

21 August 2006

Update


**IT**  
Poland

<b>Current price</b>	<b>PLN 39.4</b>
<b>Target price</b>	<b>PLN 37.5</b>
Market cap	PLN 988m
Free float	PLN 650m
Avg daily trading volume (3M)	PLN 2.48m

**Shareholder Structure**

Prokom Software	34.26%
ING TFI	5.08%
Others	60.66%

**Sector Description**

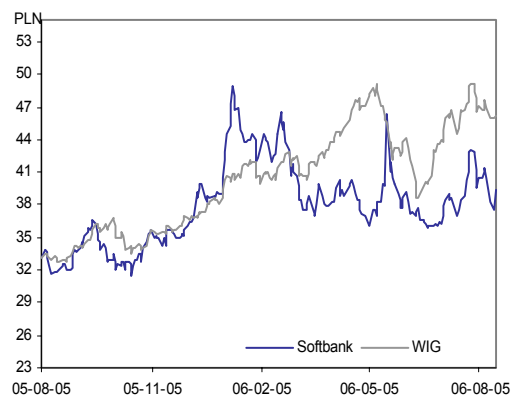
According to IDC, Poland is one of the three countries in the region (with Russia and Turkey) where information technology spending will increase at the fastest rate within the next few years. Saturation with IT solutions in Poland is much smaller than in other EU countries. The Polish market is characterized by a large share of domestic companies and a relatively weak position of foreign players (other than in Western Europe).

**Company Profile**

Softbank is one of Poland's largest software developers tailoring to the needs of banks and the state administration. The company's key account is PKO BP, to which Softbank has provided the transaction systems currently in use. It also developed the central vehicle and driver registration system (CEPiK) for the Ministry of Interior and Administration. Softbank holds a 21.92% stake in Asseco Poland.

**Important Dates**

15.09.2006 - H1 2006 report  
06.11.2006 - Q3 report

**SFT vs. WIG**

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# Softbank

SOBK.WA; SFT PW

# Hold

(Maintained)

## Merger In the Works

**The market was not thrilled with Softbank's second quarter performance. Though revenues and net profit came in line with estimates, EBIT missed the consensus by a significant 16%. We are lowering our full-year financial projections for the company based on its H1 earnings and the anticipation that the second half of the year will be additionally burdened by merger costs. Softbank's merger with Asseco Poland will undoubtedly generate cost savings, but a revenue synergy is much less obvious. After an adjustment for the merger impact, we estimated the per-share price of Softbank's stock at PLN 37.5 per share, which implies a 4.5% downside from the current market price. Accordingly, we are reiterating our HOLD rating for Softbank.**

**Q2 was no stunner**

Softbank met our earnings expectations in terms of revenues (up 5%) and net profit (up 4%), but fell far short of our estimates in EBIT (down 22%). Gladstone Consulting was ahead of others with a PLN 4.8m in H1 net profit, and Incenti also did well with PLN 0.8m in H1 profit. S2 Koma, in turn, is still falling behind with a PLN 2.7m net loss in H1.

**H2 outlook**

We expect Softbank to continue to generate steady revenues from the financial sector (mainly PKO BP). The situation in the public sector, however, does not look as rosy. Despite many promises, government contract awards, aside from the first competitive bid for PESEL2, are still delayed. The only contracts that are certain to be awarded in the near future are for supplying school computers, where S2 Koma has a chance to garner some business. Softbank's H2'06 earnings will be impacted by the following one-offs: finalization of the sale of Mediabank (probably in Q3) which will boost the finance income by ca. PLN 5m; PLN 3m in charges from settlement of the Asseco Poland stock options; PLN 7m in costs incurred on Softbank's merger with Asseco Poland.

**Merger around the corner**

The Softbank / Asseco merger processes are going as scheduled. An independent appraisal of the in-kind contributions will be carried out in September, potentially leading to modification of the merger terms (exchange ratio value and the size of the stock issue, especially the "V3" series). In November, shareholders will take a vote on the merger. We expect them to give their clearance, and we therefore took it as a given in our financial projections and valuation. We estimate the cost savings facilitated by the merger at PLN 15m annually, but we do not see any synergy to be achieved in revenues.

(PLN m)	2004	2005	2006F	2007F	2008F
Revenues	482.0	539.2	617.4	1290.4	1371.5
EBITDA	48.2	59.6	69.0	181.9	197.5
EBITDA margin	10.0%	11.0%	11.2%	14.1%	14.4%
EBIT	37.4	49.5	54.9	150.4	164.9
Net profit	21.0	42.1	51.0	109.0	116.7
P/E	47.3	23.6	19.4	16.8	15.7
P/CE	31.2	19.0	15.2	13.0	12.2
EV/EBIT	7.2	3.5	3.1	12.7	11.5

\* - 2007F and 2008F are pro-forma estimates for the merged Softbank and Asseco Poland; trading multiples were calculated based on proportional consolidation of subsidiaries



## Q2'06 earnings

### Uneventful quarter

Softbank's consolidated Q2 revenues amounted to PLN 113.9m (+45% YoY), EBIT was PLN 8m (-56% YoY), and net profit came in at PLN 7.7m (-52% YoY). The deterioration in EBIT and net profit from last year was due to a one-time tax refund in 2005 which added PLN 11.3m to the company's profits already on operating level. Considered without that one-off, the Q2'06 profit figures were 17% higher YoY on operating level and 60% higher YoY on net level than last year's figures. The surge in consolidated revenues was an effect of consolidation of the subsidiaries Gladstone, Koma and Incenti (which were not consolidated in Q2'05). Softbank's standalone revenues increased from PLN 64.4m in Q2'05 to PLN 69.2m in Q2'06, but the cumulative H1 revenues fell from PLN 143.7m to PLN 132.6m.

