Orange Polska FY 2012 Results and Mid-term Action Plan Presentation 12th February 2013

Operator

Thank you for holding, ladies and gentlemen. Welcome to the Orange Polska Results conference call. I will now hand over to Mr Jacek Kunicki, please go ahead sir.

Jacek Kunicki

Good morning, everyone. Welcome to our results disclosure for the full year of 2012 as well as the presentation of the medium term action plan. We are joined today by the management of Orange starting with the CEO, Maciej Witucki, CFO, Jacques de Galzain, Vincent Lobry, Chief Marketing Officer, Mariusz Gaca, Chief Commercial Officer, Piotr Muszyński, Chief Operation Office and Jacek Kowalski who is the Head of HR. Please note that our results have been published this morning and they are available on the Internet website www.orange-ir.pl.

Now without any further delay, I will hand the floor over to Maciej Witucki to begin the presentation.

Maciej Witucki

Thank you, Jacek and ladies and gentlemen. The presentation will go ahead as follows. We will start with the – I will start with the highlights of the results for 2012. Then Jacques will elaborate more in details about the operational indicators for the last year and then the entire team will present the mid-term plan for the next three year.

Let me start with the development for 2012. First of all, in 2012, we observed a significant deterioration of the operating environment. There is no doubt about it. One, we have weaker macroeconomic environment obviously impacting especially the B2B market. Then we have the price war which was on-going on the post-paid and which have been affecting the revenues in 2012. As we are going to speak about it, it will as well affect the revenues in 2013. Obviously the impact of this price war is visible especially on the ARPU level of our mobile business. Then this tendency of the price war is unfortunately not diminishing. We've got in last week in January of this year some additional irrational behaviours with additional price diminishing on the mobile market. So the mobile especially have been suffering very much and we will still suffer in 2013 and 2014 because of the price war and regulatory decisions.

In spite of those adverse trends, and this is very important to be underlined, we have been delivering progress in this challenging environment from the operational perspective and it is very important to underline the effects of our actions and our efforts are visible. First of all, despite the tough market we've grown our customer mobile customer base by 240,000 additional customers. In post-paid we have been dealing with very difficult competition especially from the fourth player which have been still benefiting from the MTR assymetry. We face up this challenge and in quarter four post-paid base has returned to quarterly growth. Another positive element is the fact that again in quarter four we noticed a very strong improvement on the mobile number portability statistics where we outpace our main rivals, the main two big rivals, in the mobile number portability results.

We have followed the strategy of bundling the TV, the Internet and the telephony. This helped us to have a very positive trend on the broadband where the ARPU is now growing by 5% year-on-year. So we see the bundle strategy which is now effective and which is bringing the top line impact. Then we have seen as well the customer base which is still too slow but the customer base went back to growth. The bundling strategy has also enabled us to very significantly cut the churn in the fixed line. In quarter four we have the decline of the fixed line compared to the previous periods.

Let's have a look on this performance vis-à-vis the outlook we have been updating in – updated in quarter three. The performance in 2012 in one line is on line with the revised outlook presented with the quarter three results. The revenues declined by 4.1% since 2011 driven down by the mentioned price war on the mobile especially and the MTRs. EBITDA is at the level of 34.2% of revenues. It's towards the lower end of our outlook. I will just to underline that it was hampered by some non-recurring costs which will be explained by Jacques in a few minutes. We limited the CapEx, so the CapEx is 16.5% of our revenues and this was obviously linked with the regulatory memorandum of understanding which is coming to its end. And finally, we generally PLN 1.5 billion net free cash flow excluding the settlement with DPTG.

Now, let's go to the shareholder remuneration for 2012. Ladies and gentlemen, in October we indicated that we would most likely recommend a dividend of PLN 1 per share. Today, I would just want to confirm that the company still has the financial strength to distribute this amount. However, we are facing the phenomenons I have been speaking about - growing volatility, unpredictability of the market as the price war unfold in mobile. Simultaneously we have ahead of us some significant cash outflows, first of them being LTE frequencies. Just to give you an example, the results of the first tender of 1800 have been supposed to be delivered in beginning of December and I understand that today's news it's probably they will go out tomorrow. It means that we will have – we don't master the dates of the different tenders and we don't master the dates of the different cash flows. Obviously on top of this we have the fine from the European Commission. The timing is still unknown but those are the big outflows and those are the big cash outs for the company.

So we have to act responsibly, there is no doubt about it, in the best interest of the company, all its stakeholders and in particular of the shareholders. That's why in order to keep the sound financial structure of our balance sheet, we took the decision to commit ourselves to the floor dividend of PLN 0.5 per share to be paid in cash in July. Then please note that our Articles of Association allow us for potential interim shareholder remuneration within the year.

Ladies and gentlemen, I will now hand the floor to Jacques for the details of the 2012 performance. Jacques, the floor is yours.

Jacques de Galzain

Thank you, Maciej. Good morning, ladies and gentlemen. Let's begin the financial review with the Group's revenues. In line with our expectations Group's revenue continued to evolve in a downward trend. It contracted by 6.4% in the fourth quarter after a 5.5% decline in Q3 and just over a 2% decrease in the first semester. The steeper decline is caused predominantly by price pressue in the mobile market stimulated by unlimited offers. Mobile segment contribution to Group revenues declined by over PLN 30 million in Q4 versus flat evolution in Q3 and then *average* PLN 43 million growth in each quarter of H1. Regulatory decisions continue to affect Group's top-line mostly due to MTR cuts. Let's keep in mind that they will have an even greater impact in 2013 as MTR was cut to PLN 0.08 in January and we'll go down toward PLN 0.04 in July. Fixed segments revenue evolved similarly as in Q3, driven down by fixed voice. However, as you will see on the next slide, the main driver of fixed revenues are beginning to show signs of improvement.

Let's now see how mobile revenues develop in Q4.
[slide 10] Mobile segments revenue decline in Q4 by 6.3% year-on-year as compared to 4.8% contraction in Q3 and flat evolution in H1. Nonetheless, despite losing 1% towards P4, we have maintained our leadership position in market value. Faster revenue evolution stems mostly from growing impact of unlimited offers on ARPU. This has offset positive dynamics of customer base and growing penetration of smartphone.

[slide 11] Let us now analyse the evolution of the mentioned KPIs. The challenge in the mobile market is clearly visible. Retail ARPU has fallen by over 7% year-on-year in Q4 which is a marked decrease versus previous quarters. It stems for almost 300,000 customers that migrated to unlimited as well as from pressure that this plan is exempted on other tariff options. Evolution for customer base remained healthy. It grew by 1.6% year-on-year helped by 137,000 net additions made in Q4. Simultaneously, we do not cease in efforts to boost data usage by popularising smartphones. Going forward, this will be one of the key drivers toward data monetisation.

Let's now take a look at the fixed performance.

[slide 12] Fixed segments revenue contraction was limited in Q4 to 2.8% year-on-year. This is an improvement versus minus 4% recorded in Q3. The improved trend was mainly achieved by growth of revenues from data. It has risen year-on-year by PLN 22 million in Q4 as compared to plus PLN 9 million in Q3 and a decline in H1. And this reflects the positive impact of strategy to bundle broadband with TV and voice over IP. Traditional fixed voice continued on its decline all-be-it the fall was smaller than in previous quarter. And finally the evolution of revenues from ICT and wholesale was roughly on comparable level as in prior periods.

Let's now analyse fixed KPI. Our bundling strategy is having a growing positive impact on our fixed business performance. We have sold almost 250,000 of 3P bundle and this is leaving a positive mark on our key performance indicators. ARPU from broadband and bundle have grown by 5% year-on-year reaching PLN 56 in Q4. We have also been able to overcome the unfavourable trend in broadband customer base recovering it to the same level of a year ago. At the end of 2012, over 10% of our broadband customers are the 3P package. We now have over 300,000 voice over IP users and this improved the trend of the number of fixed voice customers. This concludes my review of the top-line.

Let's analyse our profitability starting with EBITDA.

[slide 14] Our EBITDA has fallen sharply in Q4 declining by PLN 240 million year-on-year and it stood at over 29% of sales. Its evolution is a reflection of lower turnover as the pre-regulatory revenue decline affecting EBITDA by minus PLN 154 million. Additionally, excluding MTR cuts, interconnect costs grew by almost PLN 60 million year-on-year. This was due to higher traffic stimulated by unlimited plans. We have also the updated provisions reflecting change in actuarial assumptions. This inflated the cost in Q4 by PLN 50 million versus Q4 of 2011. Finally, EBITDA was helped by plus PLN 41 million stemming from our cost optimisation programme.

