Orange Polska (TPSA) Conference Call
17th October 2012

Operator:

Welcome to the Orange Polska (TP SA) conference call on 17th October 2012.

Throughout today's presentation, all participants will be in a listen only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation, please press the '*' followed by the '0' on your telephone for operator assistance.

I will now hand the conference over to Jacek Kunicki. Please go ahead.

Jacek Kunicki – Head of Investor Relations:

Good morning everyone. Thank you for joining us at such a short notice. My name is Jacek Kunicki – I'm Head of Investor Relations for Orange Polska. Welcome to the disclosure of our preliminary numbers for quarter three of 2012.

Please note that the results have been published last evening, and the presentation has been published this morning. They are available on www.tp-ir.pl .

We're joined today by Maciej Witucki, Chief Executive Officer, and Jacques de Galzain, Chief Financial Officer. I will hand the floor over now to Maciej Witucki to begin the presentation.

Maciej Witucki – Chief Executive Officer:

Good morning, ladies and gentlemen. I would like to thank everyone for attending again this conference with a very short notice. As we have important news to share with you, we felt the urgency not to wait until the accounts disclosure, but rather to come out to the market with preliminary numbers as they are used in this presentation.

Our agenda for today is as follows:

- I will begin with summary of the most important developments since our last conference.
- Jacques will then lead us through the analysis of Q3 financial performance.
- Finally, I will conclude this presentation with key takeaways and open up the call for the questions.

Let's begin with the key developments, starting with slide number 5.

Throughout quarter three, we observed a visible deterioration of macroeconomic conditions. It is impacting our results, as receivables collection takes longer than before, suppliers are more demanding on payment terms and customers have become more price sensitive.

Weaker economic signals are coupled by launch of irrationally priced, unlimited tariff plans in the mobile market – first in post-paid in quarter two and now in pre-paid since last week. Additionally, previously mentioned trends – the aggressive pricing and poaching of business customers – have intensified in the last months.

Take up of unlimited plans that the market has adopted in quarter two was greater than we anticipated, consequentially diluting the ARPU and affecting our financial results.

Regulatory impact on our results remains important, with -80 million revenue impact in quarter three and I remind you that the new MTR cut will affect us even more next year.

In effect of an accumulation of these factors, we have had to update our outlook and cash guidance.

We have also decided to tighten our financial discipline even further, reallocating the remaining part of our share buyback to seize market opportunities such as spectrum acquisition.

Yet, even as we are confronted with a downturn of our operating environment, we have unique assets and fundamentals to leverage on – as illustrated on the next slide, which is slide number 6.

First of all, despite the big intensification of competition, we have defended our market position. This is especially valid for mobile, where we have defended our leadership position, staying clear of the nearest rival. Our value market share has remained almost flat since the beginning of the year – at roughly 30% of the market value.

Secondly, we have a unique product offering to benefit from in the future. We have launched new products for both business and individual customers and these are bound to help us in the medium term. We are also confident in the ICT activity. Despite some project postponements by business – caused by the macro downturn – we will continue to develop this service line and we are confident that it will deliver us with concrete benefits in the future.

Our track record of cost control and efficiency gains is certainly another valuable asset that will help us to succeed in these tough times.

Our cost savings ability has been demonstrated on many occasions and quarter three is another proof of that – we have been able to maintain our Q3 EBITDA margin since last year, despite top-line pressure.

Finally, we have a strong and safe balance sheet that will allow us to purchase the spectrum – which is the key to launch 4th generation networks and services.

Let's now turn to the next slide to analyse our quarter three mobile performance.

The challenges on the mobile market are reflected in the commercial development of our mobile segment.

Impact of the unlimited plans is clearly visible in an evolution of the mobile ARPU. In quarter three it decreased by almost 6% year-on-year, as compared to 2.5% decline in H1.

The customer base has stayed flat since quarter two, growing by roughly 1% year-on-year. It was thanks to the continued growth in pre-paid, with post-paid base declining in our business segment.

The number of smartphones has continued to rise, reaching 2.8 million devices. This is an important sign, showing that the potential for data is big and should get even bigger once the 4G networks and services will be rolled out.

Let's now go to the next slide for analysis of the fixed segment.

Looking at fixed KPIs, we can clearly see the positive impact of our bundling strategy.

We have sold over 190,000 of the 3P bundles and they are visibly contributing to the commercial development. They continuously fuel broadband ARPU, which is nearly 55 zloty in quarter three, as compared to 53.4 zloty at the end of 2011. They have helped reduce fixed line churn. It decreased by 131,000 in quarter three versus 158,000 in quarter two and 210,000 in the first quarter of the year. So we see a very positive slowdown of the fixed line losses.

Finally, our TV base has continued to grow, reaching almost 700,000 clients. Following Q3, 30% of our broadband clients have television with Orange.

As mentioned before, upcoming sale of spectrum is of key importance for our development. Let's go to the next slide for a review of this opportunity.

So the slide number 9.

4G technology is the key for the future of our mobile activity. Not only will it prepare our networks for future demand growth, but it will solve a number of issues that we are having today.

Within urban zones, 4G will predominantly solve the future capacity issue, as it can cope with significantly more traffic. Additionally, as it will deliver speeds far greater than we have today, it will facilitate growth of mobile data coming from handsets, dongles and tablets.

Looking at rural zones, LTE will have a different use. Of course it will be a standard mobility product. Its true value however will be to solve the range issue. We will be able to use it to deliver broadband in those areas that do not support investments in fibre. In effect, this will allow an increase of the reach and penetration of broadband – enlarging our addressable customer base and creating new revenue opportunities.