### Softbank's consolidated earnings figures

(PLN m)	2Q2006	2Q2005	change	1H2006	1H2005	change	2006F	2005	change
Revenues	113.9	78.5	45%	216.6	174.1	24%	617.4	539.2	15%
EBITDA	11.3	20.1	-44%	24.5	27.5	-11%	69.0	59.6	28%
margin (%)	9.9%	25.6%		11.3%	15.8%		11.2%	11.0%	
EBIT	8.0	18.1	-56%	17.7	23.3	-24%	54.9	49.5	25%
Gross profit	9.9	17.0	-42%	20.5	21.6	-5%	54.9	50.6	23%
Net profit	7.7	16.1	-52%	15.2	19.1	-20%	51.0	42.1	35%

Source: Softbank, all figures are IFRS, F – forecast by BRE Bank Securities

### Softbank's adjusted earnings figures

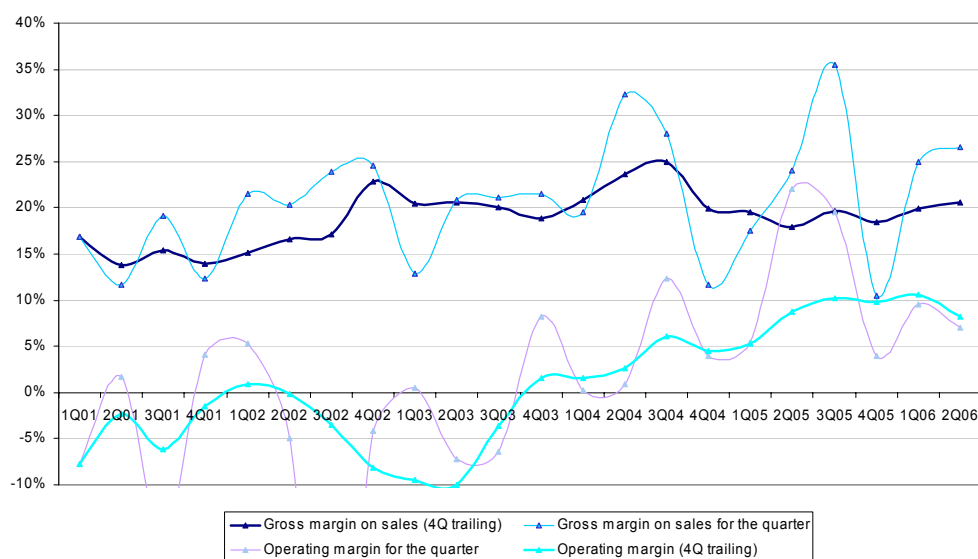
(PLN m)	2Q2006F	2Q2005*	change	1H2006	1H2005*	change
Revenues	113.9	78.5	45%	216.6	174.1	24%
EBITDA	11.3	8.8	28%	24.5	16.2	51%
margin (%)	9.9%	11.2%		11.3%	9.3%	
EBIT	8.0	6.8	17%	17.7	12.0	48%
Gross profit	9.9	5.7	73%	20.5	10.3	98%
Net profit	7.7	4.8	60%	15.2	7.8	96%

Source: Softbank, BRE Bank Securities, \* - adjusted for tax refund recognized in Q2'05 (PLN 11.3m)

### Steady margins

We welcome Softbank's steady gross margin which stays flat at 20%. The decline in the Q2 trailing margin is a result of the high year base in 2005 (PLN 11.3m tax refund in Q2 2005).

### Gross profit margin and operating margin (trailing and per-quarter basis)



Source: Softbank, BRE Bank Securities

**Subsidiary earnings**

Of Softbank's subsidiaries, Gladstone Consulting (PLN 4.8m net profit in H1'06) and Incenti (PLN 0.8m) were the best performers. S2 Koma, in turn, is still showing very weak results (a PLN 2.7m loss in H1). The divestment of the subsidiary Mediabank is still not final, with clearance from UOKiK<sup>1</sup> and KRRiT<sup>2</sup> still pending (expected in August/September), and Softbank still consolidates that company's earnings, though they are now recognized under discontinued operations. Mediabank's loss after H1 stood at PLN 1.1m (vs. PLN 1.2m in H1'05).

<b>S2 Koma*</b>	<b>1H06</b>	<b>1H05</b>	<b>change</b>
Revenues	56.2	47.5	18.3%
EBIT	-1.9	-2.9	n/a
Net profit	-2.7	-2.3	n/a
Net margin	-4.8%	-4.8%	

<b>Incenti</b>	<b>1H06</b>	<b>1H05</b>	<b>change</b>
Revenues	14.1	9.1	54.9%
EBIT	0.5	-1.8	n/a
Net profit	0.8	0.2	300.0%
Net margin	5.7%	2.2%	

<b>Gladstone</b>	<b>1H06</b>	<b>1H05</b>	<b>change</b>
Revenues	11.4	10.8	5.6%
EBIT	5.6	4.8	16.7%
Net profit	4.8	4.3	11.6%
Net margin	42.1%	39.8%	

Source: Softbank, \* - H1 2005 figures are pro-forma Koma + Koma Nord + Softbank Serwis

**Below expectations in operating profit**

If we compare our estimates with the actual earnings figures, revenues came in 5% higher than expected, EBIT fell 22% short of our expectations, and net profit was close to our estimate (+4%). The considerable difference in forecasted and actual consolidated EBIT was due to our higher expectations as to Softbank SA's standalone earnings.

