Orange Polska (TPSA) Q1 2012 Results Conference Call
26th April 2012

Operator:

Ladies and Gentlemen, thank you for standing by.

Welcome to the TP SA Results presentation on 26th April 2012. Throughout today's recorded 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 Sir.

Jacek Kunicki – Head of Investor Relations

Good Morning, everyone. Welcome to Orange Polska Q1 results presentation.

My name is Jacek Kunicki, I am Head of Investor Relations. Before we begin, let me remind you that all the materials have been published this morning and they are available on our website: www.orange.pl/investors

We are joined today by TP's, Orange Polska's, management board. So starting with the CEO, Maciej Witucki; CFO, Jacques de Galzain; Chief Marketing Officer, Vincent Lobry; Chief Operational Officer, Piotr Muszyñski; Chief Commercial Officer, Mariusz Gaca; and Jacek Kowalski who is the Head of HR.

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

Maciej Witucki – Chief Executive Officer

OK. Thank you, Jacek. Good morning, ladies and gentlemen.

So the agenda is the traditional one. So I will begin with the summary of the Quarter 1 results. Jacques will follow-up with some details. Finally, I will conclude the presentation and open up for the Q & A session.

Lets begin with the slide number 5, highlighting the Group's performance in Quarter 1.

So the developments of the first Quarter were vital to our well-being and market position. Our actions, pursued in all fields of activities, allowed us to deliver steady financial results, while our marketing strategy has once again allowed us to stay one step ahead of the competition. I believe that we shall now have the upper-hand in the competition for the Polish consumer, providing him with the most comprehensive offer and a great customer service. In time, this will also translate into the improved financials.

We have pursued the marketing strategy described in our medium term action plan, turning towards more bundling and towards the convergence, and Q1 results have started to show that the customers appreciate these actions.

The uptake of our 3P bundle, comprising of broadband, TV and voice over IP, is promising, as we now have sold over 100,000 of these packages, mostly in Q1 of this year.

Furthermore, facing intensifying price competition from rivals in mobile, we have launched a carefully crafted response – Orange Open. Not only does it match competitors' new pricing schemes, but gives more to our customers. This package is a fully convergent offer, consisting of broadband, TV, VoIP and also mobile telephony with the unlimited minutes package.

As an effect, our offer has remained on top of the competition, but without compromising the ARPU gained from the customer.

We have rebranded our fixed offer services to Orange, in line with market trends and offer re-shaping. This will provide us with additional growth stimulus, as one-brand facilitates the convergent offer, while extending the well-perceived Orange values to our fixed services customers. In light of the changing competitive landscape, as well as of the upcoming European Football Championships, we believe that this is the best possible timing for the brand change.

Our financial results for the first Quarter were satisfactory. The revenue dynamic has improved slightly since Q4 of last year, decreasing by 3.4% in Q1. We have retained a tight grip on costs and despite forex impact, the EBITDA margin is under control and will increase in following Quarters.

As a consequence, following Q1 results we can reiterate the full-year outlook and guidance numbers.

Let's now turn to the following pages for a quick review of key Q1 developments, starting with broadband on slide 6.

As mentioned a minute ago, we have turned our efforts in broadband to 3P bundles, through our FunPack offer.

This approach aims to secure the revenue stream of the fixed business for the longer term.

The new package takes advantage of broad offering, including ADSL or VDSL, as well as the TV content from TVN. Furthermore, it helps to loyalise customers, also in the problematic area of fixed voice, which is now offered as voice over IP. As an effect it will protect the overall ARPU that we are able to generate from the particular customer.

The first results of this offering are very encouraging.

We have sold over 100,000 FunPack plans, mostly in Q1 of this year.

The effects are also visible in the continuous rise of our television customer base, which now exceeds 660,000 customers which is about 28% of our broadband base.

Finally, the ARPU of the 3P package is some 12% higher than the broadband + TV ARPU, so we are able to generate additional revenue stream from the voice over IP service included in the bundle.

As a consequence, we have been able to turn the revenue trend in broadband back to a slight growth, although with that have been said its performance is still far off what we wish to achieve. Nevertheless, our analysis shows that even today, we tend to get the desired net adds share in the less densely populated areas. On the other hand, we still lose too many clients to cable TV operators – but this is something that we should be able to mitigate with the VDSL based offering.

Let’s now turn to the next slide for developments on the mobile.

Our mobile business has performed well in Q1. We have concentrated our efforts on value, not participating in the volume-driven race that is visible in the promotions of our competitors.

The animal tariffs remained our main offer, however they were accompanied by the Combo bundle, consisting of the mobile telephony, fixed and mobile broadband. Over 100,000 customers have decided to take up this offer, further confirming the appetite for bundles.

As a result, we have kept our market share and strengthened our market value leadership vis-à-vis two large rivals.

Customer base is growing at 1.3% year-on-year, despite the stagnation in Q1. The customer base has slightly decreased in Quarter 1, as we have focused our efforts on the higher value customers, in order not to dilute ARPU.

Smartphones continue to constitute around 40% of total post-paid sales and their share in the base is now over 15%. In turn, we can observe a systematic rise in average data traffic and in post-paid data ARPU – up by 20% year-on-year in Q1.

Finally, we did not remain passive with regards to the new unlimited offers on the market. We have responded, matching and beating our rivals’ offer in every way. At the same time, we did this without compromising the customer value, by our new convergent offer Orange Open – let’s go to slide 8 for a review of this milestone product.

As you are probably aware, simultaneously with the rebranding to Orange, we launched the Open product.

