8.7	8.9
P/CE (x)	2.8	3.5	3.7	3.7
Dividend Yield	13.8%	12.1%	12.1%	12.1%



Performance	12M	6M	3M	1M
in HUF	-22.2%	10.7%	22.2%	5.3%
in EUR	-31.8%	5.0%	29.8%	7.0%

Share price (HUF)	611.00	Reuters	MTEL.BU	Free float	40.6%
Number of shares (mn)	1,040.3	Bloomberg	MTEL.HB	Shareholders	Deutsche Telekom (59.2%)
Market capitalization (HUF mn / EUR mn)	635,636 / 2,255	Div. Ex-date	16/05/08		
Enterprise value (HUF mn / EUR mn)	974,914 / 3,459	Target price	625.0	Homepage:	www.magyartelekom.hu

Tough times ahead

- We downgrade Magyar Telekom from Accumulate to Hold and reduce our target price from HUF 635 to HUF 625.
- We reduce our EPS 2009e and 2010e estimates by 6% and 10%, respectively. Further deterioration of the macroeconomic situation should lead to a steeper revenue decline, while inflationary pressure should limit cost savings. We therefore expect the company to reduce its 2009 outlook (revenues -1% y/y, underlying EBITDA -1% to -2% y/y).
- We expect revenues for 2009e to decline by 3%, excluding the HUF 8.5bn reversal of provisions in 2008. Meanwhile, we estimate underlying EBITDA, excluding severance and investigation costs, to fall by 4.4% y/y. Net financial expenses should rise considerably (by 21.5% y/y), due to the higher average interest rate and foreign exchange losses related to HUF/EUR depreciation. As a result, net income 2009e is expected to fall by 12.4% y/y.
- The peer group comparison looks attractive with an 11% discount in terms of EV/EBITDA 2009e and an 35% discount in terms of P/E 2009e compared to average CEE players. This could be explained by the severe recession in Hungary (GDP -5.1% for 2009e). The dividend yield amounted to around 12%, which is only 170 bps above the government yield.

Sector Report – CEE Telecoms

Investment case. We summarize the investment highlights of Magyar Telekom as follows:

Lower consumer disposable income

- **Suffering from economic downturn.** Hungary is the worst-hit by the recession among the countries represented in our CEE telecom universe. New PM Gordon Bajnai presented a program based on expenditure cuts, such as family allowances, child benefits, pensions, transport, energy, etc. Normal VAT will be raised from 20% to 25% as of July 1. These measures will lower consumer disposable income.

Revenue slowdown due to recession

Magyar Telekom reported some weak signs due to the recession in 1Q09, such as lower usage and tariff levels, a higher churn rate, postponement of handset upgrades and cancellations among customers with double or triple SIM cards. In addition, net financial expenses rose by 22.1% in 1Q09, driven by the higher average interest rate and foreign exchange losses resulting from the HUF/EUR depreciation.

Expect outlook for 2009 to be downgraded

Magyar Telekom was using -2.5% GDP growth for 2009e as its assumption for 2009 guidance. The government's GDP growth forecast for 2009e was already cut several times, from -1% in autumn 2008 to -2.5% to -3% in January 2009, then to -5.5% to -6% in April and yet again to -6.7% in May. The increase in VAT will lead to higher inflation in 2H09, reaching 7.2% by the end of 2009 (average full-year: 4.8%). It is obvious that the economy has worsened since the company prepared its 2009 outlook. We expect the company to downgrade its 2009 outlook, as a result of the economic pressure.

Dividend yield only 2% above government yield

- **Attractive dividend yield, but so is the government bond yield.** Magyar Telekom offers an attractive dividend yield of around 12%. The company has a generous cash distribution policy, which is only capped by a net gearing of 30-40%. Although the dividend yield is above the CEE incumbents' average, it is only around 170bp higher than the 10-year government bond yield. Furthermore, investors have to wait until next year to enjoy this high dividend, as the dividend based on 2008 results was already paid on May 7.
- **Cheap stock, but mixed fundamentals.** The shares trade at an 11% discount in terms of EV/EBITDA 2009e and a 35% discount in terms of P/E 2009e compared to average CEE players. Some of the discount can be justified by the recession in Hungary, the ongoing investigation into the company's accounts in Macedonia and Montenegro and the difficulty in reducing operating costs as the inflation rate accelerates.
- **Positive triggers for share price.** These include the end of the investigation process into the company's accounts in Macedonia and Montenegro, better than expected results and earnings-accretive acquisitions. The company recently acquired ISH, an IT services provider for the health care industry, as part of its strategy to strengthen the company's position in the IT services market.
- **Downgrade to Hold, target price reduced from HUF 635 to HUF 625.** We reduce our estimates, considering the likely impact of the further deterioration of the macroeconomic situation. We expect the company to reduce its 2009 outlook.

Outlook 2009 no longer realistic

- 2009 outlook and beyond.** Magyar Telekom provided an outlook for 2009 as illustrated below.
- Revenues -1%, excluding the reversal of provisions in 2008 (HUF 8.5bn). This translates into a target of HUF 657bn, representing a 2.3% decline from 2008 reported revenues.
 - Underlying EBITDA -1% to -2%. This translates into a target of HUF 268-271bn, excluding severance and investigation costs.
 - CAPEX flat y/y

Sector Report – CEE Telecoms

Revenues expected to fall by 3%

In 1Q09, management still believed that these targets could be met if the economic situation did not worsen further. As this is now the case, we think an outlook downgrade is coming. With fixed-line revenues under pressure in 2009 (-7.8% y/y, according to our estimate) and the mobile segment not likely to provide a spark (-2.1% y/y forecast), we see revenues excluding the provision reversal to fall by 3% y/y to HUF 644.6bn in 2009.

Underlying EBITDA expected to fall by 4.4%

We expect underlying EBITDA to decline by 4.4% to HUF 261.7bn. We estimate investigation costs remaining stable at the 2008 level of HUF 5.4bn, while severance costs should increase from HUF 5.2bn in 2008 to HUF 7bn in 2009e. The 2008 severance costs were based on a headcount reduction of 300 employees. We expect a higher number of reductions to be announced in September 2009. This, together with a higher inflation rate, leads to our HUF 7bn severance cost estimate. We therefore expect reported EBITDA to decline by 7.1% y/y to HUF 249.3bn.

Cash distribution policy. Dividends are paid as long as net gearing stays between 30% and 40%. Even a dividend payout exceeding 100% is possible, as long as the net gearing threshold is not breached.

Downgrade EPS 2009e by 6%

Change in estimates. We reduce our estimates, following the new government measures announced in April 2009, which should lower consumers' disposable income. We lower our assumptions on tariffs and usage for both the fixed-line and mobile segments. In addition, the government decided in April 2009 to eliminate the 4% solidarity tax on corporations from 2010, but the base corporate tax rate will be raised from 16% to 19%. Therefore, the combined rate decrease will be only 1% from 2010. This is also included in our new forecast.

Change in estimates

HUF mn	2009e			2010e		
	Old	New	+/-%	Old	New	+/-%
Revenues	654,436	644,619	-2%	650,333	630,420	-3%
EBITDA	259,811	249,287	-4%	252,979	240,190	-5%
EBIT	157,552	149,185	-5%	153,243	140,025	-9%
Net income	86,627	81,518	-6%	82,932	73,015	-12%
EPS (EUR)	83.3	78.4	-6%	79.7	70.2	-12%
DPS (EUR)	74.0	74.0	0%	74.0	74.0	0%

Source: Erste Group estimates

Downgrade to Hold, target price cut from HUF 635 to HUF 625

Valuation and recommendation. We downgrade Magyar Telekom from Accumulate to Hold. We also reduce our target price from HUF 635 to HUF 625, following our new lower estimates. We expect the company to lower its 2009 guidance, due to the deterioration of the economic situation since the outlook was prepared and reiterated. The peer group comparison shows a favorable picture, but we find other stocks in the sector that are more resilient in the current economic downturn.