Let's now see the evolution of the EBITDA for the entire year 2012. Please note that EBITDA comparison is made versus restated figure for 2011 excluding the gain from Emitel disposal but also excluding the risk and restructuring provisions. The EBITDA for 2012 was almost PLN 500 million lower than for 2011. It stood at 34.2% EBITDA margin versus 36% in 2011. The analysis of factors influencing EBITDA clearly showed the detrimental effect of the price war and the weaker environment. The revenue contraction excluding regulatory impact affected EBITDA by almost minus PLN 360 million. Simultaneously interconnect costs went up by PLN 89 million. Other factors include return of an administrative fine in 2011 and changes made in both years to the employee pension provisions. They affected the year-on-year comparison by an additional minus PLN 100 million. These adverse factors were then partially offset by our cost optimisation programme which delivered over PLN 100 million of saving in 2012.

Let's now analyse our net income.

[slide 16] Net income for 2012 amounted to PLN 855 million as compared to PLN 1.9 billion in 2011. This resulted mostly from PLN 1 billion variance in EBITDA but let's remember that in 2011, this included gain on the disposal of Emitel as well as significant changes to provision. EBITDA part evolution of the net income was driven by three items. Depreciation was PLN 440 million lower than in 2011, net finance cost rose by PLN 125 million since 2011 due to higher net debt and finally income tax amounted to minus PLN 161 million for 2012 versus a positive change of PLN 133 million in 2011, driven by deferred tax asset recognition the year before. This concludes my review of the income statement.

Let's now turn to CapEx. Capital expenditure amounted to roughly PLN 2.3 billion in 2012 as compared to almost PLN 2.6 billion in 2011. In terms of direction for CapEx spend, broadband was by far the largest category consuming 36% of the total. This was lower than in 2011 due to the schedule of the MoU with the regulator. Other large areas of spend included our core network as well as IT.

Let's now analyse how this impacted our cash generation. In line with our expectations mentioned in Q3, cash generation for 2012 was significantly below that of 2011. The net free cash flow amounted to PLN 1.5 billion and was roughly PLN 860 million below 2011. The cash generation was predominantly driven down by two factors – lower EBITDA which drove cash of mobility activities down by over PLN 500 million since 2011 and the working capital requirement which grew by PLN 100 million in 2012. The effect of these factors were partly offset by lower tax paid which amounted to PLN 46 million in 2012 versus almost PLN 190 million in 2011. We utilised the deferred tax asset created one year ago. As you can see our operating environment has put an extensive pressure on our cash flow. Despite further cost optimisation, our cash generation ability in 2013 will be under further downward pressure.

Finally, let's see the evolution of our debt. Our net debt has risen significantly last year. The PLN 3.3 billion increase in 2012 was driven by two factors – the payment of PLN 2.4 billion to DPTG and the shareholder remuneration paid in 2012 which amounted to almost PLN 2.2 billion and you will see that it exceeded the cash generation by PLN 580 million. Consequently, our net gearing has risen to 28% at the end of 2012. Nonetheless, our balance sheet is sound and we are confident to provide adequate funding for our business needs going forward.

Ladies and gentlemen, this concludes the review of the financial and I hand the floor back to Maciej.

Maciej Witucki

Thank you, Jacques. So ladies and gentlemen, after those results of 2012 let me drive you through visions of the next three-year strategy. And before I get to those points, let me as well summarise somehow what we did the last three years, the previous action plan. We have met majority of our objectives. I just remind you that we dramatically improved the regulatory dialogue. In 2009 we have been under the stress and the risk of the functional separation. We have been under a very strong pressure on the majority if not all cost lines from the regulator or regulated prices from the regulator. We have been starving under the penalties. We have been starving under the permanent pressure on the business which have been then detrimental to the day-to-day operations.

We improved our commercial position. Again I remind that we regained – we fortify our leadership in the mobile market in value and we gained more than 1.2 million new customers in mobile. We also did vital changes to our broadband offer which is now back to the market, still not growing enough but back to the market and now we have visible base and strong base to build for the convergence.

On the cost side, I remind you that we – in those three years, we brought the Group yearly cost base PLN 900 million down as compared – if you compare with 2009. Between 2010 and 2012, we generated PLN 6.4 billion of net free cash flows, above usual expectations which have been announced at the level of PLN 2 billion per year. We also delivered PLN 6.4 billion of shareholder remuneration paid through dividends and share buyback programmes. Finally, we have launched major projects transforming the company, giving us basis for development - just to quote two of them, network sharing with T-Mobile or the TV cooperation with TVN.

I would like to take this opportunity to thank all the teams, my team and the teams of Orange Polska who hopefully in part at least are following this conference for all those efforts and for all the credibility on the transformation of the business which we gain with the pass band and which will be so much useful for what I will present to you and what we will have to execute in the coming three years.

So in three years the environment changed dramatically and we spoke about the events of the last year, the price war, the pressure, the MTRs decided, the uncertain cash outflows due to the frequencies. This plan which we present to you is designed to address the strategies and secure the long-term future of Orange Polska because this is our main duty - is to preserve the long-term future of this very company and we build a plan which in our opinion is the one which is going to give a security.

Let's start with the analysis of the environment. I will go further briefly through this slide. What we have to adapt to is first of all the market which is saturated, at least on the mobile side. We have growth, obviously, all of us. All the operators are on growth but they are so much small year-on-year. We have obviously little evolution of the mobile volumes. We have – but we still have the mobile to fixed substitution on the market even if we have been capable to reduce very much the churn on the fixed side especially with the introduction of the volume. The low growth is driving our rivals to attempt, and I underline to attempt, the growth at the expense of the ARPU. That's why we have those price wars which depreciate the value of the market without giving any significant advantage to anybody because you've seen last year that the new pricings have been copied by the rest of the market within a week at the maximum. At the same time, we will have still the MTR cuts and we will have to adjust the fixed to mobile pricing for our customers.

Let's have a look of what will be the impact of those movements of the Polish telecom market. Polish telecom market will go under a large transformation in the next two to three years. In 2013, we clearly anticipate a steep contraction of the market and this is nothing new to some extent. We already said in quarter four last year that only the impact of the MTRs will be more than PLN 2 billion on the market value. On top of this, we have the price wars which are ongoing. On top of this we have the macroeconomic environment. What we believe today that the MTR cuts will affect the market as much as by PLN 2.7 billion on the value of the market. The price wars will as well impact us and that both elements will be visible very strongly in 2013 and to some extent but lesser in 2014 as the MTR cut will be impacting until the half of 2014. And as the re-pricing or the swap of customers from the old tariffs to the unlimited will still continue even hopefully with smaller base. We anticipate the market will stabilise today only by 2015 as it will be no more affected by the MTR cuts and the hopefully impacts of the price wars will be behind us. So this is a challenging market, this is a challenging situations to all of us, operators. But we still believe that we have opportunities and assets which I will drive you through in the next slides.

[slide 24] First of all, from the business perspective, we are going to continue on the convergence and bundling strategy. Clearly we have to use as the market is difficult, as we have to control our commercial expenditures, we will build on our database of customers and we will build on our unique strengths. Those strengths are clear, 20 million contacts with customers, mobile and fixed. We can provide those customers with the widest range of convergent products and the successes of FunPack and today the very strong development of Orange Open are the only way to equip additional customers without the high expenses or getting them purely from the competition on the mono-product base. We have the best sales network both physical and online, coupled with the largest customer care in Poland. We have made a decision as well to merge PTK Centertel, our mobile entity, with TPSA and this is fully supporting the convergence strategy that we will be executing, helping us to better contact customers, helping us to better serve customers and to avoid some cost as a secondary effect.

Then, we are clearly as well determined to take a full advantage of the growth in mobile data. We will continue the development of the smartphone strategy, we will continue the development and investment into the 3G and 4G networks to save this opportunity and to monetise this opportunity. Finally, we will use our assets such as the sales network, customer base, reputation, contact with the households and service platforms to develop services in the non-telecom market. While this is too early to speak about it in details, we are absolutely convinced that in the very short future we will develop few projects and we will announce to you few projects which will bring obviously concrete results on the top-line. I do not communicate them today as obviously they are largely sensitive.

