



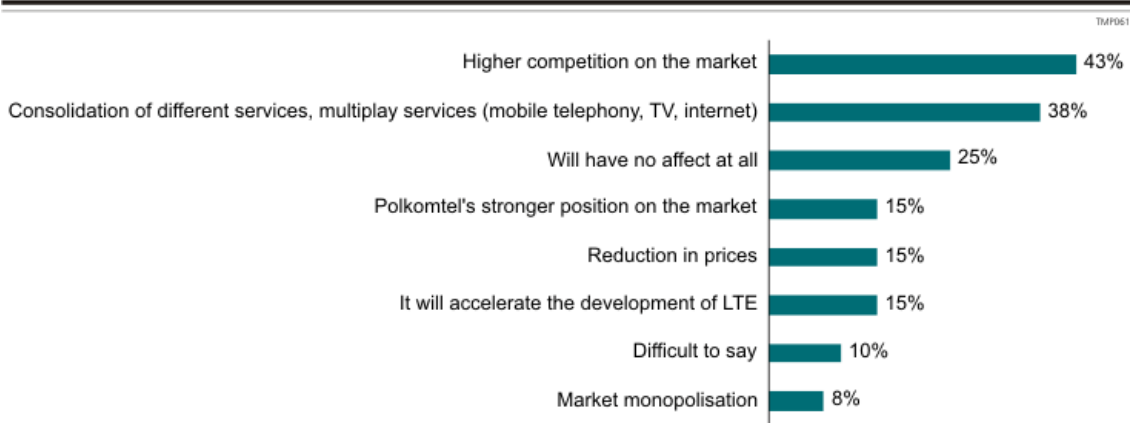
Consolidation of the Polish telecommunications market

Over the past twelve months there have been a lot of important events and developments in the Polish telecommunications sector, all of which have had a significant influence on the current state of the market. The market is becoming increasingly consolidated, and more and more often mergers and acquisitions concern firms at the top end of the market, and leading firms in their respective segments.

Important events

The most important, and perhaps emotional, event on the Polish telecommunications market over the past year was undoubtedly the sale of Polkomtel. The operator was finally sold to Zygmunt Solorz-Zak, who is linked with Cyfrowy Polsat and Aero2 among other companies, for a sum of approx. PLN 18bn, of which around PLN 15bn was paid by the businessman up front, with the rest paid in inherited liabilities or dividends. The sale of Polkomtel happened on 30 June 2011. The sale went through with permission of the Polish Office of Competition and Consumer Protection (UOKiK).

How will takeover of Polkomtel by Zygmunt Solorz-Zak affect the telecommunications market in Poland?



Based on answers from 40 respondents. Missing data and "Don't know" responses excluded. Source: PMR Research, 2011



Polkomtel is one of three main players on the mobile telephony market in Poland. It is also the leader in terms of SIM card numbers. The sale of Polkomtel therefore has a strategic significance. The fact is that Zygmunt Solorz-Zak has managed to build up an extensive portfolio of associated frequencies and telecommunications resources. The purchase of Polkomtel should be seen in these terms, as apart from its customer base and position on the market, Polkomtel also has the bandwidth resources necessary in this industry. In other words this company offers significantly more than any other player on the market. In the long term, in view of the growing demand for data transmission in mobile telephony networks and the need for network capacity inspired by this, Polkomtel could become highly influential and successful within the sector. Now the most strategic aspect and main competitive advantage of Zygmunt Solorz-Zak's group of companies will be in the mobile internet sector – and this is mainly because of the range and quality of the services they are able to offer.

In this context it is important to mention another significant event on the market which took place in September 2010. Mobyland and CenterNet, which are closely linked with Aero2, have launched the first transmitters operating in LTE networks in the 1800 Mhz spectrum. This was definitely the most unexpected event on the market, in view of the fact that the frequency is unusual for LTE, and also because of the scale of investment and the business model they are using, whereby they share their infrastructure with other providers, who want to provide mobile access services to networks in the retail market. Since mid-March their services have been tested on two

thousand users. Eventually the first commercial offer was rolled out by Cyfrowy Polsat at the end of August 2011.