Sector Report – CEE Telecoms

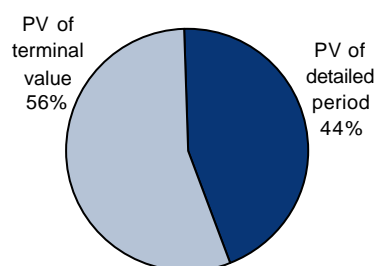
WACC calculation

	2009e	2010e	2011e	2012e	2013e	2014e (TV)
Risk free rate	10.0%	10.0%	10.0%	10.0%	10.0%	8.0%
Equity risk premium	6.8%	6.8%	6.8%	6.8%	6.8%	6.3%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	16.8%	16.8%	16.8%	16.8%	16.8%	14.3%
Cost of debt	13.7%	13.7%	13.7%	13.7%	13.7%	11.7%
Effective tax rate	24.0%	24.0%	24.0%	24.0%	24.0%	23.0%
After-tax cost of debt	10.4%	10.4%	10.4%	10.4%	10.4%	9.0%
Equity weight	70%	70%	70%	70%	70%	75%
WACC	14.9%	14.9%	14.9%	14.9%	14.9%	12.5%

DCF valuation

(HUF mn)	2009e	2010e	2011e	2012e	2013e	2014e (TV)
<i>Sales growth</i>	-4.2%	-2.2%	-0.7%	-0.1%	0.1%	0.0%
EBIT	149,185.4	140,025.1	134,804.9	134,611.3	136,149.9	145,357.0
<i>EBIT margin</i>	23.1%	22.2%	21.5%	21.5%	21.7%	23.2%
<i>Tax rate</i>	24.0%	24.0%	24.0%	24.0%	24.0%	23.0%
Taxes on EBIT	-35,804.5	-33,606.0	-32,353.2	-32,306.7	-32,676.0	-33,432.1
NOPLAT	113,380.9	106,419.1	102,451.8	102,304.6	103,473.9	111,924.9
+ Depreciation	100,101.6	100,164.8	100,683.6	100,705.2	99,405.1	95,000.0
<i>Capital expenditures / Depreciation</i>	103.9%	100.8%	98.3%	96.3%	97.6%	100.0%
+/- Change in working capital	39.0	-2,398.0	897.5	-21.3	29.5	0.0
<i>Chg. working capital / chg. Sales</i>	-0.1%	16.9%	-21.8%	4.7%	4.7%	0.0%
- Capital expenditures	-104,000.0	-101,000.0	-99,000.0	-97,000.0	-97,000.0	-95,000.0
Free cash flow to the firm	109,521.4	103,185.9	105,032.9	105,988.5	105,908.6	111,924.9
<i>Terminal value growth</i>						0.0%
Terminal value						897,031.7
Discounted free cash flow - Dec 31 2008	95,351.0	78,212.0	69,311.3	60,892.6	52,974.0	448,683.0
Enterprise value - Dec 31 2008	805,423.9					
Minorities	0.0					
Non-operating assets	0.0					
Net debt	263,783.0					
Other adjustments	0.0					
Equity value - Dec 31 2008	541,640.9					
Number of shares outstanding (mn)	1,040.3					
Cost of equity	16.8%					
12M target price per share (HUF)	657					
Current share price (HUF)	611					
<i>Up/Downside</i>	7.5%					

Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBIT margin				
		21.7%	22.2%	22.7%	23.2%	23.7%
WACC	12.0%	643	655	667	680	692
	12.5%	622	633	645	657	669
	13.0%	602	613	625	636	647
	13.5%	584	595	606	616	627
	14.0%	567	577	588	598	609
		Terminal value growth				
		-1.0%	-0.5%	0.0%	0.5%	1.0%
WACC	12.0%	625	645	667	691	718
	12.5%	606	625	645	667	691
	13.0%	588	606	625	645	667
	13.5%	572	588	606	625	645
	14.0%	556	572	588	606	625

Source: Erste Group Research

Sector Report – CEE Telecoms

Income Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, HUF mn, 31/12)	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
Net sales	671,196.00	676,661.00	673,056.00	644,618.74	630,419.75	626,299.38
Invent. changes + capitalized costs	0.00	0.00	0.00	0.00	0.00	0.00
Total revenues	671,196.00	676,661.00	673,056.00	644,618.74	630,419.75	626,299.38
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Material costs	-79,043.00	-69,034.00	-72,858.00	-70,908.06	-66,824.49	-67,014.03
Personnel costs	-95,253.00	-120,176.00	-100,320.00	-102,030.25	-99,606.32	-98,955.30
Other operating expenses	-238,260.00	-243,544.00	-231,500.00	-222,393.47	-223,799.01	-224,841.48
EBITDA	258,640.00	243,907.00	268,378.00	249,286.96	240,189.92	235,488.57
Depreciation/amortization	-122,249.00	-115,595.00	-106,120.00	-100,101.56	-100,164.79	-100,683.63
EBIT	136,391.00	128,312.00	162,258.00	149,185.40	140,025.13	134,804.93
Financial result	-24,707.00	-29,035.00	-28,967.00	-36,834.38	-33,120.73	-33,864.95
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	111,684.00	99,277.00	133,291.00	112,351.02	106,904.40	100,939.98
Income taxes	-24,220.00	-26,221.00	-27,698.00	-20,447.89	-24,588.01	-20,188.00
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-12,011.00	-12,901.00	-12,585.00	-10,385.05	-9,301.75	-9,124.97
Net result after minorities	75,453.00	60,155.00	93,008.00	81,518.08	73,014.64	71,627.01
Balance Sheet	2006	2007	2008	2009e	2010e	2011e
(IAS, HUF mn, 31/12)						
Intangible assets	331,740.00	337,227.00	337,692.00	326,021.13	314,583.14	303,247.38
Tangible assets	550,900.00	534,731.00	543,689.00	559,258.31	571,531.51	581,183.64
Financial assets	0.00	34,306.00	32,005.00	32,005.00	32,005.00	32,005.00
Total fixed assets	882,640.00	906,264.00	913,386.00	917,284.44	918,119.65	916,436.02
Inventories	10,460.00	10,652.00	13,291.00	12,935.29	12,190.35	12,224.92
Receivables and other current assets	141,563.00	106,279.00	105,411.00	100,992.78	98,786.71	98,146.54
Other assets	9,575.00	1,286.00	1,590.00	1,590.00	1,590.00	1,590.00
Cash and cash equivalents	87,357.00	111,097.00	135,178.00	108,332.24	100,410.67	98,562.82
Total current assets	248,955.00	229,314.00	255,470.00	223,850.31	212,977.73	210,524.28
TOTAL ASSETS	1,131,595.00	1,135,578.00	1,168,856.00	1,141,134.75	1,131,097.38	1,126,960.30
Shareholders'equity	526,039.00	514,998.00	537,263.00	529,596.94	513,323.16	495,557.47
Minorities	67,128.00	66,695.00	63,079.00	73,464.05	82,765.81	91,890.78
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
Other LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	206,129.00	309,470.00	266,007.00	271,007.00	276,007.00	281,007.00
Other LT liabilities	17,721.00	21,397.00	21,071.00	20,180.73	19,736.21	19,607.22
Total long-term liabilities	223,850.00	330,867.00	287,078.00	291,187.73	295,743.21	300,614.22
Interest-bearing ST debts	103,605.00	63,192.00	132,954.00	103,139.00	100,867.16	100,207.90
Other ST liabilities	210,973.00	159,826.00	148,482.00	143,747.03	138,398.05	138,689.93
Total short-term liabilities	314,578.00	223,018.00	281,436.00	246,886.02	239,265.21	238,897.83
TOTAL LIAB., EQUITY	1,131,595.00	1,135,578.00	1,168,856.00	1,141,134.75	1,131,097.38	1,126,960.30
Cash Flow Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, HUF mn, 31/12)						
Cash flow from operating activities	187,624.00	225,563.00	186,013.00	181,658.60	170,781.45	173,208.12
Cash flow from investing activities	-122,259.00	-129,091.00	-107,949.00	-104,000.00	-101,000.00	-99,000.00
Cash flow from financing activities	-29,756.00	-72,953.00	-56,242.00	-104,554.36	-77,703.03	-76,055.98
CHANGE IN CASH, CASH EQU.	37,178.00	23,740.00	21,822.00	-26,895.76	-7,921.57	-1,847.86
Margins & Ratios	2006	2007	2008	2009e	2010e	2011e
Sales growth	8.1%	0.8%	-0.5%	-4.2%	-2.2%	-0.7%
EBITDA margin	38.5%	36.0%	39.9%	38.7%	38.1%	37.6%
EBIT margin	20.3%	19.0%	24.1%	23.1%	22.2%	21.5%
Net profit margin	13.0%	10.8%	15.7%	14.3%	13.1%	12.9%
ROE	14.3%	11.6%	17.7%	15.3%	14.0%	14.2%
ROCE	12.3%	11.1%	14.8%	13.4%	12.1%	12.1%
Equity ratio	52.4%	51.2%	51.4%	52.8%	52.7%	52.1%
Net debt	222,377.0	261,565.0	263,783.0	265,813.8	276,463.5	282,652.1
Working capital	-75,198.0	5,010.0	-27,556.0	-24,625.7	-27,877.5	-29,963.6
Capital employed	833,265.0	864,655.0	885,196.0	889,055.5	892,288.7	889,707.6
Inventory turnover	8.4	6.5	6.1	5.4	5.3	5.5