4G requires new spectrum, but the frequencies needed for these services are, or will be, on sale soon. Let's turn to the next slide for an overview of this process.

The regulator has launched a process aimed at the sale of the 1,800Mhz spectrum. A total of 5 blocks of 5 Mhz each are available in a tender process. Its criteria focus around price and competition. In effect, it strongly favours P4, Play player, which can buy spectrum cheaper than competitors. Offers are due to be placed on October 22nd and I can confirm that we will participate in the tender.

Sale of the 800 and 2,600 MHz is anticipated for next year. It will likely be conducted as a price auction rather than a tender, to which we will also participate.

Naturally I cannot reveal our approach to spectrum acquisition, but it will definitely be an expensive asset. We estimate that it may cost us between 1 and 2 billion zloty. Nevertheless, looking at its long term prospects, benefits of these assets by far outweigh its cost.

Finally, as you know we had to revise our outlook and guidance to reflect the deteriorating environment. Let's go to the next slide for comments on our updated expectations for 2012.

Slide 11.

After a careful analysis of the market disturbance in mobile, we currently anticipate our revenue in 2012 to contract by a range of -4 to -5% versus pro-forma in 2011.

Our EBITDA margin has so far been resilient, thanks to the cost savings. Nevertheless, as the top-line pressure is growing, we anticipate the full year EBITDA between 34 and 36% of revenues.

The capex outlook is then reaffirmed, despite lower revenues. And finally, due to the pressure on the top-line, as well as the working capital requirement, which is increasing as the Polish macro conditions worsen, we anticipate net free cash flow generation between 1.5 billion zloty and 1.6 billion zloty for the net free cash flow.

Finally, we will most likely recommend to allocate 1.3 billion zloty for an ordinary cash dividend at 1 zloty per share.

Of course, all our objectives exclude the 550 million euro payment to DPTG as well as other exceptional items, such as change in consolidation scope or frequency purchase.

Ladies and gentlemen, this concludes my part of the presentation and I hand the floor over to Jacques, for the financial review of Q3. Jacques, the floor is yours.

Jacques de Galzain – Chief Financial Officer:

Thank you Maciej – Good morning everyone.

Let's start the Q3 review with a summary of key financials, as shown on slide 12.

Most of the key financial indicators in Q3 have evolved below our expectations.

It is especially visible in the evolution of our top-line. In Q3, it decreased by 5.5% year-on-year. In effect, after 9 months of 2012, revenue is 3.4% down since last year, slightly outside the range of our outlook.

Despite pressure from the top-line, we have been able to maintain our EBITDA margin. In Q3, it was flat year-on-year, bringing its year-to-date value to 36%.

Capital expenditures are roughly at the same level as last year and Q4 capex will be below that of 2011.

Finally, cash generation for the 9 months of 2012 is materially below last year. It is driven down by less revenue, coupled with increased working capital requirement.

Let’s now analyse these results in detail, starting with revenue on slide 14.

Our top-line has decreased in Q3 by 5.5% year-on-year, following a 3.4% decrease in Q1 and 1.1% contraction in Q2 only.

Steeper decline stems out of three main factors:

- First, the cut of the MTR and the roaming within the European Union. This accelerated the year-on-year regulatory impact from circa 50 million zloty, in the previous quarters, to over 80 million in Q3.

- Second is weaker performance of the mobile segment. In effect of the price war on unlimited tariffs, pre-regulatory mobile revenue was flat year-on-year, as compared to 35 million zloty growth in Q2.
- Finally, fixed segment has contracted quicker than in Q2, mainly because it was not supported by ICT sales in the third quarter of the year.

As mentioned by Maciej, tougher mobile competition has been visible in our results – let's now go to slide 15 for analysis of its evolution.

Mobile segment's top-line has decreased in Q3 by nearly 5% year-on-year, as compared to flattish evolution in the first half of the year.

It was driven down by the regulatory impact mentioned on the previous slide, as well as by price impact stemming from the unlimited offers.

As we expect more retention volumes in subsequent quarters, the price impact is most likely to accelerate.

However, thanks to our quick response, these did not affect the evolution of our customer base as much as they could have.

In effect, we estimate that we have maintained both our leadership position and our share in the value market intact since Q2.

Let's now turn to slide 15 for analysis of fixed revenue evolution.

Fixed segment's top-line has evolved in its normalised trend in Q3, declining by 4% since a year ago.

Its evolution is weaker than in Q2, mainly due to absence of major ICT sales, as business customers are postponing projects in reaction to deteriorating macro environment. This however does not undermine our conviction in ICT activity, and while we are not satisfied with the revenue in Q3, we strongly believe that it will develop to become a significant contributor to Group's turnover.

Other than that, fixed segment evolution was not surprising. Voice revenues decreased by 150 million zloty, while data services have finally grown year-on-year, posting a 9 million rise in sales. This is a positive and encouraging effect of our 3P offering, with bundles of broadband, TV and voice over IP.

This concludes my review of the top-line and let's turn to the next slide for analysis of our EBITDA evolution.

So slide 17.

Despite the shortfall in revenue, our EBITDA has rebounded strongly since Q2. Quarter-on-quarter, it grew by 2.2%, as a result of better cost structure.

Q3 EBITDA margin was stable year-on-year, with the absolute number for EBITDA declining by 80 million zloty.

