

18 September 2012

Europa | Poland | Technology

**Initiating Coverage****BUY**

Price target: PLN 10

**Overview**

Industry:	Technology
Country:	Poland
ISIN:	PLATMSA00013
Reuters:	ATMM.WA
Bloomberg:	ATMPW
Website:	www.atm.com.pl

Price:		7.99
	<b>Max</b>	<b>Min</b>
Price 52w:	9.30	5.33
Market cap (PLNm)		290.38
Number of shares (m)		36.34

**Shareholder structure**

ATP Invest Sp. z.o.o S.K.A	19.88%
Polsat OFE	9.85%
ING OFE	9.48%
Roman Szwed	9.05%
Piotr Puteczny	5.12%
Free float	46.62%

**Performance**

4 weeks	-1.00%
13 weeks	16.06%
26 weeks	7.58%
52 weeks	18.83%
YTD	32.94%

**Dividend**

	PLN	in %
2008	0.00	0.00%
2009	0.00	0.00%
2010	0.23	2.88%
2011	0.00	0.00%

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**ATM S.A.****Leader of the Polish data center market**

- ATM S.A. is currently the largest operator of data centers in Poland and a major one in the CEE region. Under the labels ATMAN and Thinx Poland, the company provides telecommunication services based on own fibre-optic networks and three data centers, which have in total 8,300 sqm of technical floor space. Apart from colocation and server hosting, the company provides data transmission and fibre services as well as Internet access for companies and institutions.
- In May 2012, ATM completed the spin-off process, which resulted in two independent companies that are listed on the Warsaw Stock Exchange. Since Q2/12, ATM S.A. has only focused on the provision of telecommunication services, while ATM Systemy Informatyczne S.A. has been active in the area of ICT integration. The objective of the spin-off was the simplification of the Group's structure. Now, the two most important business areas can be carried out by independent, listed companies with focused business models, which are easier to value and better fit the preferences of different investor groups.
- The most important factors, which should increase the demand for ATM's services, include growing volumes of data, which are stored and processed online, a progressing digitalization, as well as increasing importance of IT outsourcing e.g. in the cloud computing model. A growth trigger should also be the introduction of the LTE technology by mobile operators in Poland. In our view, ATM's high growth potential is exemplified by the last M&A transactions in its industry, which were valued at EV/EBITDA multiples of >10x.
- ATM published good H1/12 results. Revenues grew by 47% y-o-y to PLN 96.9m, and the net margin (without the "OST 112" contract) reached 11.2%. Net gearing, which amounted to 36.7% at the end of June 2012, remains below the median of our peer group. Based on our DCF model (70% weight) and peer group (30%), we have determined a 12-months PT for ATM's shares of PLN 10, which implies an upside of 25.2% at present.

PLNm	2008	2009	2010	2011	2012E*	2013E
Net sales	267.45	286.46	401.78	444.58	198.18	225.92
EBITDA	30.56	36.16	55.83	57.50	41.62	48.01
EBIT	14.31	16.88	33.15	31.62	23.78	28.24
Net income	9.83	9.83	20.44	16.32	13.70	17.26
EPS	0.27	0.27	0.56	0.45	0.38	0.47
Tangible BVPS	6.09	6.31	6.85	7.08	6.27	6.74
RoE	4.17%	4.07%	7.93%	6.01%	5.44%	7.29%
EBIT margin	5.35 %	5.89 %	8.25 %	7.11 %	12.00 %	12.50 %
P/E	29.26	29.54	14.21	17.79	21.19	16.82
P/Tangible BVPS	1.31	1.27	1.17	1.13	1.27	1.18
EV/EBITDA	12.23	10.33	6.69	6.50	8.98	7.78

\* Break-up of ATM into two companies and spin-off of IT operations

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## 1 Company profile

ATM S.A., whose roots go back to 1987, is a telecommunication operator and a leading provider of colocation (data center) services in Poland. The company is also one of the leading providers of data center services in Central and Eastern Europe. As a telco operator, it offers among others broadband data transmission services and Internet access for companies and institutions. ATM's telco infrastructure comprises: three modern data centers with a total space of 8,300 sqm and 42 MW power supply as well as a Poland-wide network with fibre-optic backbone and 8 MANs. It provides its services under the brands of ATMAN and Think Poland. ATM S.A. has been listed on the WSE since 2004 and employs c. 180 people.

## 2 SWOT Analysis

### Strengths

- Leading provider of telco services (especially colocation and hosting) to companies in Poland and the CEE region
- Expansion of data centers only if existing facilities are rent at min. 75%; leads to lower investment risk
- ATM owns one of the largest metropolitan fibre-optic networks, which is situated in the eight biggest Polish cities; the market is characterized by relatively high entry barriers
- Especially in the data center segment, the customer base is very stable
- ATM has a relatively low net gearing
- Polish pension funds own 19.3% of all shares; management has c. 34%

### Opportunities

- More focused and transparent business model after the spin-off of ATM SI should make ATM's valuation easier; also, ATM and ATM SI are now allowed to provide services to competing companies (e.g. ATM to other IT integrators)
- Demand for fast broadband links increases continuously, mainly due to higher data volumes, mobile technology LTE and online video
- Cloud computing is becoming more and more popular; companies, which offer that, use the infrastructure of data center providers such as ATM
- Increasing popularity of IT and data center outsourcing services, which allow a significant cost optimisation; some entities e.g. banks are legally obliged to maintain a backup data center (Disaster Recovery Center) outside their offices
- Increasing investments into telco infrastructure due to EU subsidies
- Associated company Linx, which has a data center in Sankt Petersburg, could be a beneficiary of the tremendous potential of the Russian market in the coming years
- ATM's business model allows for payment of high dividends in the long run

### Weaknesses

- Current ratio equals less than 1x
- One client generates more than 20% of yearly sales
- Public contracts have a significant share in ATM's total revenues
- Contract for the emergency number "112", which has been one of the largest public contracts in the last years, generates only small gross margins, as most of the work is conducted by ATM's subcontractors
- Customers from the sectors Telco and Finance/Insurance have a share of >70% in ATM's total sales

### Threats

- Risks relating to operations of associated company Linx in Russia
- Liquidity risks relating to high CAPEX
- Loss of key employees
- Currency risks (ATM generates most of its sales in PLN, but pays for equipment in EUR and USD)

### 3 Valuation

In order to account for current market valuations, we have valued ATM by using a weighted average of our DCF model (70%) and peer group (30%). Our 12-months price target for the stock equals PLN 10, which implies an upside potential of 25.2% at current level.