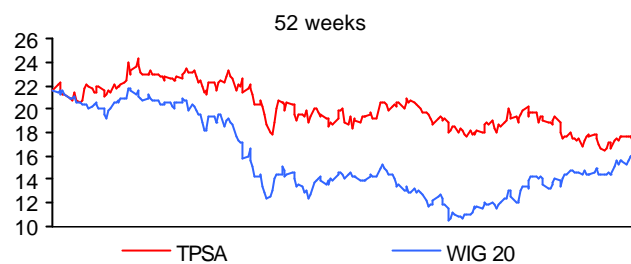
Source: Company data, Erste Group estimates

TPSA from Hold to Accumulate

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PLN mn	2008	2009e	2010e	2011e
Net sales	18,165.0	17,353.5	16,930.6	16,662.0
EBITDA	7,639.0	6,733.2	6,797.6	6,823.1
EBIT	3,313.0	2,588.9	2,777.1	2,898.0
Net result after min.	2,188.0	1,571.9	1,784.7	1,937.0
EPS (PLN)	1.61	1.19	1.38	1.53
CEPS (PLN)	4.75	4.33	4.48	4.63
BVPS (PLN)	12.90	12.32	11.81	11.34
Div./share (PLN)	1.50	1.60	1.70	1.70
EV/EBITDA (x)	4.1	4.1	3.9	3.8
P/E (x)	11.9	14.8	12.7	11.5
P/CE (x)	4.0	4.1	3.9	3.8
Dividend Yield	7.8%	9.1%	9.6%	9.6%



Performance	12M	6M	3M	1M
in PLN	-18.8%	-6.0%	-6.0%	-0.6%
in EUR	-39.4%	-17.4%	-6.7%	-2.4%

Share price (PLN)	17.62	Reuters	TPSA.WA	Free float	43.6%
Number of shares (mn)	1,368.8	Bloomberg	TPS PW	Shareholders	France Telecom (47.5%)
Market capitalization (PLN mn / EUR mn)	24,118 / 5,311	Div. Ex-date	19/05/08		State (4.05%)
Enterprise value (PLN mn / EUR mn)	27,837 / 6,130	Target price	20.5	Homepage:	www.tpsa.pl

Key risks priced-in, upgrade to Accumulate

- We upgrade TP SA from Hold to Accumulate, whilst reducing our target price from PLN 21.6 to PLN 20.5. The share price has come down considerably in the past weeks. Furthermore, the stock went ex-dividend recently. In our opinion, the current level has priced-in the key risks (regulatory, economic and competitive) of the company. Even our lower target price still indicates a decent upside to the current share price.
- Due to economic, regulatory and competitive pressures faced by the company, we downgrade our EPS estimate for 2009e by 32% to PLN 1.19 and for 2010e by 23% to PLN 1.38.
- Within our CEE incumbent universe, TPSA is the worst-hit by the economic downturn. The company has suffered higher operating expenses and foreign exchange losses, due to the PLN/EUR depreciation.
- Competition in the mobile segment is intensifying, as Orange has joined the price war in the pre-paid segment in 2Q09. It is just a matter of time until the price war is extended to the precious post-paid segment.
- National regulator UKE remains tough and has mandated a severe MTR reduction (up to 50%). The proceedings related to functional separation are also ongoing.

Sector Report – CEE Telecoms

Investment case. We summarize the investment highlights for TPSA as follows:

PLN/EUR depreciation led to higher OPEX and FX losses

- **Hit by economic downturn.** Within our CEE incumbent universe, TPSA has been the hardest hit by the economic downturn. The 1Q09 results were disastrous, with earnings more than halved. The depreciation of the PLN vs. EUR (26% y/y) has led to rising operating expenses, such as on handsets, IT/network maintenance, international traffic termination and roaming. Approximately 18-19% of total operating costs were denominated in EUR. 1Q09 EBITDA fell significantly (by 17.5%) and the margin hit 38.4%, which is far from the normal range of 42-44%. The financial results were hit by foreign exchange losses, although this will be mitigated from 2Q09 onwards with hedging. The company already reacted by reducing handset subsidies and promoting SIM-only products. Further cost saving activities are being introduced, although the target was not disclosed. Nevertheless, the company does not expect a miracle to happen this year and the rest of the year is likely to remain gloomy.

Suffering from severe MTR cut

- **Regulatory risks remain high.** The company is facing a severe MTR reduction this year, dropping from PLN 40 last year to as low as PLN 16.77 from July 2009. The effect on revenue has been visible, as mobile wholesale revenues fell by 12.2% in 1Q09. We expect the revenue decline to accelerate in the coming quarters. The effect on EBITDA has been rather limited, as Orange only had a 31% market share in 1Q09.

Functional separation as threat

National regulator UKE also continues with its functional separation proceedings, despite the proposal by TPSA to provide equivalent access. The legal ambiguity has to be clarified and approval from the EU Commission has to be obtained before a functional separation becomes mandatory for TPSA.

Cut-throat competition

- **Price war in mobile segment.** At the end of March 2009, Play started offering a pre-paid tariff that was 40% cheaper than the market average. This move was immediately followed by Polkomtel and PTC. Finally, Orange followed the move in mid-April. Management expects further pressure on revenues and profitability from this move, especially if the price is extended to the post-paid segment. The extension of the price war to the post-paid segment is just a question of time, as management admitted.
- **Broadband as growth driver.** TPSA maintained its leadership with a 40.9% of volume market share in 1Q09. The broadband revenue growth slowed down further, but still amounted to +12.4% y/y. Broadband access also grew by 11% y/y in 1Q09, thanks to bundled products. We expect broadband revenue growth of 10.9% this year.
- **Upgrade to Accumulate, but reduce target price to PLN 20.5.** The company is being battered by economic, regulatory and competitive pressures this year. Nevertheless, these risks seem to be already priced-in, as the share price has come down considerably in the past weeks. Even after lowering our estimates, we still come up with a target price of PLN 20.5 (previously PLN 21.6). This is clearly higher than the current share price level and suggests an Accumulate recommendation. We therefore upgrade TPSA from Hold to Accumulate. The stock went ex-dividend recently and the share price fell to reflect the event. We expect the share price to rebound in the coming weeks as the market reaction neutralises.