It was driven down mainly by the decline of our turnover, affecting EBITDA by -123 million zloty. This was partly offset by 60 million zloty, due to lower commercial costs. This was a combination of less volumes with handset – due to unlimited plans – and our own efforts to optimise subscriber retention costs. The cost base was lowered in 2011 by 30 million zloty due to return of a fine – an impact that was not repeated this year. Finally, other opex grew year-on-year, but was offset by continuous benefits stemming from our cost optimisation programme.

Let's now turn to slide 18 for analysis of our net income.

Net income amounted to 307 million zloty in the third quarter, growing by 20% since Q2. In effect, it brought the year-to-date number to over 800 million zloty.

Q3 net income was up by 14% since a year ago – if one was to exclude the one-off new technology tax relief, obtained in 2011.

The underlying growth was a result of three factors:
- EBITDA down year-on-year, as explained a minute ago.
- Coupled by a 35 million rise in net financial expenses, a combination of lower cash, increased bank loans and higher interest rate on debt.
- Finally, this was offset by lower depreciation, which was down by 100 million zloty since last year.

This concludes my review of the income statement. Let's go to the next slide to review our cash generation.

Q3 cash generation was disappointing, as it reflected both lower turnover and impact of the macro downturn.

After 9 months of the year, our cash generation stands at just over 1 billion zloty, as compared to 1.5 billion zloty a year ago.

The 450 million zloty variance results from 3 main areas:
- Net cash from operating activities is down by circa 300 million zloty, mainly due to contraction of turnover.
- This is coupled by a 400 million variance in change of working capital requirement, of which almost half was generated in Q3. It is a combination of slower payments by customers, especially business customers, as well as a strong push by our suppliers.
- These two effects are partially offset by almost 200 million less cash out for tax.

After analysis of our cash generation, we conclude that we will not be able to achieve our net free cash flow guidance for this year. This is the main reason why we have accelerated this disclosure.

At the beginning of the presentation Maciej spoke about the importance of 4G spectrum acquisition. Let us now move to the next slide, to review our options of financing this key asset.

Slide 20.

Acquisition of spectrum for the 4G services will be a costly process, albeit today it is still quite difficult to estimate the precise amount.

Depending on various conditions we estimate that the total price for all 4G frequencies could range between 1 and 2 billion zloty.

Spectrum acquisition could push our net gearing up to 35 to 40% and net debt to EBITDA up to 1.5. This would mean that we could reach maximum limits of net gearing set in the current financial policy. Net debt to EBITDA at 1.5 would come very close to what our rating agencies regard as a financial trigger.

Additionally, let's remember that we see strong pressure on operating results and we have a risk of 127 million euro cash out due to fine from the European Commission.

We acknowledge the need to buy the spectrum and we think that we will be able to finance it predominantly from debt. Nevertheless, having this in mind, we decided to tighten our financial discipline, as was already explained by Maciej, in order to preserve our sound balance sheet.

Ladies and gentlemen, this concludes the financial review. I hand the floor back to Maciej for the conclusion. Maciej, the floor is yours.

Maciej Witucki:

Thank you very much, Jacques.

So ladies and gentlemen, first of all I would like to underline that we are continuing to deliver a solid commercial performance but this is not offsetting the market depreciation. The developments of the third quarter show us that we have a challenging period in front of us.

The pace of deterioration of the market is disappointing and potentially limiting all market players' capacity to invest. We have first of all delivered on the commercial. Second of all, immediately introduced adjustment actions within the quarter, including both marketing actions and a change to capital allocation. I strongly believe that this is to the best interest of the Company and all its stakeholders.

We will continue to build on our unique strengths, be it on our product offering or our financial capability – i.e. we will leverage on the strength of our balance sheet to acquire 4G assets that are key for the future well-being.

In February, we will disclose a new medium term plan. While I cannot reveal its detail today, I can assure you that not only will it address the current challenges, but bring disruptive changes that will prepare Orange Polska for development in the medium term.

Looking on the way the market behaves today, with domination of price competition, it is not possible to compete in the traditional way. This will not suffice.

The new plan will bring meaningful change. It will reshape our company, creating a leaner, faster and lighter organisation.

Finally, I would like to underline that what I have seen until today keeps me more than ever confident in this company, its team and its capacity to overcome challenges and to ensure value-oriented development for all stakeholders.

Thank you ladies and gentlemen, this concludes our presentation and we are now ready for your questions. Thank you.

Operator:

Thank you. If any participant would like to ask a question, please press the ‘*’ followed by the ‘1’ on your telephone. If you wish to cancel this request, please press the ‘*’ followed by the ‘2’. There will be a short pause whilst participants register for a question.

Thank you.

Your first question comes from Alex Balakhnin – please state your company followed by your question.

Alex Balakhnin – Goldman Sachs:

Ah, yes. Good Morning. That’s Alex Balakhnin from Goldman Sachs. I have two questions if I may. First, can you please outline the actions you may take to improve your free cash flow generation and especially given that supposedly this year is the last year of elevated capex and all that sort of things. Where do you see further scopes for your additional improvements?

And second – given that you plan to unveil your new strategy in February 2013, which I suspect will be focused on the free cash flow generation improvement, isn’t is a little bit premature to cut the dividends ahead of that? Or probably, asking the same question in a different way, do you think that your one zloty per share dividend is a good reflection of your medium term free cash flow generation after 2012?