**Actuals vs. our forecast**

<b>(PLN m)</b>	<b>2Q2006</b>	<b>2Q2006F</b>	<b>Actual vs. Our Forecast</b>	<b>Consensus</b>	<b>Actual vs. Consensus</b>
Revenues	113.9	108.2	5%	105.7	8%
EBITDA	11.3	13.7	-18%	14.3	-21%
margin (%)	9.9%	12.7%		13.5%	
EBIT	8.0	10.2	-22%	9.5	-16%
Gross profit	9.9	9.8	1%		
Net profit	7.7	7.5	4%	8.2	-6%

Source: Softbank, F – forecast by BRE Bank Securities

**2006 Outlook****Market's largest contract backlog**

Softbank's two largest contracts (for "ZSI" and "CEPiK" systems) earned the company PLN 59m in H1, which accounted for 22% of the total consolidated revenues. The combined share of those two deals in the 2006-2011 contract backlog is PLN 683m (PLN 568m for ZSI and PLN 115m for CEPiK), with the total backlog amounting to PLN 1 billion.

**Merger costs will emerge in H2**

Softbank's H2'06 earnings will be impacted by the following one-offs: finalization of the sale of Mediabank (probably in Q3) which will boost the finance income by ca. PLN 5m; losses on settlement of the Asseco Poland stock option (vs. PLN 1.1m added to finance income in H1);

<sup>1</sup> Office for Competition and Consumer Protection

<sup>2</sup> National Broadcasting Council



after the two companies merge, the option cannot be exercised and will be settled through the income statement (the charge will be ca. PLN 3m). H2 earnings will also be affected by the costs of Softbank's merger with Asseco Poland which we estimate at PLN 7m.

## Merger with Asseco Poland

### Structure of the transaction

#### Merger terms

On May 18th, 2006, Asseco Poland SA and Softbank S.A. signed a merger agreement, providing that Asseco's entire assets will be transferred to Softbank in exchange for the latter's shares vested in Asseco's shareholders. The takeover will be carried out in stages. The merger schedule provides that the process will be completed, and the new shares will begin to be traded, in the first quarter of 2007. In September, an asset appraisal report by a certified auditor will be released, based on which the two companies will determine the final details of the merger (possibly change the exchange ratio, etc.). The Shareholder Meeting to approve the merger will be held in November. Below, we summarize the main points communicated by the two companies during their merger announcement in May. In our Research, we used the information exactly as it was provided to us on that occasion, with the reservation that it has not been officially approved yet, and that the merger terms may still change, though, in our opinion, any such changes will be minor.

#### Stage One

In the first stage, Softbank will issue 15,725,524 "V1" shares to the other shareholders of Asseco Poland (Softbank currently holds 843.84 thousand shares of Asseco Poland's stock representing a 21.9% interest in its share capital). In exchange, Softbank will acquire the outstanding 78.1% stake (ca. 3 million shares) in Asseco Poland (the exchange ratio is 5.2311 Softbank shares for one Asseco share).

#### Stage Two

The second stage will take place simultaneously with the first, and will consist in issuance of 3,186,462 "V2" shares addressed to Prokom Software. In exchange for those shares, Prokom Software will contribute its 100% stake in the subsidiary PVT a.s., as well as certain maintenance and network assets carved out from its organization (Network Service and Cabling Division) together with the related business.

PVT's revenues are estimated at PLN 154m, with a net profit of PLN 6.2m. The network team, in turn, will generate an estimated PLN 70m in revenues and PLN 4m in net profit. Combined, this makes for PLN 225m in revenues and PLN 10.2m in net profit.

#### Stage Three

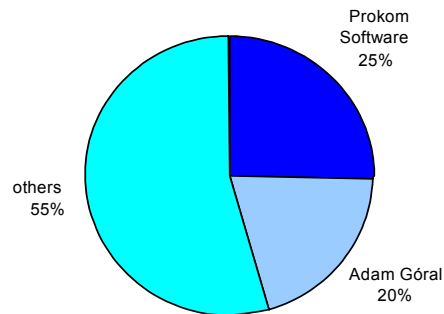
The third stage will be an issue of 2.32 million V3 shares to be taken up by the management staff as part of an incentive plan. Most of the V3 shares will be vested in Adam Góral, the purpose being for him to keep his equity interest in the merged entity at ca. 20%. During a Q2 earnings press conference, Asseco Poland's CEO Mr. Góral reported that the V3 stock issue will most probably be smaller than indicated initially, however, we relied on the original assumptions in our valuation model due to the lack of specifics.

#### Post Merger

Assuming that the three stock issues are approved as described above, Softbank's share capital will increase from 25.174 million to 46.407 million shares. Prokom Software will remain the majority shareholder, with a reduced equity interest of 25.45% (currently 34.2%), but with the same rights to appoint the majority of Supervisory Board members in the merged company. In turn, Adam Góral, who currently holds a 37.8% stake in Asseco Poland, will have reduced his equity interest in the new company to ca. 20%. The merged company will operate as "Asseco Poland SA", with Adam Góral as CEO (Mr. Góral currently heads the "old" Asseco Poland).

The new company will be the largest Polish player on the international stage, providing internally developed software and services to the financial sector, with estimated FY2007 revenues at close to PLN 1.3 billion and a net profit of over PLN 100m.