Lower revenue and profitability in 2009e

2009 outlook and beyond. Due to the uncertainties that lie ahead, TPSA was vague in its 2009 outlook, giving only a forecast for capital expenditures and a minimum target for the free cash flow:

- Capital expenditures within 12-14% of revenues
- Net free cash flow not lower than PLN 3bn (this outlook was reiterated during the 1Q09 results publication)

The company forecasted a revenue decline in 2009, as a result of regulatory pressure (MTR cuts) and the economic downturn. Profitability is expected to be under pressure, mainly due to revenue erosion and the potential impact of foreign exchange losses. Management stated that it is willing to cut capital expenditures in order to protect the free cash flow.

Sector Report – CEE Telecoms

For the medium-term outlook, we refer to the company's 2007-10 strategy, which aims to strengthen TPSA's core business (Enhance Core) and create a new revenue stream (Go for More). The medium-term strategy and target can be summarized as follows:

PLN/EUR depreciation ruined cost savings

- Defend core business through cross selling and cost cutting.
The Enhance Core program consists of cross selling (to double triple-play customers by 2010), 10% savings on operating expenses, capital expenditure/sales converging towards the European benchmark and balance sheet optimization through sales of surplus assets, such as real estate. The company aims to maintain its BBB+ rating, which means net debt/equity should not exceed 40% and net debt/EBITDA should remain below 1.5x.
- Pursue new revenue streams, such as media, ICT, e-commerce
The Go for More program aims to create new revenue streams in the following areas: innovative growth (fixed and mobile broadband, convergence), ICT, media/entertainment (content) and business sectors with interfaces to telecoms, such as payment, call centers and e-commerce. By 2010, TPSA plans to derive more than 50% of revenues from unregulated services. Currently, unregulated services contribute approximately 40% of revenues. They consist to a large extent of mobile services (excluding termination and portability) and to a lesser extent of IT services, call centers, payment, e-commerce, etc.
- BBB+ rating should be maintained
TPSA will also make acquisitions in Poland and CEE, while keeping its current BBB+ rating. With this strategy, TPSA aims to increase its ROCE from the base level of 12.7% (2006) and to reach net FCF/revenues of 18-20% (22% in 2006, 18% in 2007, 17% in 2008).
- Targets exclude costs from acquisitions, redundancies and rising provisions.

Stable dividend

Cash distribution policy. In distributing dividends, the company aims to keep its current BBB+/A3 credit rating. This means the maximum net gearing should be 35-40%, while the net debt/gross operating margin should remain below 1.5x. Furthermore, the ordinary dividend of the year before serves as a floor for the dividend in the following year.

Expect share buyback in addition to ordinary dividend

Management proposed a PLN 1.50 ordinary dividend, based on the 2008 results. In addition, an exceptional cash distribution (share buyback or interim dividend) will be considered, which could bring the total shareholder remuneration to the previous year's level, i.e. PLN 2.0 per share. The decision will be based on the market development, the planned cash usage and the company's performance. This will be announced at the latest with the publication of the 2Q09 results.

We expect the company to buy back shares worth PLN 700mn, in addition to the PLN 1.50 ordinary dividend.

Change in estimates. Following the weak 1Q09 results and the price war in the mobile segment, we downgrade our estimates as follows:

Change in estimates

PLNm	2009e			2010e		
	Old	New	+/-%	Old	New	+/-%
Net revenues	17,567	17,353	-1%	17,401	16,931	-3%
EBITDA	7,343	6,733	-8%	7,221	6,798	-6%
Operating income	3,197	2,589	-19%	3,194	2,777	-13%
Net income	2,304	1,572	-32%	2,321	1,785	-23%
EPS	1.75	1.19	-32%	1.80	1.38	-23%
Dividend	1.60	1.60	0%	1.70	1.70	0%

Source: Erste Group estimates

Sector Report – CEE Telecoms

Upgrade to Accumulate, as risks are priced-in

Valuation and recommendation. We reduce our target price from PLN 21.6 to PLN 20.5, based on our new lower estimates. The company is facing economic, regulatory and competitive pressures. Nevertheless, we think these have been priced-in, as the share prices have declined considerably in the past weeks. The stock also went ex-dividend recently, but we expect the share price to recover as the market reaction neutralises. We also need to mention, that the company's cash flow remains strong, as shown in its best-in-class FCF yield. We therefore, upgrade TP SA from Hold to Accumulate.

Positive triggers for the share would include the announcement of an interim dividend, cancellation of previous hefty fines by the regulator, or a positive outcome from the multi-year dispute with DPTG. Considering the current low share price, we expect the company to implement a share buyback, rather than distribute an interim dividend.

Sector Report – CEE Telecoms

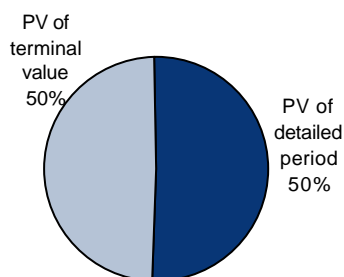
WACC calculation

	2009e	2010e	2011e	2012e	2013e	2014e (TV)
Risk free rate	6.3%	6.3%	6.3%	6.3%	6.3%	5.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	5.7%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	12.3%	12.3%	12.3%	12.3%	12.3%	10.7%
Cost of debt	8.8%	8.8%	8.8%	8.8%	8.8%	7.5%
Effective tax rate	19.4%	19.4%	19.4%	19.4%	19.4%	19.0%
After-tax cost of debt	7.1%	7.1%	7.1%	7.1%	7.1%	6.1%
Equity weight	80%	80%	80%	80%	80%	85%
WACC	11.3%	11.3%	11.3%	11.3%	11.3%	10.0%

DCF valuation

(PLN mn)	2009e	2010e	2011e	2012e	2013e	2014e (TV)
<i>Sales growth</i>	-4.5%	-2.4%	-1.6%	-1.6%	-1.5%	0.0%
EBIT	2,588.9	2,777.1	2,897.0	3,037.3	3,167.8	2,908.0
<i>EBIT margin</i>	14.9%	16.4%	17.4%	18.5%	19.6%	18.0%
<i>Tax rate</i>	19.4%	19.4%	19.4%	19.4%	19.4%	19.0%
Taxes on EBIT	-502.3	-538.8	-562.0	-589.2	-614.6	-552.5
NOPLAT	2,086.7	2,238.4	2,335.0	2,448.1	2,553.3	2,355.5
+ Depreciation	4,144.2	4,020.5	3,926.1	3,798.1	3,665.3	2,400.0
<i>Capital expenditures / Depreciation</i>	54.4%	56.8%	59.4%	60.4%	62.6%	100.0%
+/- Change in working capital	71.2	-181.2	-113.8	-96.4	-67.5	0.0
<i>Chg. working capital / chg. Sales</i>	-8.8%	42.8%	42.4%	35.7%	28.4%	0.0%
- Capital expenditures	-2,256.0	-2,285.6	-2,332.7	-2,294.9	-2,294.9	-2,400.0
Free cash flow to the firm	4,046.2	3,792.1	3,814.6	3,854.9	3,856.2	2,355.5
<i>Terminal value growth</i>						0.2%
Terminal value						24,068.1
<i>Discount factor</i>	0.90	0.81	0.73	0.65	0.59	0.53
Discounted free cash flow - Dec 31 2008	3,636.7	3,063.4	2,769.8	2,515.8	2,262.0	14,089.9
Enterprise value - Dec 31 2008	28,337.7					
Minorities	0.0					
Non-operating assets	0.0					
Net debt	5,608.0					
Other adjustments	0.0					
Equity value - Dec 31 2008	22,729.7					
Number of shares outstanding (mn)	1,320.4					
Cost of equity	12.3%					
12M target price per share (PLN)	20.5					
Current share price (PLN)	17.6					
<i>Up/Downside</i>	16.3%					