Jacques de Galzain:

So about the free cash flow generation, you know that we are at the end of the so-called Broadband investment programme and we intend to reduce the level of capex, starting from last year it is clear that the Broadband investment programme was an addition of the normal capex envelope. And so that is the reason why we were at more than 17% capex to sell ratio last two years and this year between 15 and 17%. Next year we intend to come back to normal level of these ratios so more comparable to the average of the industry. So this will be a way to improve the cash generation. Or in addition, the deteriorating working capital requirement this year hopefully will not repeat each year at the same pace.

Regarding the dividend, we had the dividend at 1.5 zloty per share last few years, which was based on cash generation at more than 2 billion zloty. Today with this guidance revised with net free cash flow between 1.5 and 1.6 billion zloty, we do consider that it is being responsible to cut the dividend in accordance with the level of cash we generate. And in addition, I remind you that we have the spectrum acquisition to come and it starts this year with the tender for 1,800 Mhz, and we have still somewhere above our head the European Commission fine which could be an additional 550 million zloty cash out.

So we do think that it is very important to keep a safe balance sheet and that’s the reason why we propose to reduce the dividend to 1 zloty per share to the AGM.

Alex Balakhnin:

May I just clarify that I get it correctly. So, yes you expect some free cash flow generation reliefs related to the capex reduction and working capital swings will not be like every year, right? So it’s more like a one time, probably it will be another pressure on working capital but it shouldn’t be very huge but at the same time you see some cash out flows related to the spectrum acquisition and also fines. So that's really the reason for your DPS outlook?

Jacques de Galzain:

Yes. But just a precision, it's clear that the additional working capital requirement today comes mainly from the market conditions, at the end of next year, at the end of 2013, there will be a further hit on the working capital, mainly on the capex vendors because reducing the capex we reduce also the capex vendor. It's something that we monitor.

Alex Balakhnin:

Thank you so much.

Operator:

Thank you. Your next question comes from Hervé Drouet. Please state your company followed by your question.

Hervé Drouet – HSBC:

Yes, Good Morning. This is Hervé Drouet from HSBC. I've got a few questions as well. Firstly, in the mobile segment where you have some pressure, especially on tariffs on the unlimited package, you mentioned voice and sms. I was wondering do you see as well pressure from some of your competitors as well on unlimited data being bundled as well on those unlimited voice and sms tariff package?

The second question is as there is more and more tariff pressure on mobile do you think we might see some substitution as well out of fixed, going increasingly to mobile as mobile is getting cheaper? And do you have any means, if that happens, to reduce potentially that effect?

And thirdly again, on the dividend, you are cutting the free cash flow guidance by around 25%. The cash dividend is cut by more than that. I was wondering, I mean does it reflect the view that in the very short term, let's say 2013, cash flow can still be under pressure?

Thank you.

Maciej Witucki:

So I will take the first two questions. Concerning the pressure, so yes, we see the unlimited growing, big now, kind of flagship on the voice and sms. The point is here, kind of good news is at least this prevents us from the over the top applications and it prevents us from the loss from the sms revenues – because they are being paid by those unlimited subscriptions. We don't see unlimited data packages. On this side, on the data, we have as well a price competition but again nobody is getting unreasonable on the number of data which is given to the customers. The normal offer, I would say, is the 2GB limit to the customer and we don't see deterioration on this side. So no unlimited data.

Now on the mobile pressure substitution to fixed, here again, a positive point means we have been introducing so this quarter is a quarter with a number of positive evolutions in our offers. And in those positive evolutions, we introduced just in September, new offers on the fixed side which are the unlimited ones and which are definitely cheaper than the, well they are fixed to fixed only, but they are cheaper than the mobile unlimited. So those are elements which are helping us to retain customers – you see it on the losses of the fixed base. We introduced since the end of last year, beginning of this year the unlimited VoIP offers. So we definitely have today elements to continue to slow down, to defend the fixed base, both through the traditional PSTN offering or through the VoIP offering. So I wouldn't expect that those changes could visibly affect the fixed base. So we are, the company is delivering on the commercials especially on the mobile side, and we have tools to continue to retain the fixed base – no risk of sudden acceleration.

Jacques, any comments on dividend?

Jacques de Galzain:

Yes, on dividend, as you say, we cut the dividend by one third when we, the cash generation decreased by 20 to 25%. Our view about 2013, it's still that 2013 will not be an easy year. We have further MTR cuts to come. You see the pressure on the market and even if the capex will be below those of this year we do not imagine next year as a very easy year in terms of cash generation that's for sure, and once again, taking into account the big cash outflows that are to come on spectrum and potentially on the European Commission fine, we think that financial discipline is the right thing to maintain.

HerveDrouet:

Alright, thank you very much!

Operator:

Thank you. Your next question comes from Igor Semenov. Please state your company followed by your question.

Igor Semenov – Deutsche Bank:

Yes, good morning, this is Igor Semenov from Deutsche Bank.

First of all, could you, I mean it's a little bit interesting that the dilution of ARPU is so rapid. Could you quantify, does it mean that, and coupled with the churn on the post-paid side, does it mean that the customers are just leaving to competitors? And could you quantify out of your post-paid base, how many as of the end of the Q3, are at the end of their term so they could potentially leave?