## Post-merger shareholder structure



Source: Softbank, Asseco Poland, BRE Bank Securities

### Costs

#### Softbank will shoulder most of the costs

In our opinion, the costs of the merger will be evident, above all, in Softbank's financial statements. They will include severance pays for staff laid off as part of an effort to reduce the number of administrative units. The merger costs, estimated at PLN 7 million, will be reflected in the H2 2006 earnings. We assumed in our projections that the whole amount of those charges will be recognized in this year's financial statements.

### Benefits

#### Savings

We find that cost synergy will be the only readily quantifiable effect of the merger. The synergy benefits will include:

- savings from scaled-down back-office operations which will be moved entirely to the new HQ in Rzeszów. Cost cuts will be achieved, first, by downsizing the administration personnel (and slimming down Softbank's administration units) and moving administration from Warsaw to Rzeszów (lower rental cost and salaries).
- administrative expenses: Softbank's current CEO Krzysztof Korba will leave next year, with one Management Board instead of two serving after the merger (headed by Adam Góral). The new Management Board will be composed of eight members (the combined MBs of Softbank and Asseco Poland have 10 members).
- sales and marketing – creation of one sales and marketing department serving the merged company
- streamlining of production processes.

We estimate the resulting savings at PLN 15 million a year.

#### Revenue synergy

It is harder to pinpoint the immediate synergy benefits that the merger could bring on the revenue front. There are several reasons behind that uncertainty. First, even though Softbank and Asseco Poland operate in the same market segments (serving financial institutions and banks), their respective business models are very different: Softbank is mainly an integrator of systems based on third-party software, as illustrated by its largest project currently underway, namely a system rollout at PKO BP based on Alnova solutions. Softbank's proprietary systems have a small share in its revenues. In turn, Asseco Poland's business is rooted in proprietary products.



We see three main areas where sales synergy is possible:

- cooperative banks – Softbank is active in that market via its 51%-owned subsidiary Novum. Asseco Poland, in turn, is the leader of that market. On risk we see here are certain ownership issues which need resolving with respect to Novum (Novum's bylaws do not entitle its majority shareholder, i.e. Softbank, to appoint the majority of Supervisory Board members, which makes Softbank's powers as shareholder lesser than the equity ownership would suggest).
- universal banks – Asseco Poland provides proprietary software to small and mid-sized banks. Softbank's presence in that market segment is basically limited to the partnership with PKO BP, where several of Softbank's systems are already in operation (incl. "Zorba", "Cezar"). Though the merger, Asseco Poland will also gain access to PKO BP, though we do not see which of its products the bank would be interested in (definitely not the main system, as PKO BP is currently in the process of implementing one, and the value of other implementations would undoubtedly be lower).
- maintenance – synergy here could be achieved through Softbank's subsidiary S2Koma (product of a merger between Softbank Serwis and Koma), and Prokom Software's maintenance and network team (Asseco Poland's organization does not include an independent maintenance function).

As for other markets (e.g. consulting, outsourcing, ERP systems, public administration), the businesses of the two companies do not overlap. For the time being, the companies have not presented any quantifiable assessment of the possible revenue synergy, therefore, we assumed zero benefits in our projections.

### **Stronger international presence**

Another benefit of the merger with Asseco Poland will be the merged company's bigger international presence. Most notably, its positioning in the Czech Republic will be reinforced through the incorporation of the Prokom Software's Czech subsidiary PVT (which Mr. Góral had wanted to assimilate into the Asseco group for some time). PVT will be the Asseco group's cornerstone for further expansion in the Czech Republic (following a stock issue by Asseco Slovakia which will be used to finance further acquisitions). Asseco has targeted three Czech companies (an ERP systems developer, a provider of network inventory solutions based on GIS systems, and a company serving the banking sector).

### **CEO: the Ace up the new Asseco's sleeve**

The "new" Asseco Poland will gain a valuable asset in Mr. Adam Góral who is its designated CEO. As CEO of the "old" Asseco Poland, he has built a corporate family in keeping with the strategy of creating a regional information technology company. He was also right in his acquisition choices, all of which proved to be a success. International acquisitions will speed up after the merger. First, the new Asseco will use PVT as a vehicle to capture a greater share of the Czech market (the company is eyeing three acquisition targets there), and, second, its strength will be bolstered by Softbank's ability to generate large cash flows in the future. All this will probably accelerate the plans to expand into the Balkans between 2007 and 2008.



## Valuation

We changed our valuation methodology to account for Softbank's upcoming merger with Asseco Poland. To measure the value of the new company which will be created through the merger, we used sum-of-the-parts (SOTP) approach.

1. We calculated the value of the Softbank group using the standard DCF approach.
2. Prokom Software's contribution in kind (PVT and the maintenance and network department) was measured based on the 2006P/E multiples. We assumed a P/E ratio of 15 for both contributed entities to reflect their growth potential (stemming from restructuring and a large contract backlog in case of PVT, and strong profitability and the expected synergy benefits achieved after the merger with S2Koma in case of the network department).
3. We capitalize value of the merger-related cost savings which we estimate at PLN 15 million annually.
4. We estimated the value of Asseco Poland by comparing its P/E and EV/EBITDA multiples for the years 2006 to 2008 with those of Comarch (based on our target price of PLN 146 per share), as both companies use similar business models (software house) and have been equally successful in expanding into foreign markets.

We took the new target number of shares that will be outstanding after the three new stock issues (V1, V2 and V3), which is 46.407 million, to compute the per-share price of the merged company.