Enterprise value breakdown



Source: Erste Group Research

Sensitivity (per share)

		Terminal value EBIT margin				
		17.0%	17.5%	18.0%	18.5%	19.0%
WACC	9.0%	21.1	21.5	21.9	22.3	22.7
	9.5%	20.4	20.8	21.2	21.5	21.9
	10.0%	19.8	20.1	20.5	20.8	21.2
	10.5%	19.2	19.5	19.9	20.2	20.5
	11.0%	18.7	19.0	19.3	19.6	20.0
		Terminal value growth				
		-0.8%	-0.3%	0.2%	0.7%	1.2%
WACC	9.0%	20.5	21.2	21.9	22.8	23.7
	9.5%	19.9	20.5	21.2	21.9	22.8
	10.0%	19.3	19.9	20.5	21.2	21.9
	10.5%	18.8	19.3	19.9	20.5	21.2
	11.0%	18.3	18.8	19.3	19.9	20.5

Sector Report – CEE Telecoms

Income Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, PLN mn, 31/12)	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
Net sales	18,625.00	18,244.00	18,165.00	17,353.49	16,930.61	16,661.99
Invent. changes + capitalized costs	0.00	0.00	0.00	0.00	0.00	0.00
Total revenues	18,625.00	18,244.00	18,165.00	17,353.49	16,930.61	16,661.99
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Material costs	-6,485.00	-6,323.00	-6,467.00	-6,698.45	-6,433.63	-6,239.91
Personnel costs	-2,352.00	-2,399.00	-2,305.00	-2,308.01	-2,226.37	-2,166.06
Other operating expenses	-1,549.00	-1,810.00	-1,754.00	-1,613.87	-1,472.96	-1,432.93
EBITDA	8,239.00	7,712.00	7,639.00	6,733.15	6,797.64	6,823.08
Depreciation/amortization	-4,872.00	-4,430.00	-4,326.00	-4,144.22	-4,020.52	-3,925.08
EBIT	3,367.00	3,282.00	3,313.00	2,588.93	2,777.12	2,898.00
Financial result	-733.00	-452.00	-718.00	-638.72	-562.90	-495.01
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	2,634.00	2,830.00	2,595.00	1,950.21	2,214.22	2,403.00
Income taxes	-538.00	-555.00	-405.00	-378.34	-429.56	-465.99
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-2.00	-2.00	-2.00	0.00	0.00	0.00
Net result after minorities	2,094.00	2,273.00	2,188.00	1,571.87	1,784.66	1,937.01
Balance Sheet	2006	2007	2008	2009e	2010e	2011e
(IAS, PLN mn, 31/12)						
Intangible assets	7,280.00	7,091.00	6,908.00	6,292.40	5,726.04	5,204.99
Tangible assets	21,686.00	21,120.00	19,589.00	18,316.34	17,147.81	16,075.45
Financial assets	13.00	19.00	83.00	83.00	83.00	83.00
Total fixed assets	28,979.00	28,230.00	26,580.00	24,691.73	22,956.85	21,363.45
Inventories	196.00	316.00	292.00	207.65	199.44	193.44
Receivables and other current assets	2,445.00	2,916.00	2,209.00	2,173.89	2,089.90	2,072.00
Other assets	112.00	318.00	513.00	507.95	505.32	503.65
Cash and cash equivalents	879.00	642.00	1,640.00	1,640.00	1,640.00	1,640.00
Total current assets	3,632.00	4,192.00	4,654.00	4,529.49	4,434.66	4,409.09
TOTAL ASSETS	32,611.00	32,422.00	31,234.00	29,221.22	27,391.51	25,772.53
Shareholders'equity	18,090.00	17,760.00	17,217.00	16,086.37	15,081.70	14,147.38
Minorities	13.00	13.00	13.00	13.00	13.00	13.00
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
Other LT provisions	559.00	473.00	578.00	578.76	558.28	543.16
Interest-bearing LT debts	4,577.00	2,091.00	5,134.00	5,134.00	5,134.00	5,134.00
Other LT liabilities	1,757.00	708.00	818.00	781.46	762.41	750.32
Total long-term liabilities	6,334.00	2,799.00	5,952.00	5,915.46	5,896.41	5,884.32
Interest-bearing ST debts	2,077.00	5,327.00	2,114.00	1,320.93	811.40	293.31
Other ST liabilities	5,538.00	6,050.00	5,360.00	5,306.71	5,030.71	4,891.37
Total short-term liabilities	7,090.00	10,792.00	6,891.00	6,070.68	5,298.73	4,649.92
TOTAL LIAB., EQUITY	32,611.00	32,422.00	31,234.00	29,221.22	27,391.51	25,772.53
Cash Flow Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	7,225.00	6,327.00	6,626.00	5,787.89	5,603.44	5,733.14
Cash flow from investing activities	-4,261.00	-3,046.00	-2,946.00	-2,255.95	-2,285.63	-2,332.68
Cash flow from financing activities	-3,787.00	-3,518.00	-2,685.00	-3,448.94	-3,317.81	-3,400.46
CHANGE IN CASH, CASH EQU.	-823.00	-237.00	998.00	83.00	0.00	0.00
Margins & Ratios	2006	2007	2008	2009e	2010e	2011e
Sales growth	1.5%	-2.0%	-0.4%	-4.5%	-2.4%	-1.6%
EBITDA margin	44.2%	42.3%	42.1%	38.8%	40.2%	41.0%
EBIT margin	18.1%	18.0%	18.2%	14.9%	16.4%	17.4%
Net profit margin	11.3%	12.5%	12.1%	9.1%	10.5%	11.6%
ROE	11.6%	12.7%	12.5%	9.4%	11.5%	13.3%
ROCE	9.9%	10.2%	10.5%	8.8%	10.4%	11.7%
Equity ratio	55.5%	54.8%	55.2%	55.1%	55.1%	54.9%
Net debt	5,775.0	6,776.0	5,608.0	4,814.9	4,305.4	3,787.3
Working capital	-3,570.0	-6,918.0	-2,750.0	-2,049.1	-1,369.4	-744.5
Capital employed	26,194.0	25,730.0	24,234.0	22,274.5	20,720.8	19,241.2
Inventory turnover	29.4	24.7	21.3	26.8	31.6	31.8

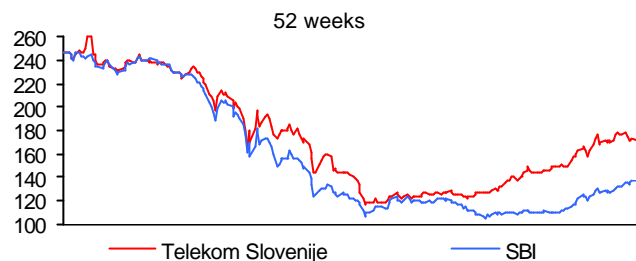
Source: Company data, Erste Group estimates