Maciej Witucki:

Ok, so I will take these questions. So we do not guide on these very specific elements of our database. But now the dilution of the ARPU and the churn, so clearly the dilution of the ARPU comes from the customers getting into the unlimited. This is mainly on the B2B market. We spoke from the very beginning of the year that we have been very much under the attack of the competitors and basically the fourth challenger on the B2B market. We have traditionally a very strong position on the, specifically, SOHO market. The SOHO market is where the poaching is most aggressive. So it's there that we have the net losses of the customers while we have still net gains of the customers on the B2C market – not big ones, but somehow altogether they give the current picture. So the dilution, it is driven by mainly the unlimited on the B2B because that's where the invoices have been the biggest – and where the invoices are being reduced by the biggest amount. So this is the situation.

Clearly we do act on the retention so we do not just passively wait for those customers, first of all, leading or second of all, getting into the unlimited, cheapest plans. So we have been adapting and we will adapt our offer to avoid as well the internal dilution. Just remember that there are two elements – part is churn, part is the renewal of the base where the customers are asking for the unlimited. The cheapest unlimited is SIM-only offer, so here we act on the handsets which are being offered to these customers and on the eventual value added services to the tariffs to avoid them to take the cheapest option. Still, just to be clear, this is what we said, this process of the unlimited will impact all the markets. The problem is that on the market you have those offers competing day one with competitor one and basically within the week you have them spread over the market to all the four players. So basically, the final effect is the growth for the fourth player, yes, but it's there for all of us the depreciation of the value. It will impact still 2013 because the unlimited on post-paid started in quarter one, quarter two rather, this year so it will still continue. Now we have the new offer of prepaid, unlimited where with a given top-up you have an unlimited, you acquire the right for the period for a number of days the unlimited calls cross-net, and on top of this with an option of using the top-up after the period of unlimited stops. So that's why we are very prudent on the ARPU dilution and on the situation as well for next year because we will see it on the overall market value in Poland impacted for the incoming 12 months until the situation stabilises.

Igor Semenov:

Right, and can I just follow up on capex – could you be a little bit more specific on the normalised level of capex after your broadband programme expires? Is it around 2 billion – is it less, is it more? Excluding the licenses of course.

Jacques de Galzain:

So we do consider that the normal level of capex this is 13 to 14% of capex to revenue ratio – depending on the opportunity we should not be silly also and we could spend a bit more if this is justified and I remind you that as of today, we are in the roll out of the radio access network, there is these LTE auctions so I do not talk about the cost of license but there will be an obligation to deploy the LTE network quite quickly. So let's say the range, you see it is 2 billion, between 13, 14% and 2 billion, you have something which is meaningful. We are doing the budget right now and we will tell you a bit more in three months' time what is the exact figure.

Igor Semenov:

Right, thanks very much.

Operator:

Thank you. Your next question comes from Leszek Iwaszko. Please state your company followed by your question.

Leszek Iwaszko – SocieteGenerale:

Yes, Leszek Iwaszko, SocieteGenerale. Few questions.

First, I'm a bit surprised by the width of your new guidance meaning you've effectively guiding for the Q4 because nine months is passed, and if I'm calculating correctly, on Q4 your guidance on the revenues dropped between 4 and 5% on the annual basis, could translate into Q4 drop of between 6 and 10% - so it's a very wide range. And also on the EBITDA level between 34 and 36%, it's a pretty wide range for just one quarter – is it possible for you to be a little bit more specific because it's practically only one quarter?

So that's the first question.

The second is, these unlimited pre-paid offers have just been launched. What can we expect for your answer, what your answer will be? And also, next year, MTRs are expected to drop again by a more significant margin and what could be the market evolution coming from that, you think?

And my third question is, can you elaborate on the dynamics on the fixed broadband at this moment – it was quite weak when you were commenting in July, so how it looks like at the moment?

Thank you.

Maciej Witucki:

So I will try to answer your questions, may be starting on the fixed broadband. So on the fixed broadband, I would say the good message if I were to be over optimistic is that we keep our market shares on the copper line business side. The bad message is the copper line business – everything that is not cable TV, is basically not developing. So that's what you see on the broadband. And here, clearly, we see the demand question. We see the cable TV, non-regulated cable TV competition, and we are the only ones having the answer because we're the only ones who have now launched full offer of Open – so the 4P. And I would say, if there is any option to develop the fixed broadband given the low prices of the mobile broadband on the Polish market today, it's through the upsell to our existing customer base with this new Open tariff. The new Open tariff, including the option now to connect not necessarily television but only broadband with the mobile voice and mobile data, especially the other element, is the Open product. So the conversion product for the B2B, they have been launched in September for the B2C and October for the B2B. But clearly it's something which will take time and what you see today from our results is this corporate line opportunity is very much flattish on the market – the only growing part, significantly growing part today is the cable TV business.

Pre-paid offer just launched – so what is the answer for us? We didn't want to answer immediately so you see the fashion on the Polish market is to answer within less than 24 hours. Obviously we have this capacity but what we did is we started this week with our promotions for pre-paid base on the double top-ups. We've got it in the portfolio of our products – it has been launched since Monday so, yes since this Monday. And obviously we are looking to the answer to the pre-paid offers. We will have to adapt somewhere but we don't want to overwarm. Again, I underline: those offers, the problem is they are to some extent, if I may be strong, they are answering to the non-verbalised demands of the customers. We offer the unlimited in the places where we don't see any customer demands. Obviously customers, if you want to push it to the extreme, let's offer the free mobile phone with the free iPhone 6 on top! But clearly, I think this is a destructive approach which is not giving any advantage to any of the competitors. All of us land with the basically same market shares and we are only depreciating the market – harming the future capability for investment. TP S.A. / Orange, we are lucky to be a convergent group so we can fight with convergence; we are lucky to have a strong balance sheet, to have a relatively low level of debt, so we can cope with this. But again, I believe this is something which is not creating value on the market for sure and it is not creating any specific advantages because those offers being copied within 24 hours don't give you massive advantage. We will follow, we have other tools, we will adapt and again we will try to minimise the impact on the value market share because this one for us is the most important.