#### Discounted Cash Flow method (DCF)

in PLNm	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Net sales</b>	<b>198.18</b>	<b>225.92</b>	<b>253.93</b>	<b>282.38</b>	<b>310.61</b>	<b>336.24</b>	<b>358.09</b>	<b>375.10</b>	<b>386.36</b>
(y-o-y change)	-55.4%	14.0%	12.4%	11.2%	10.0%	8.3%	6.5%	4.8%	3.0%
EBIT	23.78	28.24	33.27	40.10	46.59	51.44	54.79	57.02	58.80
(EBIT margin)	12.0%	12.5%	13.1%	14.2%	15.0%	15.3%	15.3%	15.2%	15.2%
<b>NOPLAT</b>	<b>19.26</b>	<b>22.87</b>	<b>26.95</b>	<b>32.48</b>	<b>37.74</b>	<b>41.67</b>	<b>44.38</b>	<b>46.18</b>	<b>47.63</b>
+ Depreciation & amortisation	17.84	19.77	21.58	23.30	24.85	26.06	26.86	27.20	27.24
= Net operating cash flow	37.10	42.64	48.53	55.77	62.59	67.73	71.24	73.38	74.87
- Total investments (Capex and WC)	-14.91	-43.99	-44.58	-37.12	-38.78	-39.67	-39.95	-39.59	-38.77
Capital expenditure	19.56	-46.18	-46.45	-38.85	-40.24	-40.72	-40.53	-39.65	-38.29
Working capital	-34.47	2.19	1.87	1.73	1.46	1.05	0.57	0.05	-0.48
= Free cash flow (FCF)	22.18	-1.35	3.95	18.66	23.81	28.06	31.28	33.79	36.10
<b>PV of FCF's</b>	<b>21.59</b>	<b>-1.19</b>	<b>3.18</b>	<b>13.65</b>	<b>15.84</b>	<b>16.98</b>	<b>17.21</b>	<b>16.91</b>	<b>16.43</b>
PV of FCFs in explicit period	120.60								
PV of FCFs in terminal period	277.47								
<b>Enterprise value (EV)</b>	<b>398.07</b>								
+ Net cash / - net debt	-83.21								
<b>Shareholder value</b>	<b>314.86</b>								
<b>Number of shares outstanding (m)</b>	<b>36.34</b>								
<b>WACC</b>	<b>10.0%</b>								
Equity costs	13.0%								
Debt costs before tax	6.7%								
Effective tax rate	19.0%								
Debt costs after tax	5.4%								
Equity share	60.0%								
Debt share	40.0%								
<b>Fair value per share in PLN (today)</b>	<b>8.66</b>								
<b>Fair value per share in PLN (in 12 months)</b>	<b>9.53</b>								

		Terminal EBIT margin						
		12.2%	13.2%	14.2%	15.2%	16.2%	17.2%	18.2%
WACC	6.0%	22.55	24.58	26.61	28.64	30.68	32.71	34.74
	7.0%	15.98	17.39	18.79	20.20	21.60	23.01	24.41
	8.0%	12.06	13.10	14.14	15.18	16.22	17.26	18.30
	9.0%	9.46	10.27	11.07	11.87	12.67	13.47	14.27
	10.0%	7.62	8.25	8.89	9.53	10.16	10.80	11.44
	11.0%	6.24	6.76	7.27	7.79	8.31	8.82	9.34
12.0%	5.17	5.60	6.02	6.45	6.88	7.30	7.73	

Source: Dr. Kalliwoda Research GmbH

#### Peer Group Analysis

Our peer group comprises six companies from Poland, the UK, the Netherlands and the US, which offer similar services to ATM:

- (1) *Hawe S.A.*: Hawe, which is based in Warsaw/Poland, is engaged in the construction of telecommunication and electrical power networks, as well as in optic fiber leasing, data transmission services and distribution of telecommunication equipment. Hawe also provides telecommunication services for corporate customers such as broadband Internet access, VoIP technology and IPTV. In fiscal-year 2011, the company generated total revenues of PLN 140m.
- (2) *Equinix Inc.*: Equinix, which is headquartered in Redwood City/US, connects businesses through a global platform of data centers in 38 markets in the Americas, the EMEA region and Asia-Pacific. Currently, Platform Equinix connects more than 4,000 enterprises, cloud, digital content and financial companies and more than 690 network service providers. In 2011, the company generated total sales of USD 1.6bn.

- (3) *Level 3 Communications Inc.:* Level 3 Communications, which is based in Broomfield/US, is a facilities-based provider of a range of integrated communication and content distribution services such as Internet access, Ethernet Virtual Private Networks, VoIP, caching and downloading, video streaming, colocation and data centers. For fiscal-year 2011, Level 3 Communications reported total revenues of USD 4.3bn.
- (4) *TeleCity Group PLC:* Headquartered in London, TeleCity operates data centers in Amsterdam, Dublin, Frankfurt, London, Manchester, Milan, Paris and Stockholm. TeleCity's data centers provide secure and highly-connected environments for IT and telecom equipment that host high-volume applications, content and information. In fiscal-year 2011, TeleCity had total sales of GBP 239.8m.
- (5) *InterXion Holding NV:* InterXion Holding, which is based in Schiphol-Rink/Netherlands, is a provider of carrier-neutral colocation data center services in Europe. The company supports its more than 1,200 customers through 28 data centers in 11 countries. Its data centers act as content, cloud and connectivity hubs that facilitate the processing, storage, sharing and distribution of content and applications among carriers and customers. In fiscal-year 2011, InterXion generated sales of EUR 244.3m.
- (6) *CenturyLink Inc.:* CenturyLink, which is headquartered in Monroe/US, is an integrated communication company that provides a range of communication services to its residential, business, governmental and wholesale customers. The company's communication services include Internet access, broadband and wireless data transmission, managed hosting (including cloud hosting), colocation and video. In fiscal-year 2011, CenturyLink's revenues totaled USD 15.4bn.