Another important event was the rebranding of PTC. On 5 June 2011 Era disappeared from the Polish telecommunications market, and was replaced by T-Mobile. The network will still be operated by PTC, but Heyah will function as an independent brand. In fact the rebranding happened only after a dispute with a French firm Vivendi was settled and after compensation was paid. The French firm had previously indirectly invested in PTC shares and it was a long time before they recognised the official structure of the shareholding, according to which PTC's major shareholder is Deutsche Telekom. The agreement, pursuant to which Vivendi was paid a sum of €1.25bn in exchange for them finally signing over the rights to PTC, making Deutsche Telekom the single owner of the Polish operator, was signed in December 2010.

The year of consolidation

Of all the important trends that have been observed on the telecommunications market this year, the one that stands out is a movement towards the consolidation of the industry as well as consolidation in the way the ownership structures of various companies are organised. In a survey of the biggest telecommunications companies conducted by PMR in 2010, respondents were asked to share their predictions for future mergers and acquisitions on the market. At the time more than three quarters of those surveyed expected the market to undergo further consolidation, and thought that a series of significant sales would take place in 2011. Interestingly, respondents predominantly expected takeovers to occur in the fixed telephony sector (between the leading alternative operators), and they were more cautious in predicting similar transactions between cable TV operators.

The scale on which the consolidation actually took place was greater than representatives of the telecommunications industry had forecasted. This culminated in several very important acquisitions, including the aforementioned sale of Polkomtel (and hence also the exit from the investment of Polish companies controlled by the State Treasury) and the final decision on the shareholding structure of PTC, as well as the merger of Aster and UPC, the acquisition of Stream Communications by Hyperion, and also the acquisition of Telefonía Dialog and Crowley Data Poland by Netia.

In the case of the latter two acquisitions, with both Dialog and Crowley, a possible change in ownership has been unofficially on the cards for some time. An agreement was eventually signed on 3 April 2011. Netia paid KGHM the sum of PLN 944m for a 100% stake in Telefonía Dialog, whilst the sale of Crowley Data Poland, a specialist in the institutional sector, was estimated at PLN 100m (the sale was worth \$31.8m, but Netia had secured the exchange rate beforehand to ensure the sum was not affected by any further exchange rate fluctuations). Both these transactions are still waiting to be approved by UOKiK.

The acquisition of Dialog was definitely the biggest transaction of its kind in the history of Netia, who have consistently followed a policy of acquisitions, with the aim of strengthening its position in the fixed telephony and broadband internet sector. It is worth remembering that in 2008 Netia acquired Tele2 and over the next few years it started buying up smaller, local ISPs. The purchase of Dialog was completely different kind of investment, not least in terms of its scale. Apart from its subscriber base, which Netia will be able to develop and use to its advantage (as was the case with Tele2), the company will also benefit from the acquired company's infrastructure, which, in view of Dialog's recent investment in fibre optic networks and its new improved offers of digital TV, is of quite some significance.

More than anything else the purchase of Crowley Data Poland is most strategic in that it will give Netia access to the company's extensive client base, comprising both ordinary customers and bigger establishments to which the company has provided services. Recently Netia's development strategy has largely been geared towards the mass market. The acquisition of Crowley is a something of counterweight to this trend

and shows that Netia is a provider which also has its sights firmly set on the business sector.

In conclusion, at the present stage of market development, where organic growth is severely hampered, and net additions of broadband subscribers are decreasing year on year, the fact that Netia's growth strategy has been based on acquisitions comes as no surprise. After this transaction Netia will have around 2 million telephony subscribers and around 900 thousand broadband subscriptions, bringing in consolidated annual revenues of PLN 2.2bn. On the mass market in the fixed telephony sector Netia is only actually going to be competing with TP SA. On the fixed broadband market apart from TP SA and Netia, the other big player after the recent acquisition of Aster is UPC.

In the past year a trend towards consolidation has gathered speed in the past year amongst the big market players. Of the important companies that could be purchased in the near future, apart from P4, there are two operators with extensive core networks: Exatel and TK Telekom (the evaluation of the tenders is still in progress) and eventually Hwae. The aforementioned Netia, which is successfully consolidating the market, could actually be taken over by one of the industry's investors. The acquisition of Netia is certainly not beyond the bounds of possibility and this sale could even happen in the 12-18 month perspective.

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