Telekom Slovenije from Hold to Reduce

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EUR mn	2008	2009e	2010e	2011e
Net sales	842.4	919.9	963.3	977.0
EBITDA	312.2	311.8	320.6	327.3
EBIT	128.5	105.6	108.9	108.6
Net result after min.	85.8	64.5	64.4	66.1
EPS (EUR)	13.19	9.91	9.90	10.16
CEPS (EUR)	41.17	39.94	42.08	43.81
BVPS (EUR)	163.78	167.69	169.59	171.75
Div./share (EUR)	6.00	8.00	8.00	8.00
EV/EBITDA (x)	3.8	5.5	5.3	5.1
P/E (x)	9.0	17.4	17.4	16.9
P/CE (x)	2.9	4.3	4.1	3.9
Dividend Yield	5.1%	4.6%	4.6%	4.6%



Performance	12M	6M	3M	1M
in EUR	-30.1%	22.2%	34.4%	5.7%

Share price (EUR)	172.06	Reuters	TLSG.LJ	Free float	25.4%
Number of shares (mn)	6.5	Bloomberg	TLSG SV	Shareholders	Rep. of Slovenia (52.5%)
Market capitalization (EUR mn)	1,118.4	Div. Ex-date	01/07/08	Slovenska odškodninska družba (14.25%)	
Enterprise value (EUR mn)	1,709.7	Target price	160.0	Homepage:	www.telekom.si

Expensive little number

- We downgrade Telekom Slovenije from Hold to Reduce, whilst lowering our target price from EUR 270 to EUR 160. The shares are traded at a 25% premium in terms of EV/EBITDA 2009e and a 44% premium in terms of P/E 2009e. Nevertheless, its margins are below the CEE incumbents' average. The dividend yield for 2009e is also low at <5%.
- The company's strong position in the domestic fixed and mobile market does not translate into above-average margins. The international subsidiaries should contribute to revenue growth, but their margin contributions are limited. Meanwhile, earnings growth in the medium term should remain restricted by rising depreciation and financing costs as a result of the heavy investments.
- We upgrade our 2009e revenue estimates by 7%, following the acquisition of Cosmofon. We downgrade our 2009e EBITDA estimate by 5%, following the poor performance of domestic mobile and fixed-line operations in 1Q09. The impact of the economic downturn on Telekom Slovenije has not been as pronounced as the impact of competition, especially in the domestic market. We reduce our 2009e EPS estimate by 36% to EUR 9.91, due to the higher financial expenses to finance acquisitions and higher depreciation charges following heavy investments.

Sector Report – CEE Telecoms

Investment case. We summarize the investment highlights of Telekom Slovenije as follows:

Growing by acquisition

- **Strong dominant position in Slovenia, leading ISP and mobile player in some Balkan states.** With an 85.6% share of fixed access and 58.9% of mobile access (2008), Telekom Slovenije commands a leading position in Slovenia. The mobile market share is especially strong and sits significantly above the average market share of leading mobile players in the EU of 38.3% (October 2008). To support future growth, the company is expanding into ICT and mobile markets in South Eastern Europe and the Mediterranean. The major ones include Ipko in Kosovo and Cosmofon in Macedonia. Ipko is the leading ISP in Kosovo, with a 59% market share in 2008, as well as the second mobile player, with a 35% market share in 2008. The company aims to reach a 50% mobile market share in Kosovo in 2012. The company acquired Cosmofon (to be consolidated in 2Q09) for EUR 190mn. It is the second largest mobile player in Macedonia, with a market share of 31.6% in 1Q09.

Aggressive network investments

- **Substantial investments in FTTH.** The company is investing heavily in the fiber-to-the-home (FTTH) network in Slovenia, with a target of 70% household coverage by the end of 2015 and a maximum expenditure of EUR 450mn. In addition, the company plans to spend almost EUR 200mn to construct its mobile network in Kosovo, of which EUR 170mn has been invested in 2007 and 2008. As a result, Telekom Slovenije will continue to have a relatively high capital expenditure at above 20% of sales in the medium term.

Privatization plan on ice

- **Government still controls 74.14%.** The government holds 52% directly and 74.14% including indirect stakes. The government tried to privatize Telekom Slovenije in 2007/2008, but did not choose any of the offers from the last three bidders (Magyar Telekom, Skipti and a consortium of Bain Capital, Axos Capital and BT). Since then, there has been no plan to privatize the company.

Expensive compared to CEE peers

- **Unattractive peer group valuation.** The CEE peer group valuation shows a 25% premium in terms of EV/EBITDA 2009e and a 44% premium in terms of P/E for 2009e compared to the CEE average. The company's strong position in the domestic fixed and mobile market does not translate into above-average margins. The international subsidiaries should contribute to revenue growth, but their margin contributions are limited. Meanwhile, earnings growth in the medium term should remain restricted by rising depreciation and financing costs, as a result of the heavy investments.
- **Downgrade to Reduce, lower target price from EUR 270 to EUR 160.** We upgrade our 2009e revenue estimate by 7%, following the acquisition of Cosmofon. We downgrade our 2009e EBITDA estimate by 5%, following the poor performance of domestic mobile and fixed-line operations. We reduce our 2009e EPS estimate by 36%, due to higher financial expenses to finance acquisitions and higher depreciation charges, following heavy investments.

Despite revenue boost from acquisition, we expect EPS to fall by 25% y/y

2009 outlook and beyond. The company will publish its 2009 outlook with the 2Q09 results publication, scheduled for August 28. We expect revenues to rise by 9.2% to EUR 920mn, boosted by the acquisition of Cosmofon and the growth of the mobile operation in Kosovo. EBITDA should remain almost stable y/y, due to the poor performance of the domestic mobile and fixed units, which might not be compensated for by the EBITDA growth of Ipko and the contribution from Cosmofon. High investments and acquisitions should lead to greater depreciations and net financial expenses. Therefore, we estimate net income falling 25% y/y to EUR 64.5mn.

Cash distribution policy. Despite the company's policy to pay a stable dividend, the 2008 dividend was EUR 6.00 (-53% y/y). Priority is given to assuring funding for investments, such as the acquisition of Cosmofon.

Change in estimates. We update our estimates to include Cosmofon from June 1, 2009. The purchase price was EUR 190mn, which was fully financed by loans. The acquisition should boost revenue growth this year (from June 1) and next year. Meanwhile, the contribution to EBITDA should be diluted by the falling EBITDA in the domestic mobile and fixed-line operations.

Sector Report – CEE Telecoms

The weak 1Q09 results were also considered. The impact of the economic downturn on Telekom Slovenije has not been as pronounced as the impact of competition. Harsh competition in the domestic mobile market has forced Mobitel to launch cheaper packages. Although the number of Mobitel subscribers grew by 4% y/y in 1Q09, revenues and EBITDA fell by 8.5% y/y and 23% y/y, respectively. Heavy promotions (free FTTH access for four months) and high costs of program rights for IPTV also led to a 12.9% EBITDA decline for Telekom Slovenije, d.d. (the domestic fixed-line unit) in 1Q09.

Change in estimates

EUR mn	2009e			2010e		
	Old	New	+/-%	Old	New	+/-%
Revenues	860	920	7%	895	963	8%
EBITDA	327	312	-5%	340	321	-6%
EBIT	146	106	-28%	148	109	-26%
Net income	100	64	-36%	102	64	-37%
EPS (EUR)	15.4	9.9	-36%	15.8	9.9	-37%
DPS (EUR)	12.8	8.0	-38%	12.9	8.0	-38%

Source: Erste Group estimates

**Hold confirmed,
reduce target
price from
EUR 270 to
EUR 160**

Valuation and recommendation. We reduce our target price from EUR 270 to EUR 160, based on our new estimates. Within our CEE incumbents' universe, Telekom Slovenije shares are among the most expensive, with a 25% premium in terms of EV/EBITDA 2009e and a 44% premium in terms of P/E 2009e. Nevertheless, its margins are below the CEE average. The dividend yield also falls below the CEE average. Although Telekom Slovenije has attractive and growing operations in some Balkan states, its medium-term earning growth is limited. We therefore downgrade Telekom Slovenije from Hold to Reduce.