Now, concerning the guidance. We didn't want it to be too precise. Since, seriously, again, we are on the market where the unlimited are coming from everywhere – we want it to be secure, we didn't want to take any risks of taking too narrow communication, too narrow values with the risk of not respecting them. We don't know what's going to happen on the market with this offer which came to us because clearly this accelerated communication comes from the fact that we've got on top this unlimited pre-paid last Friday. So last Friday, somehow going in to the re-calculation and last Monday taking the decision to communicating to you in the accelerated mode, we don't want to go into the estimations without seeing the market reaction to the unlimited offers. Remember that the EBITDA, considering the EBITDA for the quarter four is always lower than the quarter three – this is the period of the high commercial expenses – so I think on the EBITDA we stay still on the very reasonable and relatively high rate. We are staying to te 34-36%, the high range of EBITDA which will demand from us a lot of cost optimisation efforts given what is happening with the top line.

Leszek Iwaszko:

And just to follow up – when we go to 2013, there will be MTR cut much more significant than what we are seeing in 2012. So do you anticipate this price war to actually intensify even and should we be expecting a repetition of what we saw in 2009?

Maciej Witucki:

Well, you know, when you look at the prices on the Polish market, I was always sitting with my colleagues from Orange Group, I was always having the challenge of my Romanian colleagues having the cheapest mobile market in Europe. Now we are at the Romanian level.

So the point is, hopefully all of us, we have the same key P&L rules, and the same reporting rules and we have the same obligations to deliver, generate cash revenues and pay back to our shareholders on the same cost base.

Well, we are an incumbent, so effectively maybe a bit higher cost base but again we are getting leaner and leaner all the time. So the competition, normally is acting on the same financial rules. Today, having the unlimited, well you can play with the price of the unlimited but with all respect, it is already very cheap. We have to pay, all of us, have to pay the capexes; we have to pay the 4G licenses; we have to pay the development of the demand of the capacity to the customers. So investment will be heavy to all of us. We have to invest in the future. And again, if we can do free of charge mobile voice – and this is not the announcement of the new product by Orange Poland, just to stay formal. There is the limit of being cheaper, the limit of how much you can affect your revenues.

So next year, the MTR drop I will say this is something which will impact all of us, the market value because of the mechanical impact – so it's hundreds of billions of zloties per big operator. The good news, that we will have in exchange for this, we will have the end of the asymmetry so again the four of us will play in a kind of same terms of rules of competition. So this is currently not the case, there is strong asymmetry and there is an option that if you play well with the tender on the 1,800, our fourth player can get those frequencies extremely cheap. So there is still a period of regulatory gifts and regulatory inequality existing in Poland. Next year we are going to compete on the same rules and my statement here, we are all having shareholders – we are all having an obligation of the pay back to the shareholders – so there are limits on the prices. When you've got to the unlimited, there are limits to bringing it down because you need to generate cash not only for your dividend but at least for your investments, with some not wanting to pay dividend, at least for your capexes for your frequencies. And some of us may have those frequencies for free almost this year, but the big ones of next year they will not be for free for anybody.

Leszek Iwaszko:

If I may just follow up with another question. You assume that these spectrum investments could cost you between 1 and 2 billion zloty. Do you expect these investments actually to have a positive NPV, to return? If so, in what time / horizon and in which, I don't know, KPIs you could be seeing, you know, return on these investments?

Jacques de Galzain:

The spectrum investment will have a net positive value that is for sure. We talk about long term investment – I remind you that this license is conceded for 15 years so this is not immediate. We will start by spending money both on the license but also on the equipment and then we will have, as it is now very huge growth of the data which will allow to monetise this investment. But this is not a short term return.

Maciej Witucki:

I will just add that when you see on the pay backs, again I remind you that the pay backs on the LTE in our case, it has the additional advantage that we will be capable to replace somehow the low end rural zone broadband customers which are copper today, which then have costs and which have the maintenance costs, we will then be capable to offer them the LTE connection. We will not go with the big high speed internet everywhere. So for us it is an additional tool of optimising our cost base. And to see the value of those assets – look we have the 450 CDMA frequencies which is a good example of what you can do with the frequencies in the rural areas – we have 200,000 customers somehow with the very low capex, the very low investment we have been capable to grab an important element of the market. Now, having those frequencies, we will upgrade those customers with better service and hopefully with the long term revenues. So there, both data, mobile data, but as well, optimisation of the cost base at the fixed side to the rural zones where today we provide the copper with the long lines, low through-put to the customer and high costs which will be replaced by the radio lines.

Leszek Iwaszko:

Thank you very much.

Operator:

Thank you. Your next question comes from Jakub Caithaml. Please state your company followed by your question.

Jakub Caithaml – Wood and Company:

Hello? This is Jakub Caithaml from Wood and Company. I would like to ask just a technical question about the share buy-back. You said you want to reallocate the 400 million from share buy-back to the capex programme. Do you need an approval of the AGM or some other body for this and when, when is this going to happen?

Maciej Witucki:

So to have this reallocation, we need an opinion from our supervisory board from the formal perspective.

Jakub Caithaml:

Ok. And when this may happen?