On the next slide, the strategy evolves around providing the customers with the whole range of telecom and few adjustment services. We will focus on total telecom services. Orange Open product will be the best example of what we want to provide in the coming years. We will deliver those solutions to our customers at any time, at any place, in the most convenient way using the assets, the unique assets of the Orange Polska and obviously with the good connectivity, Piotr we will speak about from the technical perspective, regardless of the technology which is used. At the same time, we do not forget that we need a dramatic discipline in the allocation of our service resources. Because even if we have plans and we have actions to increase even on majority of our natural markets, our market shares, we clearly understand that even increasing market share multiplied by the declining market (I presented to you two slides ago does) not give a positive impact – does still not give the positive impact on the top-line. We will have to be more than ever with a very strong discipline on the allocation of our resources and on the cost side. So we will not stop the efforts to achieve a more efficient and lean organisation. Jacques we will give you some details. We will also be even more selective on the CapEx. Obviously 4G, this is what we are going to do with again limited expenses because we have the network sharing with T-Mobile, so we are today capable to deploy the 4G without any major capital costs on top of this. We will develop a very high broadband in the specific zones with very specific targets. Mariusz will present the strategy to you and all of these to deliver again convergence.

Let's look on the potentials. We have our Olympic slide which is the slide with the overlap of the customer bases. Clearly what you see today and the most important is the size of obviously the Orange part. which is a common part of the customers between the different services. As you see today, this common part is very small. We have contacted all those customers. So what we want to do is to maximise the upsell and cross-sell to be efficient on the commercial side and the customer service side. What we will strive to achieve is the much larger overlap between the client bases which is the target solution. By doing this our target is obviously to maximise the revenues with reasonable cost of maximising those revenues; maximising the revenues from single client while providing him with better solution and with the competitive price. I strongly believe that we can extract more value from our customer base while still keeping the cost under control.

Before I leave the floor to Vincent and Mariusz and for details of those actions, let's just have a look on our cost action plan. We are aware that the environment, our environment, is changing very fast and we need to adjust by transforming towards a leaner and lighter organisation. Within the next few years, we have to undergo a transformation deeper than ever and re-underline we have to go there. We cannot provide the cheapest mobile data in Europe, we cannot provide the cheapest fixed broadband in Europe without going to the very lean and very effective organisation which means cost cutting and transformation, no choice. So we will accelerate the transformation of our core business. We will reduce the headcount, obviously. I remind you this year 1,700 voluntary leaves which have been negotiated. We will definitely discuss with our social partners for the continuation of those plans. We will as well reduce accordingly the number of the managerial positions. We will initiate a review – we did already initiate review of our asset portfolio. As you know, we have today an open option for the Wirtualna Polska but other small subsidiaries and possible further outsourcing of additional functions are today already under the review. Finally, we will limit the capital expenditure of our business and allocates more CapEx towards mobile which is today ringing the immediate return on investment.

Ladies and gentlemen, those are the blocks. We did deliver, I remind you,2012 from the operational perspective, we delivered our operational, commercial and market share ambitions. What we think in coming three years is to continue this growth based on the usage of our assets, so growth based on the convergence. It's not enough because this is not bringing enough of the effect on the top-line. So in parallel we have to execute a kind of dramatic transformation plan to adapt our organisation even more to the conditions of the market. Thank you very much and I will pass the floor to Vincent.

Vincent Lobry

[slide 29] Thank you, Maciej. Good morning, ladies and gentlemen. As already mentioned by Maciej, we have focused our commercial actions around convergence. For us, convergence is the best way to compete on solutions rather than only on the price and to compete with mono-play or mono-market rivals. In practical term, it means that we plan to boost cross-sell and have over half of our broadband customer base in the convergence Orange Open solution. We will increasingly promote very high speed broadband to attract more quality demanding customers. We plan to sell either VDSL or fibre to the home solution to at least one-quarter of our broadband customers as compared to 1% share today.

The same tactics will apply to the mobile broadband based customer. We will use our business intelligence tools to upsell Orange Open to roughly half of our post-paid based customers. In turn, not only this will foster total ARPU for the customer but it will also help us in each market, mobile and home. As an example, through promoting convergence, we want to retain and fortify our market share in mobile above 30%. Convergence will allow us to thrive in the B2C market but it is also fully relevant approach on the enterprise market. Not only we will put our fixed and mobile products to the best use of a customer, but we will turn products into solution integrating them through ICT. By doing so, we plan to fortify our market position in B2B with at least 1/3 in mobile value and 50% share in fixed.

Let's now explain the main benefits of our new product strategy for the customer. Convergence is a concept that carries many benefits, both for the provider Orange but especially for the customer. It will allow us to foster the global ARPU while we will remain competitive vis-à-vis the price field of standalone products. The client will significantly save rather than having to buy these services from various providers. We have already launched a campaign based on this advertising theme. It is called "100 ways to save with Orange" and it demonstrated to the customer how much he can gain through our offer, convergence offer mainly, so they have more money to spend on other things. As an example, I have a training material, a catalogue, which is viewed in our commercial process but also for the customer so they can go through the catalogue and see 100 ways, and there are really 100 ways, to save with Orange.

As a follow-up, I want to show you – it's a scoop, mock-up of the new offer we will launch in the following days. It's a new offer to enrich the Open Orange solution portfolio. It is both richer on services and more affordable for the consumer. Every customer of Orange Open will now be able to have more than one SIM in this open service and he will be able to add all the SIM of his family and to have additional SIMs with reduced monthly fee. This demonstrates both our commitment to systematically enrich our convergent offering and to maximise cross-sell but also upsell to existing customers.

Let's now analyse the main building blocks of our strategy. As mentioned by Maciej, the merger between TPSA and PTK Centertel will facilitate the use of our customer bases which is not so obvious today. We will have a better understanding of our customers' behaviour both when they use a mobile or at home. And as a consequence, we will be able to provide them with the most suited offer. Through this, we will accelerate sales of convergent products towards the benefit of both the customer but also Orange Group.

Following the sale, our customers will also have more complete after sales care which focuses on the customer global needs. In the next step, 4G services coupled with business intelligence will allow us to control and differentiate data quality depending on the service level required by the user and will allow us to provide premium services. Additionally in the future, we will offer third-party services through our assets. As a consequence of this, it will facilitate monetisation of data traffic which is exactly what the entire telecom industry needs right now.

Now speaking of sales and distribution, let me hand the floor to Mariusz.

Mariusz Gaca

Thank you, Vincent. Good morning, everyone. Today I want to tell you in a couple of words, brief words and two slides how our sales and customer care activity will evolve in the next coming years. Let me start from sales. In sales, we will transform significantly in order to support convergence in the most efficient manner. We will no longer focus our sales on selling separately mobile and fixed products. Instead we will incorporate an approach that will have a convergent view of the customer. We will supply convergence solutions and Orange Open will now be our first proposal to the customer. We will also serve our customers in the most easy and convenient way through all our channels – shops, telesales, direct, indirect, it doesn't matter. And what is very important, we plan to grow our web-based sales to the level of 20% to 25% in next years. This will not only allow us to promote convergent products but also to maximise productivity. In consequence we will increase the overall volume of sales while at the same time we will continue to cut our costs for example by resizing our physical distribution network. And simultaneously, we will continue to strengthen the current geographical segmented approach adjusting even more to particular needs of our customers living in different regions of our country.

We will also include that similar philosophy into our customer care activity. Maciej and Vincent presented you with our convergent products strategy. They mentioned that this required seamless connectivity experience. But what it also requires is a seamless experience in customer care. Our customer has to be able to reach us through one point of contact which will give him the required service. He or she needs to be able to make this contact through any channel. It doesn't matter if it's physical or virtual. And the experience, what's the most important, in each of those channel has to be excellent and fluent. This is what we will implement through Orange Care. Our customer service will be seamless through all our channels. But at the same time we will make gains in productivity. This will be done through growing the share of Once and Done cases of our customers in our shops, in our call centres. And we will also promote self-care through the web. Same time, for more complicated not necessarily directly related with our core services needs of our customers, we will offer technical assistance of an Orange expert.

Ladies and gentlemen, all of those actions have primarily two goals. First is to grow the satisfaction of our customers and second of course to increase our efficiency. The success of those measures will be visible predominantly through the NPS (which is the net promoter score) which is measured for each channel of contact of our customers with our company and this is also included into the compensation scheme of our people, not only front liners but especially further front liners.

I think it's quite important to mention that in January 2013, Orange Polska Facebook page was ranked number five worldwide in socially devoted ranking that is organised by Socialbakers. This proves our capability in the web care area. Ladies and gentlemen, thank you for your attention. Now let me hand the floor to Piotr who will drive you through network and IT area.