In the second stage of our calculations (a comparison with Polish and foreign peers), we used our pro-forma estimates for the merged company for 2006 to 2008 (as if Softbank and Asseco Poland had been merged in 2006; the merged company is referred to as "Softbank" in the tables below). The final price is the arithmetic mean of the two methods.

### Valuation Summary

Valuation method	Weight	Valuation (PLNm)	Value Per Share (PLN)	9M Target Price (PLN)
SOTP valuation	50%	1 748	37.7	
Comparative Valuation	50%	1 471	31.7	
<b>Valuation Average</b>		<b>1 610</b>	<b>34.7</b>	<b>37.5</b>

Source: BRE Bank Securities

Based on our calculations, we estimated the current fair value of one Softbank share at PLN 34.7, which implies a target price in nine months' time of PLN 37.5. Set against today's market price of PLN 39.4, we see a 4.5% downside for the stock. In light of all those considerations, why are reiterating our HOLD rating for Softbank.

Note that we did not take into account any other acquisitions in the CEE region planned for the future. But if such acquisitions are made at multiples close to those recorded for the previous successful takeovers, the value of the merged company may increase.



## DCF Valuation

## DCF Valuation

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	>2015
<b>Revenues</b>	<b>617</b>	<b>696</b>	<b>736</b>	<b>780</b>	<b>767</b>	<b>724</b>	<b>753</b>	<b>783</b>	<b>814</b>	<b>847</b>	
change	14.5%	12.7%	5.7%	6.0%	-1.7%	-5.6%	4.0%	4.0%	4.0%	4.0%	
<b>EBITDA</b>	<b>64.0</b>	<b>81.1</b>	<b>90.8</b>	<b>96.3</b>	<b>99.1</b>	<b>88.2</b>	<b>91.9</b>	<b>94.7</b>	<b>97.7</b>	<b>100.9</b>	
EBITDA margin	10.4%	11.6%	12.3%	12.4%	12.9%	12.2%	12.2%	12.1%	12.0%	11.9%	
Amortization and depreciation	14.1	14.5	14.8	15.2	15.6	16.0	16.4	16.8	17.2	17.6	
<b>EBIT</b>	<b>54.9</b>	<b>66.6</b>	<b>76.0</b>	<b>81.1</b>	<b>83.5</b>	<b>72.2</b>	<b>75.5</b>	<b>77.9</b>	<b>80.5</b>	<b>83.3</b>	
EBIT margin	8.9%	9.6%	10.3%	10.4%	10.9%	10.0%	10.0%	10.0%	9.9%	9.8%	
Tax rate on EBIT	0.0	0.0	14.4	15.4	15.9	13.7	14.3	14.8	15.3	15.8	
<b>NOPLAT</b>	<b>54.9</b>	<b>66.6</b>	<b>61.6</b>	<b>65.7</b>	<b>67.6</b>	<b>58.5</b>	<b>61.2</b>	<b>63.1</b>	<b>65.2</b>	<b>67.4</b>	
CAPEX	-14.5	-14.9	-15.3	-15.6	-16.0	-16.4	-16.8	-17.3	-17.7	-17.6	
Working capital	-9.3	-5.8	-1.7	-2.7	2.6	-2.5	-2.6	-2.7	-2.8	-2.9	
<b>FCF</b>	<b>45.1</b>	<b>60.4</b>	<b>59.4</b>	<b>62.6</b>	<b>69.8</b>	<b>55.5</b>	<b>58.1</b>	<b>59.9</b>	<b>61.9</b>	<b>64.5</b>	<b>67.1</b>
WACC	11.1%	11.1%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
discount factor	1.06	1.18	1.31	1.45	1.61	1.79	1.99	2.20	2.45	2.71	3.01
PV FCF	42.5	51.2	45.3	43.0	43.3	31.0	29.2	27.2	25.3	23.8	
<b>WACC</b>	<b>11.1%</b>	<b>11.1%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>
Cost of debt	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
Risk-free rate	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	0.0%	0.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Cost of equity	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
beta	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
FCF growth after the forecast horizon	4.0%										
Terminal value	962.4										
Discounted terminal value (PV TV)	319.6										
Discounted FCF in the forecast horizon	361.8										
Equity value (EV)	681.4										
Net debt	-39.3										
Other non-operating assets (Asseco)	192.8										
Equity value (EV)	913.5										
Number of shares (millions)	25.2										
<b>Equity value per share (PLN)</b>	<b>36.3</b>										
Cost of equity (9M)	8.2%										
<b>Target Price</b>	<b>39.3</b>										
EV/EBITDA('06) for the target price	14.8										
P/E('06) for the target price	19.4										
TV to EV	47%										

Source: BRE Bank Securities



## Comparative Valuation

We compared Softbank (as if it had already merged with Asseco Poland; the 2006 figures in the table below are pro-forma estimates for the merged company) with its Polish and foreign peers based on their EV/EBITDA and P/E multiples projected for the years 2006, 2007 and 2008. The final price is the weighted average of the outcomes of Softbank's comparison with Polish (a 60% weight) and foreign (a 40% weight) peers.

A comparison with Polish listed companies produced a per-share price of Softbank's stock of PLN 32.0, and a comparison with foreign peers resulted in an average PLN 29.0 per share.