ATM's most important non-listed competitors are:

- (1) *GTS Energies:* GTS Central Europe (GTS CE) is the largest alternative communications carrier in the CEE region with currently c. 40,000 business customers. GTS CE delivers end-to-end Internet access, data transfer and fixed telephony services for business customers in the Czech Republic, Slovakia, Hungary, Romania and Poland. GTS CE is owned by a consortium of private equity funds, which includes Columbia Capital, M/C Venture Partners, Innova Capital, HarbourVest Partners, Oak Investment Partners and Bessemer Venture Partners.
- (2) *Exatel:* Exatel, which is part of the listed PGE Group, is one of the leading alternative telecommunication operators. Its service offer includes data transmission, line lease, voice services, Internet services, as well as hosting and colocation. Exatel has more than 1,500 customers in Poland, which include telecommunication operators as well as large and medium-sized enterprises from various sectors such as finance and power engineering.

The company manages the most modern telecommunication network in Poland with a total length of more than 20,000 km optic fibres and links to 80 domestic and 60 foreign operators allowing for data transmission all over Central Europe.

- (3) *TK Telekom*: With a countrywide copper and fibre-optic network of almost 30,000 km, TK Telekom is among the largest backbone network operators in Poland. The company offers data transmission, line lease, Internet access and voice services, satisfying the needs of telecommunication operators, public administration and business customers. The owners of TK Telekom are the Polish State Treasury with c. 52% and the state-owned Polish railway operator PKP S.A. with c. 48%.

Company	EV/EBITDA		EV/EBIT		P/E		EBITDA margin	Net gearing	P/E
	2012E	2013E	2012E	2013E	2012E	2013E	Latest	Latest	Latest
HAWE S.A. (PLN)*	3.88	12.13	4.07	13.31	3.85	9.93	41.84%	45.13%	1.58
Equinix Inc. (USD)	13.14	11.13	28.46	22.69	72.27	50.48	43.01%	106.39%	4.53
Level 3 Communications Inc. (USD)	8.86	7.56	21.02	14.76	neg.	54.83	21.03%	632.54%	4.27
TeleCity Group PLC (GBP)	14.85	12.29	21.68	17.04	28.07	22.38	45.56%	62.86%	5.39
InterXion Holding NV (EUR)	10.60	8.71	17.53	14.57	29.66	23.60	40.12%	48.43%	2.90
CenturyLink Inc. (USD)	6.27	6.27	15.07	13.95	16.51	16.67	44.23%	104.89%	1.29
<b>Median</b>	<b>9.73</b>	<b>9.92</b>	<b>19.27</b>	<b>14.67</b>	<b>28.07</b>	<b>22.99</b>	<b>42.43%</b>	<b>83.87%</b>	<b>3.58</b>
ATM S.A. (PLN)	8.98	7.78	15.71	13.23	21.19	16.82	32.68%	36.67%	1.28
<i>Premium/Discount</i>	-7.71%	-21.55%	-18.49%	-9.80%	-24.52%	-26.82%			
<b>Fair value ATM S.A. (PLN)</b>	<b>10.10</b>								

\* Estimates are based on a latest research report, which is available on the company's website

Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Knowledge

According to our peer group, ATM currently trades at a significant discount to its peers. In our view, the reason, why the company generates much lower margins than similar providers, is the relatively early stage of development of the Polish data center market. The peer-group-based fair value of ATM equals PLN 10.10.

## 4 H1/12 results and outlook

### Revenues

In H1/12, ATM generated total sales of PLN 96.9m, which increased by 47% y-o-y. Without revenues from the "OST 112" contract, sales amounted to PLN 60.6m (+6% y-o-y). "OST 112" is a contract for the provision of telco services for the Poland-wide ICT network (OST) for the purposes of operating the 112 emergency number. As the telco part of that contract is conducted by ATM's subcontractors, the company's gross margin is neglectable and only stems from contract management. As this contract stems not from the company's core business, but is a relic of the previous company structure (before the spin-off of ATM's ICT operations), revenues of "OST 112" are excluded from further analysis.

In H1/12, for the first time financial results did not account for the figures of ATM's ICT integration services – including companies ATM Systemy Informatyczne S.A., ATM Software Sp. z o.o., Impulsy Sp. z o.o. and Sputnik Software Sp. z o.o. - which were spun-off. ATM decided to conduct a so-called spin-off, during which the whole ICT integration business was moved to ATM Systemy Informatyczne S.A. (ATM SI) and listed on the WSE in May 2012. At that point of time, for each share of ATM the shareholders received one new share of ATM Systemy Informatyczne. The fact that the whole ICT integration business was excluded from ATM and moved to an independent company should be taken into account in the analysis of historical results as well as sales and profit forecasts.

## H1/12 results compared to previous year

H1/2012 vs. previous year			
in PLNm	H1/12	H1/11	change (%)
Net sales	96.90	65.92	47.0%
without "OST 112"	60.57	57.14	6.0%
EBITDA	19.80	17.45	13.4%
EBITDA margin	20.4%	26.5%	
EBITDA margin (without "OST 112")	32.7%	30.5%	
EBIT	9.90	8.39	18.1%
EBIT margin	10.2%	12.7%	
EBIT margin (without "OST 112")	16.3%	14.7%	
Net income	6.83	7.73	-11.6%
Net margin	7.0%	11.7%	
Net margin (without "OST 112")	11.3%	13.5%	

Source: Company information, Dr. Kalliwoda Research GmbH

## Sales split H1/12 vs. H1/11

Sales and Gross margins according to segments H1/12 vs. H1/11					
	H1/12	H1/11		H1/12	H1/11
Telecommunication			Consolidation		
Net sales PLNm	95.66	64.82	Net sales PLNm	-0.03	-0.14
Share in total sales	98.7%	98.3%	Share in total sales	0.0%	-0.2%
Gross margin (without "OST 112")	59.1%	60.2%			
mPay			Group		
Net sales PLNm	1.28	1.24	Net sales	96.91	65.92
Share in total sales	1.3%	1.9%	change y-o-y	47.0%	
Gross margin (without "OST 112")	95.8%	68.9%			

Source: Company information, Dr. Kalliwoda Research GmbH

## Profitability

In the first half of 2012, ATM's EBIT increased by 18.1% y-o-y to PLN 9.9m, thus much more than sales (without the "OST 112" contract). Due to the high operating leverage of the company's business model the operating margin (without "OST 112") increased from 14.7% in H1/11 to 16.3%. Net income, which went down by 34.2% to PLN 6.8m, was impacted by the following events: (1) sale of 60% of shares in the company inONE S.A. in Q1/11, which led to an exceptional increase of 2011 financial result by PLN 4.2m as well as (2) one-time write-down of PLN 1.4m due to the liquidation of subsidiary mPay International Sp. z o.o. In addition, it should be noted that the liquidation of mPay International Sp. z o.o., which has not conducted any operations in the last years, does not have any impact on the functioning of its only valuable asset mPay S.A. and is cash-neutral for ATM S.A.