Piotr Muszyński

Thank you, Mariusz. Good morning, everyone. In short, our technical actions will strive to enable my colleagues from marketing and sales to provide our customers with a convergent offer. They can be divided into three priorities – to evolve towards a convergent network by improving fixed access to very high broadband standard, providing the best mobile network coverage whilst preparing ourselves for the anticipated huge growth of data traffic; by transforming and simplifying our business platforms to cope with convergent products; by making sure that customer experience can live up to the marketing promise by speedy delivery process and seamless switching between different networks. Here, for example, we will shorten the service delivery by three for the very high broadband.

Let's start the review of our plans with the network. In the left-hand side, you see the simplified future topography of the network. On the customer side, this is a three-screen world, smartphone, tablet and TV. They are connected to our network via Wi-Fi at home or via the mobile access be it 3G or LTE. Our network then needs to optimise transfer and control of this data from various access networks to the backbone and finally to the cloud where the customer will store most of his data and applications. To achieve this, we need to focus on two area. First we need to enhance our access networks. this means investing into 4G access for the mobile coverage and the very high broadband and even fibre. We plan to have up to 4 million homes within the reach of our very high broadband network. On the mobile side, 4G coverage is planned for over 90% of population. Next, we need to ensure high quality network and a robust control. This is needed for the customer experience but also to prepare us for growth on data traffic. In the future, we will also be able to differentiate data quality enabling new tariff options.

Let's now review the progress in our network sharing programme. We have already 2,600 base stations that are in common use between Orange and T-Mobile. As a reminder, the plan is to have 10,000 sites in close network by the end of 2014. The programme is progressing exactly according to plan. In the context of 4G technology, let me remind you that the new co-used network will be 4G ready. It will give us almost 60% more locations with Orange signal extending our 3G coverage to over 80% of the country and we plan to have a 4G coverage of over 90% of population. It will also significantly boost so-called indoor coverage, a crucial indicator for customer experience. Finally, it will allow us to lower our OpEx base by roughly PLN 100 million per year due to lower number of sites. CapEx avoidance is much larger as we will not have to invest on our own for the 4G ready access infrastructure.

Let's now have a look at our plans of the service platforms. The slide shows IT systems that stand behind our services and enable us to render them over our network. First are the interfaces with customers - online sales, CRM and billing. In between these and our network are operation support systems. These facilitate order flow and to manage the network. We need these systems to enable the customer experience that we want. We will achieve this through simplification and standardisation. We will transform our systems basing them on pre-integrated IT components. In effect our networks will support convergence while our new service platforms will also foster new revenue streams such as advertising on the smartphone. It may evolve services based on geo-location. Finally, we may emerge in smart billing based on time during which data is consumed.

Ladies and gentlemen, thank you for your attention and I will now hand the floor to Jacques for the financial part of the strategy. Thank you.

Jacques de Galzain

Thank you. Ladies and gentlemen, within the next years, we will undergo deep transformation deeper than ever before. We will accelerate the process of cost optimisation. Inevitably this will involve headcount as we continue to increase productivity. This includes roughly 1,700 redundancy plan this year and this will be continued in the future. As a consequence, we will reduce the number of management posts. Optimisation we will also involve front line. We will reduce the number of shops. During the summer, we will move to the new headquarter. This will reduce the cost of property rental in Warsaw by 30%. At the same time, we will conduct projects aimed at achieving a more flexible cost structure. We have launched a study of options regarding fixed network and I cannot rule out partial outsourcing and the same may apply to IT. Finally, we are conducting a deep review of our asset portfolio and Wirtualna Polska has been put on sale.

Simultaneously, we will optimise our capital expenditures. The broadband investment programme has reached its objective and is approaching the end. In 2013, our capital expense will amount to less than PLN 2 billion versus PLN 2.3 billion in 2012 and PLN 2.6 billion in 2011. We will push CapEx down into the following years. In the long-term, we will strive to achieve a less capital intensive business with CapEx at 12% to 13% of sales and this amount includes CapEx needed to adapt on network to LTE. Naturally, the above-mentioned does not include cost of spectrum. We anticipate that auctions and tenders for the 4G spectrum may cost us between PLN 1 billion and PLN 2 billion in total. Their timing is not precise and this maybe of cash in 2013 or partly in 2014.

Let's now review our balance sheet. Our net debt has decreased from 2010 to 2011 as we generated substantial cash flows and made successful disposal of *our subsidiary* Emitel. Then it increased in 2012. We are committed as ever to maintain a sound balance sheet and good credit ratings. We rated at the maximum debt metrics which we feel comfortable with, net gearing at maximum 35% to 40% and net debt to EBITDA ratio at maximum of 1.5. In the event of an accumulation of potential cash outflows in the short period of time, we may accept to extend these metrics but they remain our ceiling in the long term. In such volatile and uncertain times, it is to the benefit of both the company and its shareholders that decisions on big outflows are made with great care and this is why we will make decisions about dividend each year taking into consideration the reported cash flow, the expected cash flow and the capital expenses as well as the structure of our balance sheet.

Let's now turn to our financial expectations. First, a brief comment regarding the anticipated revenue trends although this is *the element of our results* that we least control. For 2013, we anticipate a steep decline of our revenue. It will be driven down by *three forces*, big cut of the MTR and fixed-to-mobile rate cuts that will follow, effects of the unlimited tariff plans in mobile as well as the new price war on the post-paid market and the continuation of the fixed voice revenue erosion. Beyond 2013, revenues will still be affected by those factors albeit at diminishing impact. We will continue to optimise our cost base. It will go down systematically although the decrease will be smaller than the pace of revenue erosion. Finally, we anticipate to generate organic cash flow above PLN 800 million. As of today, we limit our guidance to 2013 as market volatility makes it hard to predict further out.

Ladies and gentlemen, thank you for your attention and I hand the floor back to Maciej for his conclusions.

Maciej Witucki

Thank you very much. Ladies and gentlemen, a few last words before we go to the Q&A about our common vision for the future of Orange Polska. First of all, we are all aware of the challenges which are in front of the – and we have seen it in the last days - all the telecom industry. We are also aware that Poland is probably the most competitive telecom market in Europe today if you take together the different prices. We realise and we know it that we have again and again to transform the company, this time maybe a bit more radically again than in the past because we have the stronger impacts of those adverse events. We present to you reasonable strategies to address those challenges, a strategy which is based on our unique strengths which are the assets, knowledge of the customers, the track records, the good operational performance. I will re-underline it. We do keep market shares in extremely challenging market. Now what we want to do is even increase them, is even be more aggressive from the commercial perspective while containing the costs. This is why the convergence is the only way because it allows us to cross-sell and upsell within the existing base without spending too much on handing new customers from the competitors or from the market.

In the same time, this is not enough. Because we will suffer – all the market will suffer from the price wars and the regulatory decisions, we will transform deeper than ever before the company. This is necessary if you want to succeed. And we have again a proven track record of our capability to manage difficult times and to drag the company through those difficult times. We will preserve - and this is our top priority – a sound balance sheet as this is a key asset of this company because even the 1.5 level is kind of very sound level of the net debt to EBITDA and this is something we believe is one of the great assets in the difficult times.

As the management, as a group, we are convinced that this strategy will not only allow us to prosper, to guarantee the long-term evolution of the company but as well to stand out amongst Europe's telecoms which are suffering from the same problems everywhere. We have a big advantage. We have been already transforming before. We have been defending the market shares against a fourth player for last five years. We have been changing the sales channels. We have been changing the marketing approach. We have been introducing the convergence. We have been sharing resources through the deepest network sharing ever done in Europe and through the cooperation with TVN on the TV platform. So we have those assets, we have this knowledge, we have very tough times in front of us but we believe – we are convinced that we can deliver those actions and we can deliver to those results which we promised to you.

We decided not to issue guidance but rather to be judged by the truth of our actions. The times are too much unstable to deliver long-term visions which would tie the company on the pure financial management and not on the operational successes and I hope that we will deliver to you – I am convinced that we deliver to you first results of those actions in the coming weeks and months.

Ladies and gentlemen, this is concluding our common presentation. Now we are ready to take your questions. Thank you very much. Jacek, you manage.

Jacek Kunicki

I suggest we first take the questions from the floor following which we will turn to the telephone audience. Are there any questions from the floor?