Sector Report – CEE Telecoms

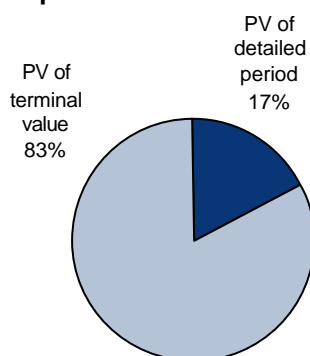
WACC calculation

	2009e	2010e	2011e	2012e	2013e	2014e (TV)
Risk free rate	4.5%	4.5%	4.5%	4.5%	4.5%	5.0%
Equity risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	4.9%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	9.5%	9.5%	9.5%	9.5%	9.5%	9.9%
Cost of debt	5.5%	5.5%	5.5%	5.5%	5.5%	6.0%
Effective tax rate	22.0%	22.0%	22.0%	22.0%	22.0%	20.0%
After-tax cost of debt	4.3%	4.3%	4.3%	4.3%	4.3%	4.8%
Equity weight	65%	65%	65%	65%	65%	65%
WACC	7.7%	7.7%	7.7%	7.7%	7.7%	8.1%

DCF valuation

(EUR mn)	2009e	2010e	2011e	2012e	2013e	2014e (TV)
<i>Sales growth</i>	9.2%	4.7%	1.4%	0.2%	0.0%	1.5%
EBIT	105.6	108.9	108.6	100.7	91.3	130.3
<i>EBIT margin</i>	11.5%	11.3%	11.1%	10.3%	9.3%	13.1%
<i>Tax rate</i>	22.0%	22.0%	22.0%	22.0%	22.0%	20.0%
Taxes on EBIT	-23.2	-24.0	-23.9	-22.1	-20.1	-26.1
NOPLAT	82.3	85.0	84.7	78.5	71.2	104.2
+ Depreciation	206.3	211.6	218.7	227.2	237.0	200.0
<i>Capital expenditures / Depreciation</i>	194.9%	100.2%	97.0%	93.3%	89.5%	100.0%
+/- Change in working capital	52.6	2.8	0.3	0.4	0.0	0.0
<i>Chg. working capital / chg. Sales</i>	67.8%	6.5%	2.2%	20.7%	3.7%	0.0%
- Capital expenditures	-402.0	-212.0	-212.0	-212.0	-212.0	-200.0
Free cash flow to the firm	-60.8	87.4	91.7	94.1	96.2	104.2
<i>Terminal value growth</i>						1.5%
Terminal value						1,599.0
Discounted free cash flow - Dec 31 2008	-56.5	75.4	73.4	70.0	66.4	1,088.4
Enterprise value - Dec 31 2008	1,317.1					
Minorities	0.0					
Non-operating assets	0.0					
Net debt	408.6					
Other adjustments	0.0					
Equity value - Dec 31 2008	908.6					
Number of shares outstanding (mn)	6.5					
Cost of equity	9.5%					
12M target price per share (EUR)	160.0					
Current share price (EUR)	172.1					
<i>Up/Downside</i>	-7.0%					

Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBIT margin				
		12.1%	12.6%	13.1%	13.6%	14.1%
WACC	7.1%	176.9	185.6	194.2	202.8	211.4
	7.6%	159.9	167.8	175.7	183.6	191.5
	8.1%	145.4	152.7	160.0	167.3	174.7
	8.6%	133.0	139.8	146.6	153.4	160.2
	9.1%	122.2	128.5	134.9	141.2	147.6
		Terminal value growth				
		0.5%	1.0%	1.5%	2.0%	2.5%
WACC	7.1%	160.0	175.7	194.2	216.2	243.1
	7.6%	146.6	160.0	175.7	194.2	216.2
	8.1%	134.9	146.6	160.0	175.7	194.2
	8.6%	124.6	134.9	146.6	160.0	175.7
	9.1%	115.5	124.6	134.9	146.6	160.0

Source: Erste Group estimates

Sector Report – CEE Telecoms

Income Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, EUR mn, 31/12)	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
Net sales	745.07	780.08	842.36	919.91	963.34	977.00
Cost of goods sold	0.00	0.00	0.00	0.00	0.00	0.00
Gross profit	0.00	0.00	0.00	0.00	0.00	0.00
SG&A	0.00	0.00	0.00	0.00	0.00	0.00
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expenses	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA	292.62	298.21	312.25	311.83	320.55	327.26
Depreciation/amortization	-150.63	-161.78	-183.75	-206.28	-211.64	-218.65
EBIT	141.99	136.44	128.50	105.55	108.91	108.61
Financial result	-2.58	-9.65	-13.59	-20.71	-25.28	-23.83
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	139.42	126.78	114.91	84.84	83.63	84.78
Income taxes	-36.01	-38.41	-28.92	-20.36	-19.23	-18.65
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	-0.03	-0.17	0.00	0.00	0.00
Net result after minorities	103.41	88.34	85.82	64.48	64.39	66.13
Balance Sheet	2006	2007	2008	2009e	2010e	2011e
(IAS, EUR mn, 31/12)						
Intangible assets	120.35	239.08	255.14	238.06	221.85	206.28
Tangible assets	1,030.90	1,135.41	1,175.64	1,388.44	1,405.02	1,413.94
Financial assets	30.27	83.56	91.98	91.98	91.98	91.98
Total fixed assets	1,181.52	1,458.05	1,522.76	1,718.48	1,718.85	1,712.19
Inventories	22.14	25.22	28.42	28.22	29.81	30.04
Receivables and other current assets	132.98	167.10	192.32	165.58	173.40	175.86
Other assets	13.96	0.50	4.28	4.28	4.28	4.28
Cash and cash equivalents	120.98	89.65	40.59	30.95	30.95	30.95
Total current assets	290.05	282.48	265.61	229.03	238.43	241.12
TOTAL ASSETS	1,471.58	1,740.53	1,788.36	1,947.51	1,957.27	1,953.31
Shareholders'equity	989.27	1,062.62	1,065.44	1,090.88	1,103.23	1,117.32
Minorities	0.00	0.12	0.24	0.24	0.24	0.24
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	24.11	28.53	30.58	19.65	17.34	17.59
Other LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	219.40	273.73	241.15	241.15	241.15	241.15
Other LT liabilities	7.24	55.90	73.08	9.20	9.63	9.77
Total long-term liabilities	226.65	329.63	314.22	250.34	250.78	250.92
Interest-bearing ST debts	70.03	125.61	177.43	360.29	347.36	325.94
Other ST liabilities	161.52	194.01	200.46	226.11	238.33	241.32
Total short-term liabilities	215.06	302.36	359.45	566.16	564.49	545.77
TOTAL LIAB., EQUITY	1,471.58	1,740.53	1,788.36	1,947.51	1,957.27	1,953.31
Cash Flow Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, EUR mn, 31/12)						
Cash flow from operating activities	274.94	251.33	271.29	495.27	263.61	263.91
Cash flow from investing activities	-151.84	-313.83	-236.83	-402.00	-212.00	-212.00
Cash flow from financing activities	-84.89	31.17	-83.51	-102.91	-51.61	-51.91
CHANGE IN CASH, CASH EQU.	38.21	-31.33	-49.05	-9.65	0.00	0.00
Margins & Ratios	2006	2007	2008	2009e	2010e	2011e
Sales growth	8.3%	4.7%	8.0%	9.2%	4.7%	1.4%
EBITDA margin	39.3%	38.2%	37.1%	33.9%	33.3%	33.5%
EBIT margin	19.1%	17.5%	15.3%	11.5%	11.3%	11.1%
Net profit margin	13.9%	11.3%	10.2%	7.0%	6.7%	6.8%
ROE	10.9%	8.6%	8.1%	6.0%	5.9%	6.0%
ROCE	8.9%	7.2%	6.4%	5.0%	5.0%	5.0%
Equity ratio	67.2%	61.1%	59.6%	56.0%	56.4%	57.2%
Net debt	192.6	338.2	408.6	590.1	574.9	553.7
Working capital	61.0	-20.4	-98.1	-341.4	-330.3	-308.9
Capital employed	1,189.1	1,456.9	1,547.3	1,690.5	1,688.0	1,681.0
Inventory turnover	16.8	14.0	14.0	15.3	15.8	15.4