### ***Balance Sheet and Cash Flow***

On 30 June 2012, the most important position on ATM's balance sheet were fixed assets, which comprise among others real estate, equipment as well as network and telco infrastructure. Although ATM conducted the spin-off of ATM Systemy Informatyczne S.A. in May 2012, fixed assets decreased only slightly from PLN 218.2m at the end of December 2011 to PLN 204.3m.

Other important balance sheet positions were equity (PLN 229.4m), receivables (PLN 65.6m) and investments in associated companies (PLN 67.5m). Investments, which are consolidated at equity, are related to ATM's 21.3% shareholding in the Dutch company Linx Telecommunications BV, which offers telco solutions and data center services in Russia, Estonia and Poland.

At the end of June 2012, ATM's net debt amounted to PLN 88.9m and comprised bank and leasing debt of PLN 29.3m (short-term) and PLN 59.6m (long-term) respectively. Given the cash position, which on 30 June 2012 equaled PLN 5.7m, the company's net debt amounted to PLN 83.2m (Net gearing of 36.7%) and was thus below management's Net debt/EBITDA limit of 2x.

In the first six months of 2012, ATM's operating cash flow was equal to PLN -23.8m compared to PLN -6.9m the previous year. This stemmed from (1) a significant decrease of net income y-o-y and (2) much higher investments into working capital (PLN 35.7m vs. PLN 20.4m in H1/11). Although cash flow from investing improved (PLN -9.5m vs. PLN -11.6m in H1/11), ATM reported a decrease of the cash position from PLN 56.6m at the beginning of January to PLN 5.7m. However, this is typical for that period of the year as the company repaid its short-term liabilities (mainly trade payables), which went down from PLN 192.2m at the end of 2011 to PLN 80.75m. Due to a one-time correction resulting from the spin-off of ATM SI S.A. the cash outflow from financing increased from PLN -10.6m in H1/11 to PLN -17.6m.

### ***Outlook***

In our view, ATM's telco business, which comprises data center services (colocation and hosting), data transmission and Internet access, has excellent future growth prospects.

The Polish data center market, where ATM is the undisputed leader, is in an early stage of development compared to mature markets in Western Europe (e.g. Germany, the United Kingdom or the Netherlands). Due to its growth dynamics it is supposed to come closer to the volume of mature markets, which could affect ATM's sales and profit growth significantly. At the same time, the Polish market is the largest one in this part of the CEE region and is characterized by a continuously increasing domestic and international demand. The main factors, which should increase the demand for ATM's services, are growing volumes of data transferred through the Internet and popularity of online video as well as the introduction of LTE technology (fast mobile data transmission), all of which positively affect the demand for broadband lines as well as storage and processing of data in data centers. Moreover, as they look for CAPEX savings, companies and institutions in Poland will increasingly use outsourcing in the OPEX model, which should positively affect such companies as ATM.



In order to satisfy increasing market demand the company will continue the development of own telco capacity, among others Thinx Poland Data Center and expansion of ATMAN Data Center in Warsaw. ATM's investment policy foresees the construction of an additional data center facility as a part of a particular data center if its previous facilities are rent to at least 75%. This is supposed to lead to continuous revenue growth and also allows ATM to finance investment projects by equity and leasing.

The subsidiary mPay S.A., in which ATM owns indirectly 83.7% of the shares, has well placed its offer in the mobile payment segment in Poland. However, in our model the subsidiary has only been taken into account in 2012 as ATM's Management Board does not regard it as its main business area and plans to sell this financial asset in the short-term. In our opinion, apart from sales generated by Internet access provision, which – as in the case of other telco operators – is subject to a systematic decrease of unit prices, all other revenues from ATM's telco services have large growth potential in the near future.

ATM's telco revenues have been generating systematic growth for the last few quarters, which should be maintained in the near future. On the consolidated level, revenues in 2012 will be significantly below last year due to the spin-off of ATM Systemy Informatyczne, which now independently carries out ATM's previous ICT operations. However, we expect that they will grow at 12-14% in the next years due to the dynamic development of services relating to data centers and optic fibre leasing.

As the telco business generates high gross margins, we forecast that ATM's EBIT margin will grow from 7.1% in 2011 to 15-15.5% in the long run. At the same time, the company will continue to invest large sums in its technical infrastructure (e.g. modernization of fibre-optic networks, expansion of capacity in the data centers), which is why we expect a yearly CAPEX of PLN 30-45m in the future. From 2015, when ATM should complete its main investments, we expect positive free cash flows and a yearly dividend payout ratio of 70%.

In our view, Linx Telecommunications, which ATM currently consolidates at equity, has a large growth potential as it focuses its activity on the highly promising and quickly developing Russian market. In Sankt Petersburg, it opened one of the largest and modern data centers in Russia.

### Our forecasts 2012E-2014E

Our forecasts 2012E-2014E			
in PLNm	2012E	2013E	2014E
Net sales	198.18	225.92	253.93
<i>thereof: colocation and hosting (data centers)</i>	42.0%	44.0%	46.0%
<i>thereof: data transmission/fibre-optic services</i>	39.0%	39.0%	39.0%
<i>thereof: Internet access</i>	18.0%	17.0%	15.0%
<i>thereof: mPay</i>	1.2%	0.0%	0.0%
EBITDA	41.62	48.01	54.85
EBITDA margin	21.0%	21.3%	21.6%
EBIT	23.78	28.24	33.27
EBIT margin	12.0%	12.5%	13.1%
Net income	13.70	17.26	21.28
Net margin	6.9%	7.6%	8.4%

Source: Dr. Kalliwoda Research GmbH

## 5 Business model

ATM S.A., which is headquartered in Warsaw, is the first company which offered commercial Internet access in Poland. ATM, which has operated as a limited company (Sp. z o.o.) since 1993, and was originally an ICT integrator, entered the telco segment in 2001. As the only Polish operator, ATM is linked with three largest interconnect nodes in Europe: in Amsterdam (AMS-IX), Frankfurt (DE-CIX) and London (LINX).