Leszek Iwaszko, Societe Generale

Thank you. Three questions if I may. First, if you could explain again what has happened over the last four months that you have what we thought was the guidance for the dividend of PLN 1 per share to half of that, to PLN 0.5 per share. What change over the past four months that led you to cut your dividend guidance by 50%? And within that could you please elaborate on what you wrote in the first slide about new price war that was launched in 2013? That's the first question.

The second question is taking into account your free cash flow guidance 2013 and assuming for all spectrum payments at maximum amount that you envisaged in 2013, under these assumptions, do you come with below 1.5 net debt to EBITDA at the end of 2013 or above that level? That's the second question.

And third question, could you somehow quantify the impact of economic slowdown on your cash flow in 2013, if you could compare it let's say with customer behaviour in 2009 both on business and on retail?

Maciej Witucki

OK, if you allow me, I will take the first question. In the last four months what happened, you don't have one dramatic trigger. You don't have one single explosion of the repricing of the market nor the increase of the cost, revision for the frequencies. What happened for last – and this is more than four months – what had been happening somewhere from the beginning of 2012 was a series of deteriorations and we have been reviewing them after the Q3 results. That's why we updated our outlook. We have got the price wars, we have got final confirmation of the MTR cuts. Now, what happened – what has been continuing in the quarter four and what is just continuing today is new small triggers, nothing like a one dramatic shot. What happened is we have additional offers. Vincent may speak about the – well, you know the additional offers by the fourth operator which are in price which is another approach of the price war on the post-paid which have been introduced at the very beginning of January.

We have the continuous unpredictability on the LTE auctions. We have been expecting the results of the first auction which is not the biggest one, not the largest one but which have been supposed to close in December. While the expectations over there - I understood regulator was in the range of PLN 0.5 billion for the frequencies, suddenly we have got six bidders, so more than expected. We don't have the results. We are supposed now to have them tomorrow, so we don't even have because – what we have been willing to do, what we have been looking to do is to use this bid as a kind of benchmark for the big deal auction which should come by end of this year, beginning of this year with the 800 and 2,600 frequencies. There have been more bidders that we thought. There are still no results and we still do not know the prices. So we don't have a kind of guidance to, a kind of model which could then allow us to plan better for what will be the cost for the 800 and 2,600. We don't even know when the date will come. So given the delays on the 1,800, I would bet that probably it's rather towards 2014 that it will happen. But again we don't know. The amount are being put in the state budget for 2013. I believe that's what we understood and that's why what had been happening since October up till today, the small – important unpredictability and doubts have been accumulating.

That's why we took the decision that again to maintain this 1.5 net debt to EBITDA range. Well it demands us to be restrictive on the dividend policy and I know we can - the share price is just in front of me and I don't even need it. I am a small shareholder of this company. So it's a difficult decision. But this is a difficult decision where we have to manage. In the long term, we have to manage the debt of this company. We have to manage the fact that if the debt would go up too much, we will be somehow penalised by the financial cost potentially rising because the rating agencies could change our ratings. It's about managing the long term. It's painful, again, I agree and we see the sanction. But this is about managing the company for the long term. I think the offers I can – I don't need to elaborate. You go on the web page of my fourth competitor and you will see them and they are again introducing strong reductions of the price on the post-paid.

Leszek Iwaszko, Societe Generale

But what you wrote on slide one, new price war which was launched in January, you referred to unlimited packages on mobile broadband or *prepaid*.

Maciej Witucki

No, the SLM offer from Play.

Leszek Iwaszko, Societe Generale

And the probable impact of unlimited broadband which Play has already started with.

Maciej Witucki

Yes, the broadband is quite interesting *if I can shortly answer* this question but still it's interesting because on the same we have given the message about unlimited but you see the LTE virtual short-term monopolist which suddenly presented new offers were very ridiculous which is good for us, small amount of data under LTE packages which means that the some of the market players they understand that you cannot offer for long-term LTE 2 gigabits per month for PLN 15. The case is not flying. So suddenly we have new offers where if I am not wrong the LTE is being offered with 200 megabit monthly limit which if the advertisement would be right would be for one second and 1.2 second of download with the announced speed which I see on the billboards. So there is – by the way, this is a good message because it means that there are some chances that the market will adjust.

Now impact of the economic slowdown on the cash flow, I won't – we didn't push it too much in the presentation because the economic slowdown, the experience from 2008 and 2009 was that it was more harming the B2B market than the B2C. We see it on unlimited B2B obviously. The SMEs in the tough situation are looking to optimise costs, so they go into the unlimited, so we see it. We don't see this much at the corporate level as the prices are already very low. I would say on the B2C market, the major impact is the lack of appetite for the fixed broadband because if today you compare the prices, if you can have four dongles – well, not necessarily with LTE but four dongles with 1 gigs or 2 gigs per month at the price of the basic 10 megabit per second fixed broadband connection, somehow people because of the crisis will select this option. Now Jacques, any comments on the cash flow guidance.

Leszek Iwaszko, Societe Generale

Cash flow vis-à-vis the 1.5 times.

Jacques de Galzain

As I said during the presentation, in fact depending very much on the timing of the auction, if we are pay in 2013, if we pay early 2014, there is a lot of uncertainty there and we can accept to be a bit above 1.5 for a few months.

Leszek Iwaszko, Societe Generale

For a few months?

Jacques de Galzain

For a few months, yes.

Leszek Iwaszko, Societe Generale

So if I may confirm just to confirm if all the spectrum payments are made in 2013 and you make PLN 800 million on free cash flow, it's not likely that you will be below 1.5, you will be rather above 1.5?

Jacques de Galzain

It depends on some of the factors, but as I tell you, we can exceed this level for a while.

Leszek Iwaszko, Societe Generale

Thank you.

Piotr Janik, KBC

I have a couple of questions. First is on a renewal fees. You mentioned that you expect that these renewal fees could also be a significant cash outflow. The question is which are the nearest maturing spectrum, in what year they mature, how much have you paid for them initially and how much – what could be the size of this outflow? This is the first question

The second question would be on cost savings from the fixed and mobile arms merger. Could you please somehow quantify these savings? And maybe you are guiding for headcount reduction by 1,700 this year. Does it also include the merger of fixed and mobile arms or is it an addition to that?

The third question would be on free cash flow on this low-end guidance of PLN 800 million. Does it include assets disposals, gains on asset disposal? And the fourth question is what was the EBITDA of Wirtualna Polska in 2012? Thank you.

Maciej Witucki

Maybe Jacques, you can start with the free cash flow and EBITDA questions.

Jacques de Galzain

The free cash flow, the PLN 800 million, the above PLN 800 million does not include any asset disposal.

Piotr Janik, KBC

So purely operational?

Jacques de Galzain

Absolutely. Wirtualna Polska, this is roughly PLN 180 million revenue, EBITDA between 20% and 25% and 425 people.

Piotr Janik, KBC

OK, 20%, 25%?

Jacques de Galzain

Yes.

Piotr Janik, KBC

Right.

Maciej Witucki

Now maybe on the cost saving merger, so it's not that substantial. The 1,700 is the full packet of the leaves in 2013. The major impact of the merger between TP and PTK Centertel, it's some savings but not kind of enormous amount because we already merged a lot of functions and a lot of functions are already shared as much as is allowed by the regulator, by the MOU. We passed together

Chinese walls and all this demand. So it's not very substantial. It's some administration, some daily management. But the major advantage of the merge between TP and PTK Centertel, it's a common service and is an option of address. Again under some restrictions coming from GIODO *{Inspector General for the Protection of Personal Data}* and the usage of the basis, it's much easier to serve and sell to the customers. We will immediately avoid all the, I would say, natural behaviours like you call me as a fixed customer and I have to – once you finish with the fixed customer, I have to you ask the – well, sorry for that, that sounds a stupid question, do you allow me that I present to you a mobile offer of another operator which eventually is frustrating the customer on the other side especially the person answering that Orange Polska. It will help us a lot as Mariusz said on the sales efficiency and on the usage of the customer bases assets to sell more, again under the constraints of the law. It will not provide kind of too big numbers on the cost savings.

Now on the renewal fees, Jacques, go ahead.

Jacques de Galzain

Renewal fees, we know that it will be in 2014 but we have no clue as of now about the amount and this is one of the uncertainty going forward.

Unidentified Speaker

2014 renewal. Which spectrum is it?