### Polish IT companies used in the comparison

	Price	EV/EBITDA			P/E		
		2006F	2007F	2008F	2006F	2007F	2008F
COMARCH *	144.5	18.4	13.7	10.9	26.3	19.7	15.8
COMPUTERLAND **	97.0	12.1	7.2	6.4	33.3	13.1	11.2
PROKOM SOFTWARE ***	127.5	9.0	7.2	6.0	17.3	13.2	12.0
ABG STER-PROJEKT ****	7.9	14.7	9.2	6.7	20.1	15.1	11.5
Maximum		18.4	13.7	10.9	33.3	19.7	15.8
Minimum		9.0	7.2	6.0	17.3	13.1	11.2
<b>Median</b>		<b>13.4</b>	<b>8.2</b>	<b>6.5</b>	<b>23.2</b>	<b>14.2</b>	<b>11.7</b>
<b>Average</b>		<b>13.6</b>	<b>9.3</b>	<b>7.5</b>	<b>24.2</b>	<b>15.3</b>	<b>12.6</b>
<b>SOFTBANK</b>	39.4	13.8	10.5	9.7	24.1	16.8	15.7
(premium / discount)		3%	28%	48%	4%	18%	33%
<b>Implied price</b>							
Multiple weight			50.0%			50.0%	
Year weight		20.0%	40.0%	40.0%	20.0%	40.0%	40.0%
Justified premium / discount	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

### Equity value per share (PLN)

**32.0**

Source: BRE Bank Securities S.A., \* ComArch's figures are adjusted for a deferred tax asset, gains from sale of Interia shares, and profits of subsidiaries accounted for by the equity method (Interia, Net-Brokers) - \*\* multiples were computed based on pro-forma estimates for the merged Computerland and Emax, \*\*\* - Prokom Software's multiples were computed based on subsidiary earnings consolidated on a pro-rata basis, \*\*\*\* - ABG Ster-Projekt's 2005 figures are adjusted for reversals of impairment losses on conversion of debt into shares of KKI-BCI (PLN 3.1m), and the 2006 figures are adjusted for gains from a real-estate sale (PLN 6m)

**European IT companies used in the comparison**

	Price	EV/EBITDA			P/E		
		2005	2006F	2007F	2005F	2006F	2007F
LogicaCMG	1.7	8.5	7.5	7.1	17.9	14.1	12.9
CapGemini	41.9	7.8	6.6	5.9	24.2	16.7	15.9
TietoEnator	20.6	8.1	7.4	6.0	15.2	12.6	9.6
IDS Scheer	17.4	11.3	9.5	8.4	22.6	18.6	16.8
Atos Origin	37.4	5.3	4.9	4.5	11.3	9.5	8.5
Getronics	5.4	4.5	4.0	3.6	10.8	7.5	15.7
EDB	49.5	6.5	5.9	5.6	15.1	11.7	11.3
Indra	15.9	12.6	11.1	10.1	19.9	17.4	15.8
Autonomy Corporation	4.1	12.7	9.6	6.6	22.7	15.9	10.8
IsoftGroup	48.0	4.1	3.4	3.3	9.2	7.7	6.1
Kudelski	30.0	8.0	8.4	6.7	17.5	20.6	13.8
Misys	243.3	11.3	10.9	9.9	11.4	16.8	15.2
Sage Group	230.5	11.3	10.1	9.4	18.4	16.4	15.0
SAP	147.8	14.9	12.6	10.9	25.5	21.7	18.6
Telelogic	12.5	8.8	7.1	6.1	17.9	13.2	10.8
Maximum		15.0	12.7	11.0	25.6	21.8	18.8
Minimum		4.1	3.4	3.3	9.3	7.7	6.2
<b>Median</b>		<b>8.5</b>	<b>7.5</b>	<b>6.6</b>	<b>17.9</b>	<b>15.9</b>	<b>13.8</b>
<b>Average</b>		<b>9.1</b>	<b>8.0</b>	<b>7.0</b>	<b>17.4</b>	<b>14.8</b>	<b>13.2</b>
<b>SOFTBANK</b>	39.4	13.8	10.5	9.7	24.1	16.8	15.7
(premium / discount)		62%	41%	46%	35%	5%	14%
<b>Implied price</b>							
Multiple weight			50.0%			50.0%	
Year weight		20.0%	40.0%	40.0%	20.0%	40.0%	40.0%
Justified premium / discount	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Value per share (PLN)</b>					<b>31.2</b>		

Source: BRE Bank Securities, Bloomberg/IBES, EV/EBITDA based on FY2005 net debt

**Comparative Valuation Summary**

Valuation method	Weight	Valuation (PLN m)	Price Per Share (PLN)
Valuation by comparison to Polish companies	60%	1 484.8	32.0
Valuation by comparison to foreign companies	40%	1 450.1	31.2
<b>Valuation average</b>		<b>1 470.9</b>	<b>31.7</b>