After the spin-off and listing of its ICT business on the WSE in May 2012 (company ATM Systemy Informatyczne), the main business area of „new ATM” is the provision of fast Internet connections, data transmission, optic fibre leasing, hosting, colocation for corporate clients, telco operators and financial institutions. ATM, which owns a network comprising 75,000 km of optic fibres in the eight largest Polish cities as well as 4,500 km of long-distance routes and 4,400 km of international ones, operates one of the largest metropolitan fibre-optic networks in Poland.

ATM’s customers include more than 1,000 entities, among others telco operators, Internet portals, financial institutions as well as customers from manufacturing, utilities and retail sectors. With a share of more than 70%, clients from the Telco and Financials/Insurance sectors have the highest share in total sales.

Below is a detailed description of ATM’s services:

### Colocation and hosting

Under the brands of ATMAN and Thinx Poland, ATM offers colocation (leasing of space for hardware, ensuring power supply and network connection) and hosting services (leasing of dedicated servers with Internet access) in own data centers in Warsaw (2) and Katowice (1). The services are used by entities which want to outsource their data centers or need a backup center in order to insure themselves against unforeseen events. According to ATM, its data centers are currently used by more than 400 Polish and international customers. Currently, revenues from colocation and hosting – ATM receives a fixed fee for each square meter of leased space – constitute 39% of the company’s telco revenues (without „OST 112”).

The associated company Linx Telecommunications BV from the Netherlands, in which ATM S.A. owns 21.3% of the shares, provides colocation and hosting services also in Estonia and Russia. The data center in St. Petersburg, which it owns, will have c. 10,000 square meters of space in the future and is one of the largest in Russia.

### Data transmission and fibre services

ATM has own metropolitan fibre-optic networks in Warsaw, Katowice, Gdansk, Lublin, Lodz, Krakow, Poznan and Wroclaw. The company offers broadband data transmission and other fibre services (e.g. leasing of lines) Poland-wide. According to ATM’s management, revenues from data transmission/fibre services currently constitute more than 35% of telco sales.

### **Internet access**

Under the ATMAN and Thinx Poland brands, ATM offers Internet access for telco operators, Internet and Application Service Providers (ISPs/ASPs) as well as business customers. The company has links to most of the Polish and some of the largest international Internet networks. According to ATM, sales from Internet access have a share of c. 18% in telco revenues, however as in the case of other wholesale operators are characterized by falling unit prices.

## **6 The telecommunication market in Poland**

### ***Latest market data***

According to the department for electronic communication (Urząd Komunikacji Elektronicznej), the Polish telecommunication market had a volume of PLN 43bn net in 2011. Net retail sales amounted to PLN 28.3bn, thereof sales from mobile telephony c. PLN 19bn (+0.6% y-o-y), fixed-line PLN 5.2bn (-13.3% y-o-y) and Internet access services PLN 4bn (-1.8% y-o-y). In 2011, the market penetration reached 123.7% in case of mobile telephony, 8.3% for mobile Internet and 17.3% for broadband Internet.

### ***Market trends***

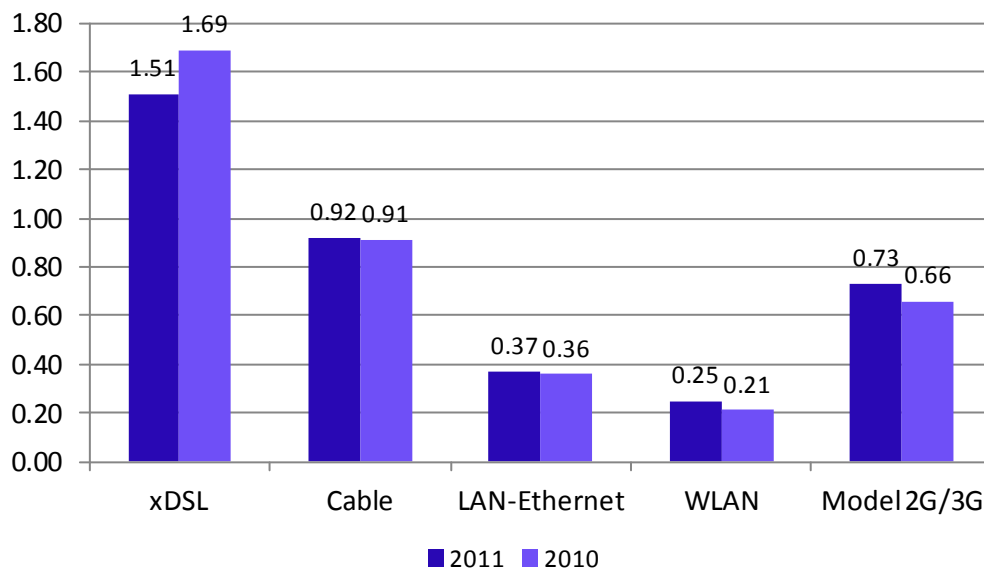
In the last years, the telecommunication market in Poland has undergone major changes. First, in Q1 2007 the new mobile provider P4 entered the stage and has so far gained a 14.1% share in the market (+3.1% compared to 2010). Also, today telecommunication services are not only being offered by traditional operators such as TPSA or Polkomtel, but also cable and satellite providers e.g. UPC, Multimedia Polska or Cyfrowy Polsat, which offer these service in a package together with television. The more competitive market environment – there are also numerous so-called virtual mobile operators – and the “packaging” of different telco services have led to a strong reduction of prices, which in turn resulted in a shift of consumer’ preferences towards speed and quality of service.

Market data from the last few years clearly show that most of the growth of the Polish telco market stems from data transmission services. We forecast that this trend will continue over the next years due to increasing popularity of smartphones and introduction of the next-generation mobile technology LTE. In case of broadband Internet access, cable providers should grow at higher rates than e.g. xDSL as they are able to offer higher bandwidth and lower prices.