Piotr Muszynski

The first in the queue 450 MHz and we will make – probably we will also discuss and we will make a decision how far we want to prolong. Then of course we will have all the other spectrums bearing in mind that the regulator changed the rule. We are prolonging not for 15 years but for 10 years now from this year will of course bring another aspect of the financial return on investment in the spectrum. We have to also remember that we are facing the change in terms of the spectrum use because LTE on 1,800 and new coming digital dividend will force us to swap customer base to the new frequencies. That's the future in this, the business elements which we have to face in the coming time for the renewal.

Piotr Janik, KBC

OK, thank you.

Jacek Kunicki

Do we have any other questions from the floor?

Pawel Puchalski, BZ WBK

Hello, Pawel Puchalski, BZ WBK. Well, I don't like your guidance at all and not in a sense of PLN 800 million of free cash flow but it did show me changing revenues and your EBITDA margin forecast. If you don't show that level of confidence in PLN 800 million free cash flow is let me say low. If you don't show me – well, maybe revenues should fall 15% year-on-year and you will say in one year well, we have delivered on our guidance. Well if you show me your revenues in EBITDA, I could judge myself whether PLN 800 million is correct, it's not. Maybe it's not PLN 800 million, maybe it should be nil. The other factor – well, the same question - what is the impact of working capital in 2013? Do we expect any further burden of working capital? And third question from my side – what could be a trigger for you paying this interim remuneration you mentioned on one of the first slides? And as addition to this question, do you consider disposal of your fixed network?

Maciej Witucki

Yes, just on the first point, I think that we will – it's not the place to compare your preferences with my preferences or our preferences. So we just acknowledge your statement. The third question on the interim remuneration, what we said clearly is we commit to the floor and then the point that we are going to review the overall situation of the company and the cash situation of the company within a period, within a year. So we have any – and we don't – today we cannot commit to triggers as you rightly said in the first comment that there are so many uncertain elements in front of us. I think they are on the revenue side obviously but they are specially and this is hitting directly the cash position, this is that directly hitting the dividend – they are the big cash outflows. The market with the contraction of the revenues, we don't want to guide on them to be too tight depending on what we did tomorrow's promotion of one of the competitors. But still you can somehow calculate the range of what we think will be the revenue of the market. Describing it again, it had been announced even by my competitors, the market going down 8% to 10% in 2013. You take us, we have one-third of the mobile; we have majority of the fixed; you can calculate the number yourself. But the real trouble and that's why we had to take this difficult situation – this difficult decision on the dividend is the trouble on the cash outflows. All those actions we will see and again – it's not use as an excuse. We would have the answer of the 1,800 in December, we would may be base some reasoning around cash on what have been the offers and what was the output of the 1,800 and then we could evaluate what would be the situation for the 800. Today we don't this variable. We will have it unlucky tomorrow hopefully according to the Internet news of today. We are facing a very specific uncertainty on the cash level.

On the top-line and EBITDA, again top-line yes, it is impacted by the price war you can estimate. The EBITDA, we have cost cutting actions yes, you can estimate. But you have already – the EBITDA is already a sum of two not fully mastered – you don't master them fully especially the top-line. On top of this you have a third level of uncertainty which is the pure cash outflows – the renewal of the spectrum next year, the potential cash out – because we have to think not only about this year, at least as well about 2014. The EU fine I will remind is a very high amount again, pure cash out. So the sum of this unpredictability makes us kind of very conservative on the cash outflows and unfortunately dividend is a huge cash outflow for this company.

Pawel Puchalski, BZ WBK

That's why I find PLN 800 million much worse information than dividend per share at PLN 0.5

Maciej Witucki

Again I cannot comment on this one. Working capital, Jacques.

Jacques de Galzain

Yes, in term of working capital, I mentioned that we spent less than PLN 2 billion of CapEx in 2013. You see that there is a decrease compared to 2012 and so there will be an impact on CapEx vendors. Nevertheless I don't expect big deterioration of the working capital.

Pawel Puchalski, BZ WBK

And on the potential disposal of fixed network?

Maciej Witucki

Today what we said by the way we are studying all the options of the outsourcing we could deploy on the different levels of the company. Outsourcing all potential disposals and more mutualisation because I think that just disposals, we do believe that an excellent example of what we did on the mobile network mutualisation of some services is much more interesting than kind of pure spin-off and sale of the assets. It's too early but clearly we will move on the mutualisation level, on the outsourcing level. It's a very complicated process. To go into the disposal of the fixed network is a painful, risky and long process, so it won't be my first choice.

Pawel Puchalski, BZ WBK

The very last question if I might. This is strategy for three years if I got it correctly. Do you believe in your CapEx to sales ratio falling to 11%, 12% within scope of this three-year period?

Jacques de Galzain

I said 12% to 13% and this is what we want to achieve in the long-term.

Maciej Witucki

And again just one point on this one. Let's be realistic. If the prices are the ones we have today on the fixed broadband, they are not justifying because there the big CapEx would be the CapEx from fixed. The mobile we have network sharing, we have network which is ready for 4G so we will not spend billions on the equipment for the 4G and *antennas* in all those cabinets which have been changed. The potential big CapEx of the telecom operators are the CapEx around the fixed broadband. But the fixed broadband – billions on the fixed broadband are not flying with the prices of the fixed broadband in Poland today. So if there is a growing demand and again I don't speak about something which I believe would happen in the coming year or two, if there is a growing demand, assuming that the customers will use more and more video, they will use more and more data intensive applications, they will look for the fixed broadband because this is the only one which gives you the guaranty. When they look on the fixed broadband, it will increase the demand and then there will be a need of increasing the prices and then you can have a case of flying investment. Today, nobody can force us and definitely we will not force ourselves to increase CapEx with the price, with the revenues, the ARPUs we have from the customers. There will not be in the three years – in the current set-up, in the three years' time, there will not be another broadband investment plan. That's why we believe that we will contain the CapEx.

Pawel Puchalski, BZ WBK

Thank you very much.

Jacek Kunicki

Do we have any other questions from the floor?

Wojciech Kiermacz, Finweb.pl

Wojciech Kiermacz, Finweb.pl. Two simple questions. First one, do you think that those unlimited offers for calls and SMS are going to enter the Polish market for good in 2013? And if so, between these unlimited offers and those MTR prices, what is going to have worse impact on revenues in your company? This is the first question. And the second one – in the light of those war prices you mentioned, dramatic cost cuts plan and war crises, do you still consider the telecom sector defensive?

Maciej Witucki

OK. May be on the second question yes, I do because I am sitting in front of you and I believe that there are still – as we said there are two elements. We have price wars but it means that sooner or later, those price wars are going to have victims. On the wars you have always victims. And we believe that we are having more assets than the others, so we will not be on list of the victims. And by the end, you need somebody to deliver the services. Let's be realistic. It means you've got a dozen of baby bells in America 20 years ago in the spirit of sharing the market and spreading the market. Today the only developing market of the fixed broadband, I would say within the private sector is the American one. Why? Because of the fact they have two to three players and because the prices – because the services which we do sell for PLN 100 are being sold for $120. And so at some moment of time, when the demand will come, the demand will drive the prices up. The question is to again pass this difficult period and we still believe that we have options, we have capabilities, we are strong and the track record to transform without killing the company because I remind the PLN 900 million cuts of the cost base, they have been done while gaining or defending market shares. We don't go into the mode of we cut costs and we lose people and we lose market shares and we lose energy of the company. We have been unfortunately cutting the employment in the company and fortunately cutting the cost but in the same time at least defending if not increasing the market share. So we have a track record of the transformation, both lean and the young at the same time.

The impact on next year obviously is MTR because the MTR is the largest impact on the top-line. Vincent, do you want to comment on the unlimited offers in 2013 and further?

Vincent Lobry

I think unlimited offers have been there for almost one year now. You change a little bit what you put in the unlimited. But I think now it's about uncertainty of the market and we have to see what you put on top of unlimited like broadband services, like other international services, like uncertain *so on)*. So I think now unlimited will not disappear from Poland. That's for sure. What we try to do is now and that's the trend of the market to keep the ARPU but giving more things to the customer.

Leszek Iwaszko, Societe Generale

I just want to make sure on the CapEx question that the 12% to 13% of revenue, do you plan to reach it within this three-year period and does this include all the cost related investments related to deployment of 4G networks? Just to make sure.

Jacques de Galzain

I cannot tell you if it will be 2015 or 2016. This is not as precise and exact and we can have some opportunities, so we will not let them aside. But this 12% to 13% includes the cost of deployment of LTE technology. That's for sure. But remember, we do that within our joint venture with T-Mobile and this is the reason why it is included.