Source: Company data, Erste Group estimates

Sector Report – CEE Telecoms

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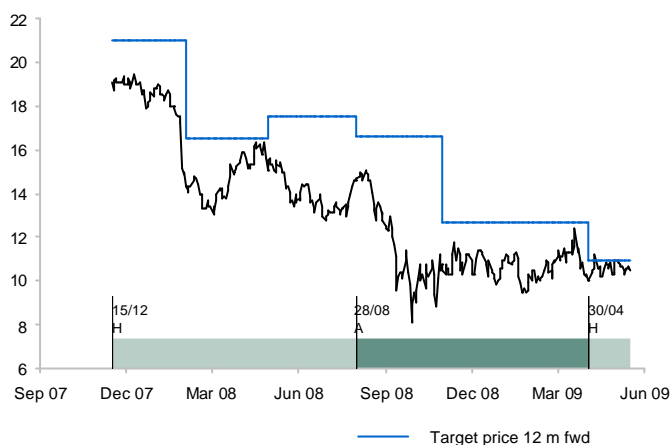
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Sector Report – CEE Telecoms

Telekom Austria

Rating history



Date	Rating	Price	Target Price
30. Apr 09	Hold	10.01	11.00
28. Aug 08	Accumulate	14.58	16.60
02. Sep 05	Hold	17.14	17.50
03. Aug 04	Accumulate	12.46	14.00
25. Aug 03	Buy	9.67	

Company

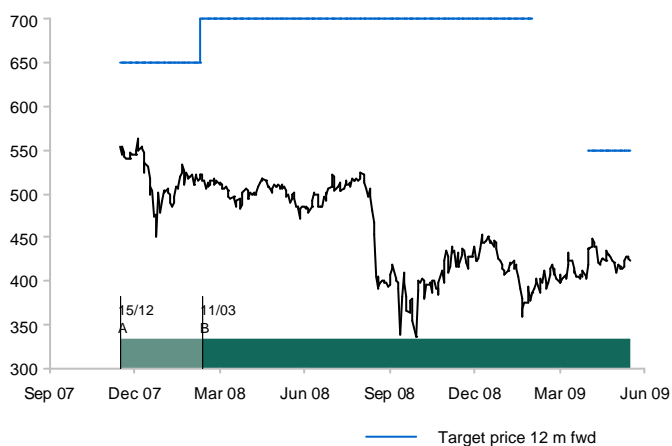
Disclosure

Telekom Austria

2

Telefónica O2 CR

Rating history



Date	Rating	Price	Target Price
11. Mar 08	Buy	520.30	700.00
02. Nov 07	Accumulate	588.50	650.00
08. Mar 07	Hold	546.70	600.00
04. May 06	Buy	498.80	608.00
16. Sep 05	Accumulate	461.30	496.00
17. Jun 04	Restricted	320.80	
05. Dec 03	Buy	272.00	320.00
22. Sep 03	Hold	274.80	
31. Jul 03	Buy	291.30	

Company

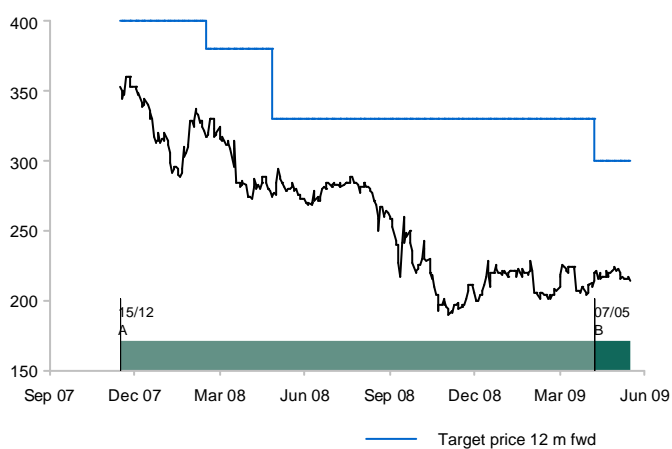
Disclosure

Telefónica O2 CR

2, 4

T-Hrvatski Telekom

Rating history



Date	Rating	Price	Target Price
07. May 09	Buy	220.10	300.00
13. Oct 07	Accumulate		400.00

Company

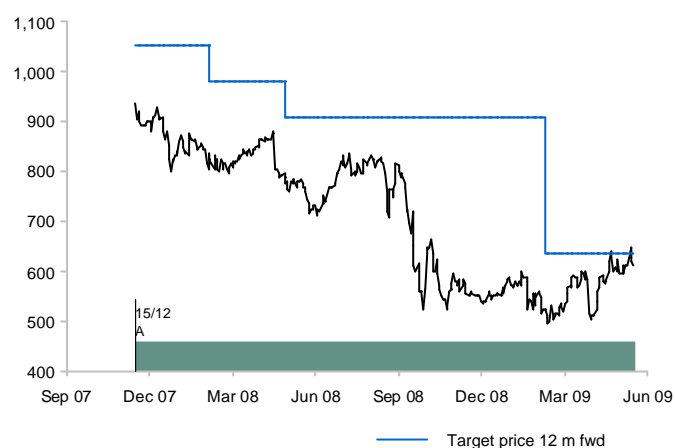
Disclosure

T-Hrvatski Telekom

Sector Report – CEE Telecoms

Magyar Telekom

Rating history



Date	Rating	Price	Target Price
29. Mar 07	Accumulate	940.00	1100.00
25. Sep 06	Hold	876.00	970.00
24. May 06	Accumulate	841.00	1040.00
05. Oct 05	Hold	1060.00	1100.00
02. Jan 04	Buy	790.00	1120.00

Company

Disclosure

Magyar Telekom

TPSA

Rating history



Date	Rating	Price	Target Price
12. Feb 08	Hold	23.28	23.00
21. Feb 07	Reduce	25.10	24.00
25. Sep 06	Hold	20.19	21.50
18. Mar 04	Buy	16.10	20.20
28. Nov 03	Hold	14.00	14.60
14. Aug 03	Buy	14.95	

Company

Disclosure

TPSA

Telekom Slovenije

Rating history



Date	Rating	Price	Target Price
27. May 08	Hold	246.89	270.00
04. Dec 07	Not rated	404.42	

Company

Disclosure

Telekom Slovenije

Sector Report – CEE Telecoms

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Erste Group rating definitions

Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Distribution of ratings

Recommendation	Coverage universe		Inv. banking-relationship	
	No.	in %	No.	in %
Buy	22	18.0	3	27.3
Accumulate	20	16.4	0	0.0
Hold	39	32.0	4	36.4
Reduce	23	18.9	3	27.3
Sell	8	6.6	0	0.0
N.R./UND.REV./RESTR.	10	8.2	1	9.1
Total	122	100.0	11	100.0

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