In general, the increasing popularity of data transmission services will require additional investments into transmission lines, especially fibre-optic networks, which have the highest capacity and in contrast to copper networks allow data transmission over long distances.

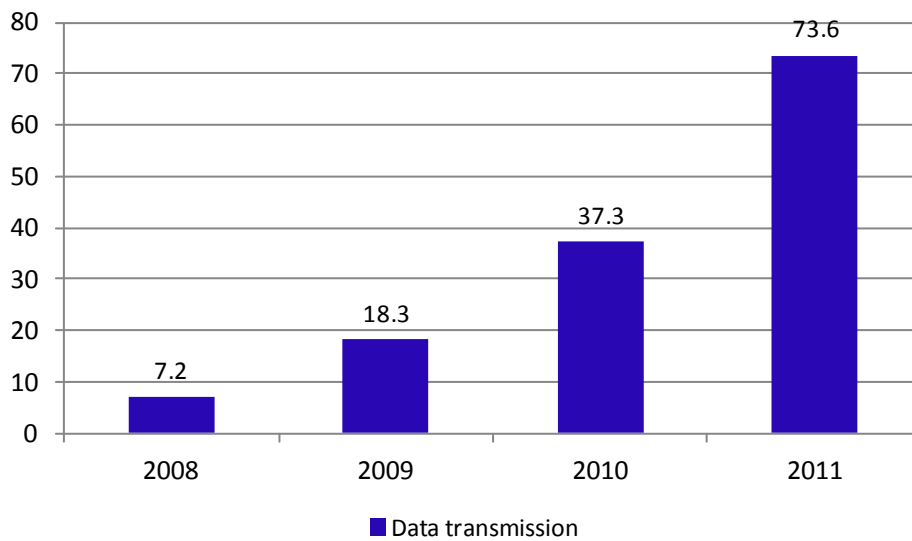
In terms of voice services, fixed-line telephony will continue to lose ground against mobile. Since 2007, the market for fixed-line telephony has decreased from PLN 10.7bn to PLN 7.9bn and the number of users from 8.6m to 5.2m.

### Sales of the different Internet access channels (in PLNbn)



Source: UKE, Dr. Kalliwoda Research GmbH

### Yearly average mobile data transmission volumes (in MB)



Source: UKE, Dr. Kalliwoda Research GmbH

## 7 Profit and loss statement

in PLNm	2008	2009	2010	2011	2012E	2013E	2014E	2015E
<b>Net sales</b>	<b>267.45</b>	<b>286.46</b>	<b>401.78</b>	<b>444.58</b>	<b>198.18</b>	<b>225.92</b>	<b>253.93</b>	<b>282.38</b>
<b>thereof: telco services without OST 112</b>	<b>72.80</b>	<b>90.37</b>	<b>104.23</b>	<b>115.00</b>	<b>142.12</b>	<b>185.12</b>	<b>213.13</b>	<b>241.58</b>
Cost of goods sold	-163.92	-179.32	-271.24	-307.60	-120.89	-137.70	-154.65	-171.83
<b>Gross profit</b>	<b>103.53</b>	<b>107.15</b>	<b>130.54</b>	<b>136.98</b>	<b>77.29</b>	<b>88.22</b>	<b>99.29</b>	<b>110.55</b>
<b>thereof: telco services</b>	<b>41.54</b>	<b>50.55</b>	<b>62.27</b>	<b>69.00</b>	<b>77.29</b>	<b>88.22</b>	<b>99.29</b>	<b>110.55</b>
Other operating income	0.67	2.35	1.58	2.22	1.80	1.84	1.87	1.91
Distribution costs	-26.70	-27.59	-31.22	-27.83	-19.22	-21.69	-24.12	-26.54
Administration costs	-45.99	-43.48	-42.16	-50.79	-12.68	-14.35	-16.00	-17.65
Other operating expenses	-0.96	-2.28	-2.91	-3.08	-5.57	-6.02	-6.19	-4.88
<b>EBITDA</b>	<b>30.56</b>	<b>36.16</b>	<b>55.83</b>	<b>57.50</b>	<b>41.62</b>	<b>48.01</b>	<b>54.85</b>	<b>63.39</b>
Depreciation & Amortization	-16.25	-19.28	-22.68	-25.89	-17.84	-19.77	-21.58	-23.30
<b>EBIT</b>	<b>14.31</b>	<b>16.88</b>	<b>33.15</b>	<b>31.62</b>	<b>23.78</b>	<b>28.24</b>	<b>33.27</b>	<b>40.10</b>
<b>thereof: telco services</b>	<b>9.72</b>	<b>13.98</b>	<b>15.87</b>	<b>17.27</b>	<b>23.78</b>	<b>28.24</b>	<b>33.27</b>	<b>40.10</b>
Net financial results	-4.06	-5.21	-7.21	-8.81	-6.80	-6.85	-6.90	-6.95
<b>EBT</b>	<b>10.25</b>	<b>11.67</b>	<b>25.94</b>	<b>22.81</b>	<b>16.98</b>	<b>21.39</b>	<b>26.37</b>	<b>33.15</b>
Income taxes	-1.31	-1.80	-4.54	-6.49	-3.23	-4.06	-5.01	-6.30
Minority interests	0.89	-0.04	-0.96	-0.11	-0.05	-0.06	-0.08	-0.10
<b>Net income / loss</b>	<b>9.83</b>	<b>9.83</b>	<b>20.44</b>	<b>16.32</b>	<b>13.70</b>	<b>17.26</b>	<b>21.28</b>	<b>26.75</b>
EPS	0.27	0.27	0.56	0.45	0.38	0.47	0.59	0.74
DPS	0.00	0.00	0.23	0.00	0.00	0.00	0.00	0.52