Jacques de Galzain:

Today you know that we bought 400 million already so, and you remember that the programme this is up to 800 million zloty until 31st December 2012. So what do we mean right now? This is that we do not re-launch any share buy-back. In fact, we do not continue the programme.

Jakub Caithaml:

OK, I see. Thank you very much. That's all from me. Thanks.

Operator:

Thank you. Your next question comes from Piotr Grzybowski. Please state your company followed by your question.

Piotr Grzybowski – BRE Securities:

Hello, it's Piotr Grzybowski from BRE securities. I would like to clarify the dividend issue. Do I understand correctly that although your capex should decrease by 200 million polish zloties due to the end of the broadband investment programme, because of deteriorating market environment you expect that 1 PLN of dividend will be maintained in the future?

That's my first question.

The second one is about the Virgin Mobile and the potential other MVNO operators' competition on the mobile market. Do you think that it is a significant issue for the next few years due to decreasing MTRs?

Maciej Witucki:

Ok, I will take question number two. I will let Jacques with the dividend. So I think that today very frankly, but it's not my job to comment on my competitors, but to launch an MVNO in Poland with unlimited post-paid and unlimited pre-paid, I see little space for those, with all respect. Whatever happens to the MTRs, the prices are so low – and I will not mention any specific MVNO – maybe guys like, because we are operating with cable operators launching and now re-launching MVNOs. So this makes sense because it is going in to the 4P philosophy. It hasn't been demonstrated until now to be very successful. But again, from business perspective, it is a viable option. On the pure MVNO today in Poland, since last Friday I'm not very much optimistic but again it's not my job to comment on those investors.

Jacques, on the dividend.

Jacques de Galzain:

So on the dividend, we give an indication on the dividend that will be paid in 2013 on the 2012 results and I do not commit on the future – we will see in February when we announce the plan if we can say something different. But as of now, I talk about the dividend that will be paid in 2013 based on 2012 results. For sure, as I said already, the cash generation next year will ease a bit due to less capex. But even if we are able to maintain the solid EBITDA margin, the EBITDA by itself will decrease and we will not distribute more than we generate.

Piotr Grzybowski:

OK, thank you very much.

Operator:

Your next question comes from Piotr Janik. Please state your company followed by your question.

Piotr Janik – KBC Securities:

Yes, hello this is Piotr Janik from KBC Securities. Could you please elaborate a bit on the risk that Polish mobile telecoms would have to pay for renewing spectrum reservations? As far as I remember, correct me if I am wrong, 15 years ago you have paid roughly 700 million polish zloty for reservation of 900 and 1,800 Mhz spectrums and these spectrums matured this year and in 2014. And my question is what is the risk that you will have to pay quite a similar fee for renewing this reservation and whether you guidance for spectrum related expenses between 1 to 2 billion zloty include this potential renewal fee?

Thank you.

Jacques de Galzain:

Yes – I will not go into much detail – it is clear that effectively we have to pay something. This is something which is much more reasonable, we do not talk about a few hundred million zloty. That's all that I can say today.

But the issue is not this one – this issue is how much will we pay for the 1,800, 800 and 2,600 Mhz to deploy LTE. This is where we will spend a lot of money.

PiotrJanik:

Ok, so you do not expect any significant renewal fees?

Jacques de Galzain:

There is a fee, but this is not significant.

PiotrJanik:

Ok, thank you very much.

Operator:

Once again, if you would like to ask a question, please press the '*' followed by the '1' on your telephone.

You have a follow up question from Alex Balakhnin – please go ahead sir.

Alex Balakhnin:

Yes, good morning again. I have probably a bit of a philosophical question on the underlying drivers for the competition on the mobile market we see. I mean obviously it's not in your habits to comment on the competitors but what do you think is the ultimate motivation of the competition given, as you mentioned, it takes the value off of everyone's table, first. And second, it doesn't help anyone as it causes massive deterioration. And, more importantly, what do you think is the road map for the normalisation of the competitive environment – you've mentioned that all of the competitors are responsible for the shareholders but that pretty much was the case for the last three-four years and the situation didn't improve really and actually started worsening again. Do you see any specific changes in your competitors', say, financial position or shareholder support to the current management or anything which you think can change the market dynamics?

Maciej Witucki:

Well it's very difficult to comment on the case-by-case basis for what are the drivers for the competition. The one point which is clear is that we all expect an end game for the fourth player and that's obvious that here is a point where the rumours on the market about the sale, about the consolidation. This is where we would like and it will have to be so one day because it's a pure question of, when you are the fourth player basically you have a very long pay-back period, or break-even period, of your investments. It's very often built to be sold. This kind of consolidation will be something which will definitely happen – the problem is, it is in the Polish newspapers for years and not materialising so we do not know how long we will have to live with the four players on the market.

As for the rest, I must say, it's quite a surprising situation because it is about volumes, it's about short term games for volume market shares – this creative reporting for one year validity of pre-paid just to demonstrate volumes. You have today the pre-paid launch by one of the competitors which has been losing the most clients in the quarter two. You've seen at the end of quarter two you've got here namely Polkomtel losing a lot of customers then you have today, Polkomtel launching this unlimited pre-paid. So clearly it's a kind of 'keeping my face' or 'saving my face' games but which are not helping on the long term. So hopefully we have, all of us, we have reasonable shareholders so those reasonable shareholders will not motivate us to destroy the value.