Leszek Iwaszko, Societe Generale

Thank you.

JacekKunicki

Any other questions? If not, then I suggest we switch to the telephone audience?

ACT Operator

Thank you, sir. If any audio participant would like to ask a question, please press *1 on your telephone. Your first question comes from Sander Pullerits from SEB. Please go ahead.

Sander Pullerits – SEB

Good afternoon and thanks for the in-depth presentation. I have two questions on dividends. First of all, I understand that you can't give us any more specific guideline on the operations, statistics or anything in terms of what are the conditions for you to pay out interim dividends. But can you roughly say is this more dependent on actual cash flows that you are going to realise during 2014 and 2013 or is this dependent on margins and market pricing? And the other question I had about the dividends is that can the investors expect you to change your mind again in terms of the actual size of the dividends from 2012 profits before the actual payment in July? Thanks.

Maciej Witucki

Well, I think that the suggestion of the second question is largely overoptimistic. That's the only comment I would do. Second of all, obviously, the first question, dividends, cash or market pricing, I would say both, but obviously with more weight to the cash because again the cash – and this is what we discussed with *Paweł Puchalski* a few minutes ago - the cash is by the end of the process, so the cash is summing up all the different unpredictability of the market behaviour, compatibles behaviour, efficiency of the cost cutting and unknown or not mastered outflows of cash for the frequencies, especially for the frequencies and next year for the European Community fine. Cash will be absolutely the major driver of potential decisions concerning the dividend. Changing mind before payment, I don't think so.

Sander Pullerits – SEB

Thank you.

ACT Operator

Your next question comes from Vivek Khanna from Deutsche Bank. Please go ahead.

Vivek Khanna – Deutsche Bank

Hi, good afternoon. It is afternoon – no, it isn't; it's only morning. I apologise. Good morning, everyone. Two questions if I may. The first one is just on MTR cuts and I know you have indicated as to what you see the impact for the overall market for both 2013 of PLN 2.7 billion and less than that in 2014. I am just thinking from your perspective, wouldn't your impact to EBITDA be somewhat mitigated by the fact that you will have lower interconnection cost on the fixed line business? So unlike some of the other mobile operators in Poland, the MTR impact should be less for yourself relative to the competition because of the fixed line component?

The second question is with regards to your cash flow guidance of greater than PLN 800 million and trying to reconcile that also with your CapEx guidance of PLN 2 billion, down from PLN 2.3. billionI am just trying to – first, when you talk about CapEx, is that just a cash CapEx which was or should I actually look at it in conjunction with the delta in cash payables? Just to put that in context, you did PLN 2.3 billion in full year '12 but you also had cash payables unwind which basically led you to a combined CapEx of PLN 2.7 billion which is largely in line with what we saw in 2011. So you had your lower cash CapEx, but the cash – the CapEx payables increase meant that the combination of the two '12 versus '11 was broadly in line, the same. Therefore I am trying to understand when I look at 2013, if CapEx moves from PLN 2.3 billion to PLN 2.0 billion, do I have any changeable in the

CapEx payables or should I be looking at a combined saving of around PLN 300 million across both those aligned items.

And then a final point on cash flow. Again when you mentioned on working capital no significant change in working capital in 2013, I am just trying to compare that. Are you looking it relative to a minus 450 in 2012 or are you sort of looking at it as a minus 100 in 2012? Thank you very much.

Maciej Witucki

OK, so Jacques will take the question number two and three.

Jacques de Galzain

Yes, I will start by the CapEx. If you look at our cash flow statement for the year, in fact you have CapEx at PLN 2.3 billion and you have negative impact of CapEx payable by PLN 450 million. So all together we are not far from PLN 2.8 billion. When I mentioned less than PLN 2 billion on CapEx, this is not cash CapEx; this is CapEx. And then answering to one question a few minutes before, I said we will have still in 2013 a negative impact of CapEx vendors. You know that traditionally we have a peak of CapEx in Q4 and so we will pay a bit more in 2013 than the CapEx that I mentioned. Anyhow this is – I do not expect a significant deterioration of the working capital in 2013.

Maciej Witucki

OK, the question one about MTR cuts, yes, you are right. It does not translate directly into the drop of revenues. It is not translating directly to the EBITDA because we have in the same time the drop of the cost on the interconnect side. But again, this is impacting the top end and all the other indicators related to the ratios, to the EBITDA. And then, obviously we have the fixed to mobile where we have to decrease prices because the fixed to mobile is regulated. So we have to adapt the prices on the fixed to mobile accordingly to the cuts of the MTRs.

VivekKhanna – Deutsche Bank

OK, can I just have a quick follow-up and excuse my ignorance because I am not as close to the company as clearly I should be. But just in context, the greater than PLN 800 million free cash flow for 2013 is that comparable with the PLN 1.5 billion give or take delivered in 2012 or is it not like-for-like?

Jacques de Galzain

This is absolutely comparable. There is only a slight difference. We talk now about organic cash flow and not anymore about net free cash flow. The gap between organic cash flow and net free cash flow, it is the disposal of real estate. We talk about few tens of millions but this is comparable.

VivekKhanna – Deutsche Bank

And within – I am just trying to reconcile PLN 1.5 billion goes to PLN 800 million, but within the delta in cash movements, you say working capital is not a big change and CapEx will be down PLN 300 million but you will have some of your CapEx payable impact but less than what we saw last year. Is that a fair assessment – of summary of what you were seeing?

Jacques de Galzain

This is correct.

VivekKhanna – Deutsche Bank

OK, thank you very much.

Jacques de Galzain

And if I may add, this is exactly what was commented by Maciej and Vincent a some few seconds ago. In fact the whole question is about the operation and the commercial activities and how much of revenues we will be able to earn next year.

VivekKhanna – Deutsche Bank

Thank you very much for your time.

ACT Operator

Thank you. Your next question comes from Herve Drouet from HSBC. Please go ahead.

Herve Drouet – HSBC

Yes, good morning. Two question on my side as well. First one is coming back as well to cash flow. Do you include in your guidance for 2013 any one-off expected like restructuring and severance? And if it the case, can you give us a sense of what will be the size? And just try to understand the full offer of PLN 700 million, where is it more likely to come? Is it on organic EBITDA being generated or is there some one-off as well in that?

And the second question is what driven you to go above 1.5 times net debt to EBITDA considering the current Polish bond yield are relatively low right now and have decreased? Thank you.

Jacques de Galzain

About cash flow, it doesn't include one-off. To be a bit more precise regarding structuring, you know that we have at the end of 2011 we agreed with the trade unions on a plan on two years, 2012 and 2013. So we did more or less half in 2012 and are still 700 redundancies in 2013. So consequently, there will be some cash out on that. But we do not talk about very huge amount. I mentioned the figure last year so I have no difficulty to say that it is in the range of PLN 100 million cash out and that's it. But no, I do not consider that severance payment in that respect is a one-off because we are on a regular basis and we mention that we will continue social plan. So this is not really a one-off.

About the 1.5 net debt to EBITDA ratio, we do consider being mono market, being only in Poland that the 1.5 debt to EBITDA ratio makes sense and we want to be still there in the future and to be consistent and to be coherent. We need to work financial capabilities to develop and not to develop for the few years to come but to develop in the long future. We talk about LTE. There is also *FTTH* which is somewhere in the landscape and we included some money for that already in the plan. But one or another it will happen and we need to be ready for that. So if we exceed quite significantly this level of 1.5, then we will be in trouble to face significant investment.

HerveDrouet – HSBC

Right, thank you for your answers, thanks.

ACT Operator

Thank you. Your next question comes from Nawar Cristine from Nomura. Please go ahead.

Nawar Cristine – Nomura

Thank you very much, NawarCristine from Nomura. One question please on the EBITDA prospect in 2013. So the organic cash flow guidance of above PLN 0.8 billion equates to around PLN 800 million contraction year-on-year. With CapEx coming down by PLN 300 million, this could suggest an EBITDA contraction of up to PLN 1 billion. So could you please comment on that and perhaps walk us through the dynamics driving the organic cash flow decrease. Thank you.

Jacques de Galzain

I will not comment on your figure and I think that you have enough ideas to model the EBITDA for next year. I can just reiterate that we talk about PLN 2.7 billion lost on the value of the mobile market just due to MTR. Then we have still fixed voice revenue erosion. You have the price war which is ongoing on mobile on the post-paid market. So you have so many effect that it is quite difficult you understand to say at which level will be the EBITDA. So revenue EBITDA, this is the tuning that will happen during the year and we will tell you is it more each quarter.