## 8 Balance sheet

in PLNm	2008	2009	2010	2011	2012E	2013E	2014E	2015E
<b>Current assets</b>	<b>123.62</b>	<b>94.52</b>	<b>197.86</b>	<b>168.91</b>	<b>54.24</b>	<b>61.93</b>	<b>72.93</b>	<b>76.97</b>
Cash and cash equivalents	3.98	5.96	40.27	56.57	4.35	5.05	9.01	5.89
Inventories	14.51	6.34	26.00	15.24	3.31	3.77	4.24	4.71
Trade accounts and notes receivables	93.57	63.29	117.77	87.19	40.72	46.42	52.18	58.02
Other financial assets	0.00	0.12	0.09	0.10	1.50	1.71	1.92	2.14
Prepaid expenses, deferred charges and others	11.57	18.81	13.73	9.80	4.36	4.97	5.59	6.21
<b>Non-current assets</b>	<b>261.95</b>	<b>272.20</b>	<b>339.01</b>	<b>369.73</b>	<b>333.42</b>	<b>360.33</b>	<b>385.85</b>	<b>402.04</b>
Property, plant and equipment	137.45	147.24	181.65	218.17	215.00	235.00	253.50	262.70
Other intangible assets	31.72	33.48	67.37	64.78	49.00	55.41	61.77	68.12
Goodwill	16.59	18.58	18.58	18.58	0.13	0.13	0.13	0.13
Long-term financial assets	64.65	66.61	67.64	67.32	69.00	69.69	70.39	71.09
Long-term financial assets	0.08	0.08	0.08	0.08	0.00	0.00	0.00	0.00
Other long-term assets	9.83	5.17	2.31	0.81	0.29	0.10	0.06	0.00
Deferred tax assets	1.64	1.04	1.37	0.00	0.00	0.00	0.00	0.00
<b>Total assets</b>	<b>385.57</b>	<b>366.72</b>	<b>536.87</b>	<b>538.64</b>	<b>387.66</b>	<b>422.25</b>	<b>458.78</b>	<b>479.01</b>
<b>Current liabilities</b>	<b>113.17</b>	<b>89.82</b>	<b>205.72</b>	<b>192.19</b>	<b>80.44</b>	<b>88.27</b>	<b>95.98</b>	<b>103.60</b>
Trade payables	66.54	50.32	143.78	105.07	40.63	45.53	50.28	54.93
Other liabilities	17.54	19.89	32.09	30.98	13.81	15.74	17.70	19.68
Short-term financial debt	15.65	7.70	13.85	41.34	14.00	14.50	15.00	15.50
Provisions	0.77	0.31	0.00	0.00	0.00	0.00	0.00	0.00
Other financial debt	12.68	11.60	16.00	14.80	12.00	12.50	13.00	13.50
<b>Long-term liabilities</b>	<b>30.63</b>	<b>20.86</b>	<b>55.87</b>	<b>63.36</b>	<b>71.85</b>	<b>81.29</b>	<b>88.75</b>	<b>93.23</b>
Long-term financial debt	3.49	2.62	1.89	2.10	34.00	35.50	37.00	38.50
Other financial liabilities	24.16	15.75	22.55	28.96	24.00	30.00	34.00	35.00
Other liabilities	2.90	2.49	31.44	31.07	13.85	15.79	17.75	19.73
Provisions	0.09	0.01	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax liabilities	0.00	0.00	0.00	1.22	0.00	0.00	0.00	0.00
<b>Shareholders equity</b>	<b>235.70</b>	<b>247.82</b>	<b>267.46</b>	<b>275.77</b>	<b>228.00</b>	<b>245.26</b>	<b>266.54</b>	<b>274.56</b>
Minority interests	6.07	8.22	7.81	7.32	7.37	7.43	7.51	7.61
<b>Total equity and debt</b>	<b>385.57</b>	<b>366.72</b>	<b>536.87</b>	<b>538.64</b>	<b>387.66</b>	<b>422.25</b>	<b>458.78</b>	<b>479.01</b>



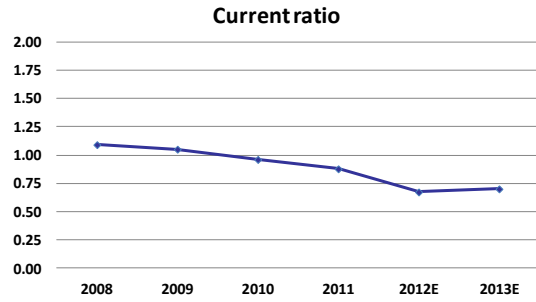
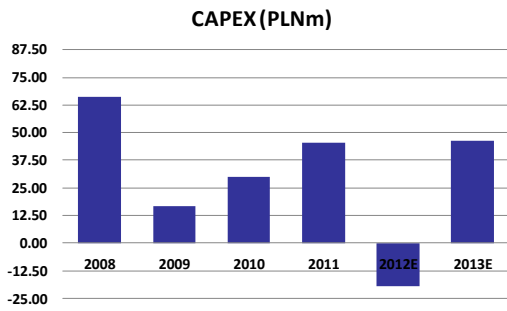
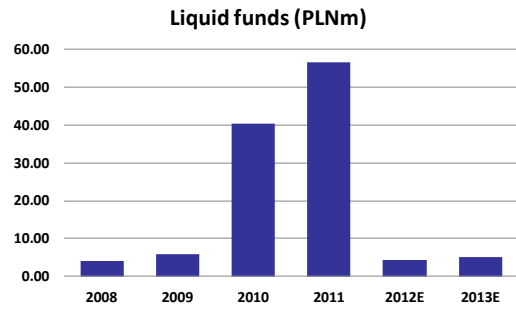
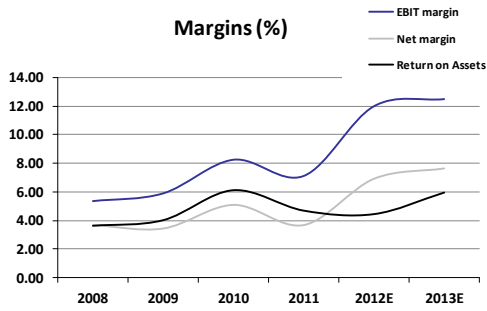
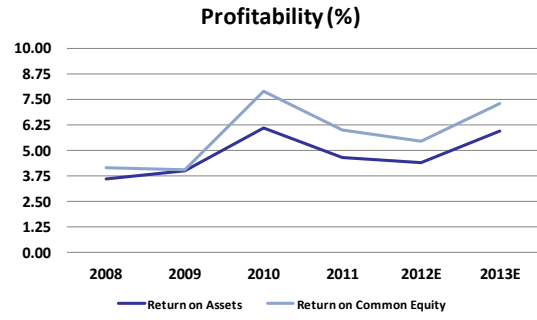
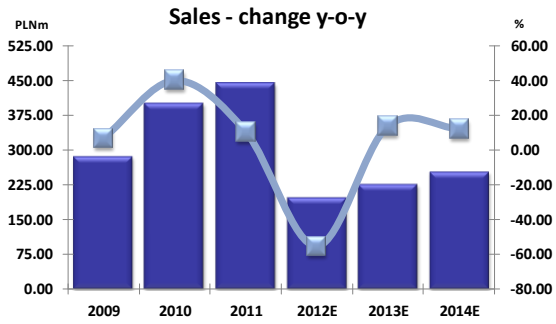
## 9 Cash flow statement