Source: BRE Bank Securities



## Financial Statements (IFRS)

### Softbank's Consolidated Income Statement

(PLN m)	2004	2005	2006F	2007F	2008F
<b>Revenues</b>	<b>482.0</b>	<b>539.2</b>	<b>617.4</b>	<b>695.9</b>	<b>735.8</b>
<i>change</i>		11.9%	14.5%	12.7%	5.7%
Cost of sales	-370.1	-441.4	-497.2	-562.1	-589.8
Gross profit	111.9	97.8	120.2	133.9	146.0
<i>gross margin</i>	23.2%	18.1%	19.5%	19.2%	19.8%
Selling costs	13.9	15.7	18.2	20.8	22.3
SGA	54.4	42.1	43.0	44.1	45.2
Profit on sales	43.7	40.0	59.0	68.9	78.5
Other net operating profit	-6.2	9.5	-11.1	-2.4	-2.5
<b>EBIT</b>	<b>37.4</b>	<b>49.5</b>	<b>54.9</b>	<b>66.6</b>	<b>76.0</b>
<i>change</i>		32.1%	11.0%	21.4%	14.1%
<i>EBIT margin</i>	7.8%	9.2%	8.9%	9.6%	10.3%
Profit on financing activity	-1.2	3.9	0.1	1.6	2.9
Share of profits/losses of associates	0.0	-0.1	7.1	7.6	8.4
<b>Gross profit</b>	<b>-4.2</b>	<b>5.2</b>	<b>5.5</b>	<b>6.8</b>	<b>15.0</b>
Tax	0.8	5.2	5.5	6.8	15.0
Minority interests	-1.7	3.2	5.5	4.9	4.4
<b>Net profit</b>	<b>21.0</b>	<b>42.1</b>	<b>51.0</b>	<b>64.0</b>	<b>67.9</b>
<i>change</i>		100.5%	21.3%	25.5%	6.1%
<i>Margin</i>	4.4%	7.8%	8.3%	9.2%	9.2%
Amortization and depreciation	10.8	10.1	14.1	14.5	14.8
<b>EBITDA</b>	<b>48.2</b>	<b>59.6</b>	<b>69.0</b>	<b>81.1</b>	<b>90.8</b>
<i>change</i>		23.5%	15.8%	17.5%	12.1%
<i>EBITDA margin</i>	10.0%	11.0%	11.2%	11.6%	12.3%
Shares at year-end (millions)	25.2	25.2	25.2	25.2	25.2
EPS	0.8	1.7	2.0	2.5	2.7
CEPS	1.3	2.1	2.6	3.1	3.3
ROAE		20.1%	17.1%	18.9%	17.8%
ROAA		7.0%	7.3%	8.7%	8.7%

Source: 2004-2005: Softbank, 2006-2008: forecast by BRE Bank Securities'

**Consolidated Balance Sheet**

<b>(PLN m)</b>	<b>2004</b>	<b>2005</b>	<b>2006F</b>	<b>2007F</b>	<b>2008F</b>
<b>ASSETS</b>	<b>530.4</b>	<b>672.6</b>	<b>717.1</b>	<b>758.7</b>	<b>806.4</b>
<b>Fixed assets</b>	<b>246.3</b>	<b>319.3</b>	<b>321.3</b>	<b>322.5</b>	<b>331.3</b>
Property, plant and equipment	29.2	37.2	37.6	38.1	38.5
intangible assets	6.0	14.2	14.2	14.2	14.2
Investment property	1.7	0.0	0.0	0.0	0.0
Goodwill of subsidiaries	25.1	60.4	60.4	60.4	60.4
long-term receivables	60.5	57.7	57.7	57.7	57.7
Long-term investments	95.2	207.9	128.7	136.3	144.7
Non-current deferred tax assets	20.2	20.6	15.1	8.3	8.3
Long-term prepayments	8.4	7.5	7.5	7.5	7.5
<b>Current assets</b>	<b>284.1</b>	<b>353.3</b>	<b>395.7</b>	<b>436.2</b>	<b>475.1</b>
inventories	19.6	20.2	24.3	26.9	27.7
Short-term receivables	157.0	219.4	253.7	274.9	281.2
Short-term investments	96.8	99.8	103.8	120.5	152.3
Short-term prepayments	10.6	13.9	13.9	13.9	13.9
<b>(PLN m)</b>	<b>2004</b>	<b>2005</b>	<b>2006F</b>	<b>2007F</b>	<b>2008F</b>
<b>LIABILITIES</b>	<b>530.4</b>	<b>672.6</b>	<b>717.1</b>	<b>758.7</b>	<b>806.4</b>
<b>Equity</b>	<b>137.2</b>	<b>281.6</b>	<b>316.9</b>	<b>360.5</b>	<b>402.8</b>
<b>Equity attributable to minority shareholders</b>	<b>3.5</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>
<b>Liabilities and provisions</b>	<b>371.3</b>	<b>357.8</b>	<b>366.9</b>	<b>365.0</b>	<b>370.3</b>
<b>Long-term liabilities</b>	<b>86.6</b>	<b>93.6</b>	<b>93.6</b>	<b>93.6</b>	<b>93.6</b>
Loans	0.0	0.0	0.0	0.0	0.0
Reserves	0.3	1.0	1.0	1.0	1.0
Other	86.3	92.6	92.6	92.6	92.6
<b>Short-term liabilities</b>	<b>284.7</b>	<b>264.2</b>	<b>273.4</b>	<b>271.4</b>	<b>276.8</b>
Loans	84.1	40.2	20.2	0.2	0.2
Reserves	8.1	0.7	0.7	0.7	0.7
Trade creditors	124.8	141.4	170.5	188.5	193.9
Other	67.7	82.0	82.0	82.0	82.0
<b>Accruals</b>	<b>18.4</b>	<b>28.9</b>	<b>28.9</b>	<b>28.9</b>	<b>28.9</b>
Debt	84.1	40.2	20.2	0.2	0.2
Net debt	-39.3	-63.3	-100.0	-131.8	-166.5
(Net debt / Equity)	-28.7%	-22.5%	-31.6%	-36.6%	-41.3%
(Net debt / EBITDA)	-0.6%	-0.4%	-0.5%	-0.5%	-0.5%
Shares at year-end (millions)	25.2	25.2	25.2	25.2	25.2
BVPS	5.5	11.2	12.6	14.3	16.0