Nawar Cristine – Nomura

Thank you.

ACT Operator

The next question comes from Daria Fomina from Goldman Sachs. Please go ahead.

Daria Fomina – Goldman Sachs

Yes, hi, I have two questions. My first question is a quote actually from which you said I am trying to understand what it exactly meant. You said that you cannot provide the cheapest data in Europe without cost cutting. Sorry for putting on the exact words but is the target of the cheapest data in Europe is actually on the table and just trying to understand where you see the markets moving in the next three, five years.

And a second question is more on your longer term trend in the mobile market. Do you see the potential for improvement of the competition in let's say two years when we would digest the MTR cuts that's happening this year or it's more of a long-term competition increase and we are unlikely to see the margin improvement and the competition ease? Thank you.

Maciej Witucki

I would maybe start and then let the floor to Vincent if there is any additional thoughts. First of all, yes, we have today when you compare the effective price per minute. On the mobile side we have today mobile voice, we are the cheapest with Romania. On the fixed broadband, we are the cheapest with Lithuania. On the mobile broadband, we have definitely the cheapest offer because you can today test the LTE from one of my competitors for PLN 9 being €2.20 and you can have a monthly subscription for €3.50 with if I am not wrong 2 gigabyte package of data behind it. Those prices are unreasonable. This is clear. Those prices I believe somehow, those ARPUs, maybe not the price, maybe the *face* prices, they will stay as they are. You have now new packages from the same competitor while you have instead of having one gig or two gig you have, 200 meg and I think that this is the kind of proper evolution towards the situation where effective ARPU from LTE services will go up because they cannot stand in this level of the €3 per month with the huge package. So I do believe that the mobile data first would grow. Then on top of the growth we will have a growth of the ARPU or at least we will have very cheap offers, the kind of call offers to attract the customer with the very limited packages. Then whenever you want to have a decent package, then you go into the more expensive packages. You will have as well services where you are going to guaranty the bandwidth because again LTE is a great experience. If you are the only user on the given base station but when you have more users and hopefully we will have more and more users, the comparison is not this much *keening* the customer.

From what I understand from Germany, on the German market, the perceived effective speed on the LTE is in the range of – *under the control of* Piotr is in the range of 10, 12 megabit per second. Today with my HSPA dual carrier network I have in Warsaw, if you are not unlikely in the place with a lot of smart people with smartphones, you can already achieve a speed – if you go on the speed test, you can achieve six or seven megabit per second. There is really on the LTE side I do believe at the mid-term after we have this situation where we have one player offering all these, so trying to grab the opportunity, we will have a bit of the rationalisation of the price. We have to because otherwise the case would not fly.

Then trend on the mobile market, improvement after the MTRs, you have already some signs. It's rather – what is happening, we have a short-term war. So we depreciate to the unlimited but you see attempts. Example of the attempt is SIM only to save the cost on the commercial side. Another example is the instalment sales of smartphone. Suddenly you have – instead of having the smartphone subsidised from the beginning with the subscription, you have the subscription fee which is cut and one-third being the subscription and two-third being an instalment for the smartphones. Those are the way to try to get a bit rate out of the subsidies. I don't believe – we don't believe that it will be dramatically impacting the market in 2013. We will still be bleeding in the kind of direct wars. But you see some element of the market where everybody understand that you cannot run a business in the telecom business. We've still heavy CapExs, we've single-digit EBITDA margins. It's not possible. We need to generate cash for investment, all of us. Yes, we will cut cost; yes, we will share networks but the prices should evolve up. Vincent.

Vincent Lobry

Yes, so one word on top of that. Even if you can see some signs, the evolution of the market and mobile is still very unpredictable. That's why we want to push convergence, not to depend only on the price war on the mobile. We prefer to make a global discount for the customers and at the same time increase the ARPU with cross-sell, broadband plus mobile and just to fight on the price on the mobile. That's why even in the good sign, we are still pushing a lot the convergence because we have a unique opportunity compared to our mobile only competitors. That's one big part of the strategy. So if on top of that, prices don't decrease anymore, it would be very good. But we don't put our strategy based on that.

ACT Operator

Thank you. Your last question comes from Dalibor Vavruska from Citi Group. Please go ahead.

Dalibor Vavruska – Citi Group

Hello. Just a question sort of going back to the announcement and the way that you handle the dividend expectations. I assume that you would have been aware that the dividend is something that your investors are looking at very closely. I think that's why I suppose the market was surprised that you came out with your second cut in such a short period of time. I am just wondering was that message that you are willing to dramatically lower your cash flow and margin and fight in the mobile game? Was it not meant to competitors perhaps to show them that you are actually determined to stick to your target and basically fight this game and see one of them instead of losing before you potentially drop out of this. And if so, can you just comment on the expected timeframe and are you possibly preparing for an option that this just won't happen this year and you will need to carry on fighting for a more lengthy period? My first question.

Maciej Witucki

Any further questions?

DaliborVavruska – Citi Group

The second question that I want to ask is the regulator going to review the result of your investments in the following months perhaps? I remember vaguely that you may have mentioned something like that and is this something that you think that your investors should pay attention to? Could there be any kind of important results of that review in regards to future regulation? Thank you.

Maciej Witucki

Thank you, so maybe on point number two I have no fears about this one given that we are already monitoring daily level the investments. We are absolutely online with the memorandum of understanding with the regulator. It's fully aligned. We have by monthly steering committees where we review those elements of the investment very tightly, so I don't expect any surprises by the closing of the MoU which is virtually happening now. There is not a big date or the big event but this is **actually** what is happening.

Now, question one, I am not this much strategically aggressive in the sense that this is not a message about we are going to keep the cash to kill anybody on the market. We simply keep the cash because of the unpredictability of too many factors in the same time. It's a very simple point. Too many elements in the incoming two years – cash element are incoming. On top of this, there is the market and we want to be conservative. We want to keep the financial help of the company at any moment. This is the major driver. Now do I expect that we will be survivor on the war? Yes, I do because we have the most of the assets. Do we have to change? Yes, we have because especially the challengers are much asset lighter than we are. There is not only enough to be big to win the war, you need to be agile. That's why we keep the strength but at the same time we accelerate even the transformation to be sure that we have all the chances on our side.

Dalibor Vavruska – Citi Group

Thank you for that answer. I think what I meant is also that you keep the cash but also that you significantly reduce the free cash flow outlook. Maybe I missed some of the answers before for which I apologise. But I think there are several questions about this PLN 800 million free cash flow. Effectively unless something changed very dramatically, you are kind of signalling to the market that you are willing to go much lower with the margins than was before expected. This is what makes me think that this could be like a part of your strategy to perhaps deter your competitors.

Maciej Witucki

Absolutely not our strategy to fight on the – as we said by the way, it's not a strategy. We even want to avoid to fight too much on the individual markets. We have to keep market shares, we are the leaders on the mobile, we want to stay leader on the mobile. But we will not go into the value destruction. We will not – Orange Polska will never provoke a price war. We never provoke by the way in our history and there is no plan to get crazy and to change this solution.

Dalibor Vavruska – Citi Group

And if I can ask one last question. If I am not mistaken based on your press release, your value market share in mobile is around 29 and you want it to be above 30. Obviously that means that you are planning to gain market share in mobile, that means that you have got to fight the war quite fiercely even though you may not want to provoke it. You are planning to gain market share, right?

Maciej Witucki

Yes, but I will - the idea behind it and it is more than the idea because we have the results of the Orange Open Service which we offer today is you can gain customers without killing your overall margin simply by offering to the customers we have already on the broadband side the services of mobile together with Orange. That's what Vincent has shown today, the product with the additional SIMs of the family where we give a discount to the Open product whenever one of the members of the family is joining the basic Open of whomever signed the first contract. So we have first contract, we have telephony, fixed telephony, broadband, television and mobile, so we have a rebate on your services. If another member of the household wants to join, there is additional discounts to this person who is joining and to the next one and to the next one. This is the way how to gain customers without killing your overall profitability, without going onto the direct price war on the mother product.

Dalibor Vavruska – Citi Group

OK, thank you very much.

Jacek Kunicki

OK. I see that we have no more questions. Thank you very much for your attention, everyone and I invite you for our Q1 results disclosure towards the end of April. Goodbye.

ACT Operator

Thank you. That concludes the Orange Polska Results conference call. Thank you for participating. You may now disconnect.