in PLNm	2008	2009	2010	2011	2012E	2013E	2014E	2015E
<b>Net income</b>	<b>9.83</b>	<b>9.83</b>	<b>20.44</b>	<b>16.32</b>	<b>13.70</b>	<b>17.26</b>	<b>21.28</b>	<b>26.75</b>
Depreciation	16.25	19.28	22.68	25.89	17.84	19.77	21.58	23.30
Change of working capital	-8.99	21.43	26.61	12.03	-34.47	2.19	1.87	1.73
Others	-0.78	-6.76	11.46	2.24	-1.22	0.00	0.00	0.00
<b>Net operating cash flow</b>	<b>16.31</b>	<b>43.77</b>	<b>81.19</b>	<b>56.49</b>	<b>-4.16</b>	<b>39.22</b>	<b>44.73</b>	<b>51.78</b>
<b>CAPEX</b>	<b>-66.38</b>	<b>-16.59</b>	<b>-29.81</b>	<b>-45.33</b>	<b>19.56</b>	<b>-46.18</b>	<b>-46.45</b>	<b>-38.85</b>
<b>Free cash flow</b>	<b>-50.07</b>	<b>27.18</b>	<b>51.38</b>	<b>11.16</b>	<b>15.40</b>	<b>-6.96</b>	<b>-1.72</b>	<b>12.93</b>
Cash flow from financing	-15.70	-25.20	-17.07	5.14	-67.62	7.66	5.67	-16.04
Change of cash	-65.77	1.98	34.31	16.28	-52.22	0.70	3.95	-3.12
<b>Cash, beginning of the period</b>	<b>69.76</b>	<b>3.98</b>	<b>5.96</b>	<b>40.27</b>	<b>56.57</b>	<b>4.35</b>	<b>5.05</b>	<b>9.01</b>
<b>Cash, end of the period</b>	<b>3.99</b>	<b>5.96</b>	<b>40.27</b>	<b>56.57</b>	<b>4.35</b>	<b>5.05</b>	<b>9.01</b>	<b>5.89</b>
Free cash flow per share	-1.38	0.75	1.41	0.31	0.42	-0.19	-0.05	0.36

## 10 Financial ratios

Fiscal year	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Gross margin	38.71%	37.40%	32.49%	30.81%	39.00%	39.05%	39.10%	39.15%
Gross margin (telco services without OST 112)	57.06%	55.94%	59.74%	60.00%	54.38%	47.66%	46.58%	45.76%
EBITDA margin	11.43%	12.62%	13.90%	12.93%	21.00%	21.25%	21.60%	22.45%
EBIT margin	5.35%	5.89%	8.25%	7.11%	12.00%	12.50%	13.10%	14.20%
EBIT margin (telco services without OST 112)	13.35%	15.46%	15.23%	15.02%	16.73%	15.25%	15.61%	16.60%
Net margin	3.68%	3.43%	5.09%	3.67%	6.91%	7.64%	8.38%	9.47%
Return on equity (ROE)	4.17%	4.07%	7.93%	6.01%	5.44%	7.29%	8.31%	9.89%
Return on assets (ROA)	3.60%	4.00%	6.12%	4.67%	4.43%	5.95%	6.40%	7.19%
Return on capital employed (ROCE)	4.58%	5.16%	8.26%	6.53%	6.27%	6.85%	7.43%	8.65%
Net debt (PLNm)	51.99	31.71	14.02	30.64	79.65	87.45	89.99	96.61
Net gearing	22.06%	12.79%	5.24%	11.11%	34.93%	35.65%	33.76%	35.19%
Equity ratio	61.13%	67.58%	49.82%	51.20%	58.81%	58.08%	58.10%	57.32%
Current ratio	1.09	1.05	0.96	0.88	0.67	0.70	0.76	0.74
Quick ratio	0.86	0.77	0.77	0.75	0.58	0.60	0.66	0.64
Net interest cover	3.52	3.24	4.60	3.59	3.50	4.12	4.82	5.77
Net debt/EBITDA	1.70	0.88	0.25	0.53	1.91	1.82	1.64	1.52
Tangible BVPS	6.09	6.31	6.85	7.08	6.27	6.74	7.33	7.55
Capex/Sales	n.a	-11.46%	-22.65%	-13.45%	9.87%	-20.44%	-18.29%	-13.76%
Working capital/Sales	15.89%	7.30%	-11.82%	-12.16%	-9.89%	-9.65%	-9.32%	-8.99%
EV/Sales	1.40	1.30	0.93	0.84	1.89	1.65	1.47	1.32
EV/EBITDA	12.23	10.33	6.69	6.50	8.98	7.78	6.81	5.89
EV/EBIT	26.11	22.13	11.27	11.82	15.71	13.23	11.23	9.32
P/Tangible BVPS	1.31	1.27	1.17	1.13	1.27	1.18	1.09	1.06
P/E	29.26	29.54	14.21	17.79	21.19	16.82	13.65	10.86
P/FCF	-5.80	10.68	5.65	26.03	18.85	-41.72	-169.12	22.46

Source: Company information, Dr. Kalliwoda Research GmbH



Source: Company information, Dr. Kalliwoda Research GmbH

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## DISCLAIMER

<b>KAUFEN:</b>	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung von mindestens 10 % aufweisen	<b>BUY</b>
<b>AKKUMULIEREN:</b>	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen 5% und 10% aufweisen	<b>ACCUMULATE</b>
<b>HALTEN:</b>	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen 5% und - 5% aufweisen	<b>HOLD</b>
<b>REDUZIEREN:</b>	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen - 5% und - 10% aufweisen	<b>REDUCE</b>
<b>VERKAUFEN:</b>	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung von mindestens - 10 % aufweisen	<b>SELL</b>

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