As you can see, Orange never was the first player to shoot on the market. We have been having the offers, we are ready to answer to the market but we will not be the first to destroy the value – it's not in our interest. And I don't believe this is in the interest of anybody, and it's not even in the interest of the customers! The customers, they already have service so cheap that the only thing they can gain with the further decrease of the prices is the decrease of the quality because we will slow down the investments. And obviously we have margins, all of us, we have margins in the range of the 30% or even 30+%, but they are not eternal if you want to depreciate the market every quarter.
So it's not in the interest of the customers, because the customers they want to have the 4G, they want to have the tablets and the smart phones for 1 zloty subsidies – if we continue the way we go today, we will not have the 4G in every corner of Poland and we will not have the subsidies. So we can continually decrease prices but then we will raise the subsidies. So, and we, hopefully, we have

the same economic rules – the four players are four private companies, three of them disclosing very detailed results. So here's my expectation: that we will get rational volumes. Again, there is no way to gain a silver bullet solution to suddenly overpass the volumes – you can play games, you can do creative reporting prolonging the life of the SIM-cards in pre-paid, you can even play on the value market share by integrating the speed of gains, integrating the sold-per-instalment smartphones and tablet as your immediate revenues accounted in to your value market share – but these are short term games. So today we have short term, like reported games to raise the flag 'yes we are the dynamic ones'. The final result of this? We are all losing, so hopefully we have all rational shareholders and it will come from shareholders – the customers are not asking any more of this. Obviously they would ask for free mobile but today the prices, we have in many cases the lowest, if not in all of them, the lowest of the market. So I expect the competitors to compete because this is the free market and this is the free competition but I expect the competitors to have the kind of same financial reaction by the end. We are all sitting on the same market and we, this market will depreciate because of the MTRs, if we depreciate ourselves it will be visible in our capex in the future.

Alex Balakhnin:

That's very clear, thanks so much.

Operator:

Thank you. Your final question comes from Vera Sutedja. Please state your company followed by your question.

Vera Sutedja – Erste Bank:

Yes, good morning gentlemen - Vera Sutedja, Erste Bank. I have a question regarding slide 20 – and there is that mention the risk of cash out flow to the European Commission fine of 127 million. Is this included in already in your chart of the pro-forma net financial debt?

And secondly, regarding to that, do you expect actually a negative ruling coming out of it considering it is still not yet final?

Jacques de Galzain:

The 127 million European Commission fine is included in our projection of cash but not in… I don't understand exactly what do you mean by pro-forma financial guidance…

Vera Sutetja:

…That's in the chart that you put in the page 20 of your slides… for the pro-forma net debt…

Jacques de Galzain:

When we say that we reach 35-40% gearing, this is including the cash out on this fine.

Then your second question about 'do you expect negative ruling?', you know we might appeal so we expect something different. But negative ruling, so not today it is very unlikely. So, an amount reduced? Yes, we expect that, but a negative ruling, we will be completely clear of any fine? No.

Vera Sutedja:

I understand. I'm very sorry, I was not joining since the beginning in the call, but I just want to understand: the dividend cap is basically mainly due to the capex for the spectrum, am I correct? Or it is… I mean, that's the main reason, right?

Jacques de Galzain:

The dividend reduced to 1 zloty compared to 1.5 previously, this is the consequence of this accident that we have now in that we announce today. So we reduce our guidance for cash generation to, net free cash flow between 1.5 and 1.6 billion zloty, so this is the first point.

As we mentioned: first, macro environment difficult; price war on the mobile market; and we see 2013 also as a difficult year. So taking into account all of that, *and* knowing that we have to pay for the spectrum – and we said between 1 and 2 billion zloty in 2013 was probably – *plus* the uncertainty of the European Commission fine, we want to keep a safe balance sheet, to maintain our debt metrics to 35-40% gearing and not more than 1.5 net debt to EBITDA ratio. Consequently we decide to reduce the dividend on one hand, and to stop the buy-back at 400 million and to reallocate the 400 million that we do not buy back to this acquisition of spectrum.

Vera Sutedja:

And do I understand this correctly, because your previous dividend policy was a floor of 1.5, now is the dividend policy is a floor of 1?

Jacques de Galzain:

No, no. I never said that there was a floor at 1.5 and I do not say that there is a floor at 1. I said in the past that we decide our dividend on a yearly basis and so we were very glad to distribute 1.5 zloty at least for the past three years. And now, according to the current circumstances, I say we will pay in 2013 1 zloty per share, based on 2012 results.

But I do not say that is a floor.

Vera Sutedja:

Ok, so basically we cannot imply that this, I mean I only look at the historical dividend of TP S.A. which has been 1.5 for a number of years quite stable and now a decline to 1. So it's kind of natural to enquire that this will be 1 for the next upcoming years to come as well as probably is going to be similar development as before. So this keep it as stable as it is. So this is not actually the policy, right? The policy depends on the development of the market?

Jacques de Galzain:

Absolutely. And this is the most reasonable to do. For me, if I would maintain 1.5 dividend per share this year, it is just to say: well, guys, I have the money so I pay but for my successor, I don't care. So here, we are responsible. We say: we have an accident, we have a few cash out to come, we are responsible enough to keep bright future for the company with development on LTE and so on. Rather than giving back all the money to shareholders, which would be a one shot remuneration.

Vera Sutedja:

I understand. Thank you very much.

Jacek Kunicki:

If there are no more questions, then thank you very much for your attention. We will be disclosing the full year figures and the medium term, new medium term action plan, by the middle of February next year. And still we will be publishing the financial statements on October 24th this year.

Good bye.

Operator:

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