Source: 2004-2005: Softbank, 2006-2008: forecast by BRE Bank Securities

**Consolidated Cash Flow Statement**

(PLN m)	2004	2005	2006F	2007F	2008F
<b>Cash flows from operating activities</b>	<b>-30.3</b>	<b>41.7</b>	<b>54.3</b>	<b>72.0</b>	<b>72.7</b>
Net profit	21.0	42.1	51.0	64.0	67.9
Amortization and depreciation	10.8	10.1	14.1	14.5	14.8
Working capital	-47.5	-16.3	-9.3	-5.8	-1.7
Other	-14.6	5.9	-1.6	-0.8	-8.4
<b>Cash flows from investing activities</b>	<b>-58.9</b>	<b>-16.3</b>	<b>-14.5</b>	<b>-14.9</b>	<b>-15.3</b>
CAPEX	-7.9	-16.8	-14.5	-14.9	-15.3
Capital investments	-53.2	-40.4	0.0	0.0	0.0
Other	2.2	40.9	0.0	0.0	0.0
<b>Cash flows from financing activities</b>	<b>76.8</b>	<b>-10.7</b>	<b>-35.8</b>	<b>-40.4</b>	<b>-25.6</b>
Share issue	0.0	30.6	0.0	0.0	0.0
Debt	35.8	-41.2	-20.0	-20.0	0.0
Dividend payment	0.0	0.0	-15.8	-20.4	-25.6
Other	41.1	-0.1	0.0	0.0	0.0
<b>Change in cash</b>	<b>-12.4</b>	<b>14.8</b>	<b>4.0</b>	<b>16.7</b>	<b>31.8</b>
Cash at the end of period	47.3	62.1	66.1	82.8	114.6
DPS (PLN)	0.0	0.1	0.1	0.1	0.1
FCF	-65.3	27.0	45.1	60.4	59.4
(CAPEX / Sales)	1.6%	3.1%	2.4%	2.1%	2.1%

Source: 2004-2005: Softbank, 2006-2008: forecast by BRE Bank Securities

**Market Multiples**

	2004	2005	2006P=F	2007F	2008F
P/E	47.3	23.6	19.4	15.5	14.6
P/CE	31.2	19.0	15.2	12.6	12.0
P/BV	7.2	3.5	3.1	2.8	2.5
P/S	2.1	1.8	1.6	1.4	1.3
FCF/EV	-6.3%	2.8%	4.9%	6.8%	6.9%
EV/EBITDA	21.3	16.0	13.5	11.0	9.5
EV/EBIT	27.5	19.3	16.9	13.4	11.3
EV/S	2.1	1.8	1.5	1.3	1.2
DYield	0.1%	0.2%	0.2%	0.2%	0.2%
<b>Price (PLN)</b>	<b>39.40</b>				
Shares at year-end (millions)	25.2	25.2	25.2	25.2	25.2
MC (PLN m)	991.9	991.9	991.9	991.9	991.9
EV (PLN m)	1 028.6	952.6	928.6	891.9	860.1

Source: BRE Bank Securities

**Pro-forma Income Statement of the "New" Asseco Poland SA**

<b>(PLN m)</b>	<b>2006F</b>	<b>2007F</b>	<b>2008F</b>
<b>Revenues</b>	<b>1 169.1</b>	<b>1 290.4</b>	<b>1 371.5</b>
<i>change</i>	116.8%	10.4%	6.3%
<b>EBIT</b>	<b>118.3</b>	<b>150.4</b>	<b>164.9</b>
<i>change</i>	139.1%	27.2%	9.7%
<i>EBIT margin</i>	10.1%	11.7%	12.0%
<b>Net profit</b>	<b>76.0</b>	<b>109.0</b>	<b>116.7</b>
<i>change</i>	80.6%	43.4%	7.1%
<i>Margin</i>	6.5%	8.4%	8.5%
<b>EBITDA</b>	<b>132.4</b>	<b>181.9</b>	<b>197.5</b>
<i>change</i>	122.2%	37.4%	8.6%
<i>EBITDA margin</i>	11.3%	14.1%	14.4%
Shares at year-end (millions)	46.4	46.4	46.4
EPS	1.6	2.3	2.5
P/E *	24.1	16.8	15.7
EV/EBITDA **	13.8	10.5	9.7
EV/EBIT **	17.4	12.7	11.5

Source: 2006F-2008 F: BRE Bank Securities, \* - multiples computed based on earnings adjusted for the divestment of Mediabank (PLN 5m),

\*\* - multiples computed based on subsidiary earnings consolidated on a pro-rata basis



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**List of abbreviations and ratios contained in the report:**

**EV** – net debt + market value  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**P/CE** – price to earnings with amortisation  
**MC/S** – market capitalisation to sales  
**EBIT/EV** – operating profit to economic value  
**P/E** – (Price/Earnings) – price divided by annual net profit per share  
**ROE** – (Return on Equity) – annual net profit divided by average equity  
**P/BV** – (Price/Book Value) – price divided by book value per share  
**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents  
**EBITDA margin** – EBITDA/Sales

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A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

**BUY** – we expect that the rate of return from an investment will be at least 15%  
**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%  
**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
**SELL** – we expect that an investment will bear a loss greater than 15%  
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**Strong and weak points of valuation methods used in recommendations:**

**DCF** – acknowledged as the most methodologically correct method of valuation; it is based in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.  
**Comparative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Previous recommendations issued for Softbank**

recommendation	Hold	Hold	Hold
date issued	2005-12-22	2006-02-24	2006-05-15
price on day of recommendation	38.80	43.70	37.00
WIG on day of recommendation	35537.63	39793.98	45894.55