It is a fully convergent offer, including both fixed, broadband, TV and mobile services, unified customer care and invoicing. The Open package is accompanied with a range of dedicated customer devices to make the offering even more complete. It is the first and the only offer of this kind on the Polish telecoms market.

Not only does it address customer needs for integrated and complete telecommunications package, but it is also an answer to the new market offers that appeared in Q1, including unlimited mobile calls. It is an offer that will not be easy to replicate for our rivals – as they are not present in all market segments.

Pricing wise, the Orange Open package is sold with a discount versus stand-alone offers, in order to make it attractive for clients using various Telco and media suppliers. However the price differential is at a maximum level of roughly 13%. Therefore even in the case of customers already having fixed and mobile services for our Group, the impact of their migration to this offer will not be adverse – while their loyalty to Orange will rise significantly.

This will be in our main offer for 2012. It also shows the direction that we strongly believe – convergence, simplicity and seamless switch between various products and technologies – all to the benefit of our customers.

Q1 delivered important developments in the product area, however this has not distracted us from actions aimed at the cost efficiency of the Group. Let’s now switch to slide 9 for the analyse of our cost saving program.

The cost optimisation program continues to be a priority for the Group. It also continues to deliver satisfactory results, defending our EBITDA and cash flow generation.

In Q1, we have been able to decrease our cost base by over 2% year-on-year and let me remind you that this is a decrease for a fourth consecutive year.

While the savings that we benefit from today are a consequence of initiatives launched in the past, we do not cease on our efforts to generate new efficiencies. Today, this is the mostly focused on execution of the initiatives announced last year – such as the network sharing with T-mobile and head count restructuring. The later initiative will deliver concrete benefits soon, as the first wave of voluntary leaves is scheduled for Q2 of this year – so it will strongly benefit Group's profitability in H2.

Now let us turn to slide 10 for a brief look at our key financials versus the yearly targets.

In summary, Q1 brought us satisfactory financial results in all of the key metrics. This is turn allows us to reiterate that we are on track to deliver a full-year target as communicated 2 months ago.

The revenue evolution has shown the expected improvements since Q4 and we anticipate it to improve further in the following quarters. Mobile segment's top-line has performed especially well, growing by 0.3% or even by over 2.5% on a pre-regulatory view.

Group's profitability is under control and the EBITDA margin is evolving as anticipated. If not for the adverse foreign exchange impact, we would have already been within the full-year outlook range – as already mentioned, we are certain to report higher margin in Q2 and Q3.

Finally, capital expenditures are higher than in Q1 of 2011, as this year's investment schedule is more front-loaded. As a consequence, net free cash flow is below that of the last year – but well on track for the full-year target of at least 2 billion.

With this, I will now hand over the floor to Jacques, for the financial review. Jacques, the floor is yours.

Jacques de Galzain – Chief Financial Officer

Thank you, Maciej, good morning everyone.

Let's start the financial review with market evolution, as shown on slide 12.

The value of the total Polish telecom market has slightly increased, recovering from the trends in Q4.

This was driven by an improvement in mobile market's dynamics. Despite a new SMS MTR cut, mobile market has grown by roughly 3%, as compared to 1.4% decline in Q4.

The fixed market has decreased by roughly 2%, so its evolution is also slights better than last year. The decrease continues to be driven by substitution to mobile, all-be-it our new convergent offers should help to limit the decline in the future.

Let's now turn to slide 13, to see how the Group's top line has evolved in the context of this market.

The Group's top line has contracted by 3.4% in Q1, which is a slight improvement versus the 4% decrease in Q4 last year.

It is therefore on track to meet our expectations for the full year, as we expect further progressive improvement in the following Quarters.

It is still adversely impacted by the MTR cuts from H2 of last year, as well as by the new cut of the SMS rate.

Excluding regulatory impact, the revenue decrease has been limited to 2.3%.

It stems mostly from the structural decline of our fixed segment – driven by fixed voice migration to the mobile technology.

This is partially offset by the pre-regulatory growth of the mobile segment, which contributed to +51 million zloty towards the overall turnover of the Group.

Let's now take a more in depth look into our revenues, starting with the mobile segment on slide 14.

Despite intensifying market competition, mobile segment's revenue evolution has improved considerably since quarter 4.

For Q1, is posted a 0.3% growth year-over-year, or +2.5% if one was to exclude the regulatory impact.

The improvement is driven by 3 main forces:

- First, continuous growth of the customer base, which is up by 1.3% since Q1 of last year.
- Second, the mobile ARPU, which stayed resilient to price pressure, and finally,
- A 24 million zloty growth of equipment and other revenues, which have again provided good support to mobile segment's top-line.

All of the above have allowed Orange to maintain its value market share. Furthermore, following our competitors' announcements, we can see that we have been able to systematically improve our market leadership position vis-à-vis the 2 large rivals.

Let's now turn to slide 15 for analysis of mobile KPIs.

Throughout the last two Quarters, we have observed intensification of competition, aimed predominantly at market volumes.

We have not participated in this race for pure volumes, remaining committed to value creation.

As a consequence, our customer base has decreased slightly since Q4. Nonetheless, it is still growing by 1.3% year-on-year, with the active, less price driven customers staying with Orange.

This is reflected in the evolution of the other KPIs:

- Retail ARPU is resilient to price pressure, as it has stayed relatively flat year-on-year.
- Data ARPU is continuously rising, reflecting customers' appetite for wireless internet. It has grown by 20% since last year and now represents 11% of the overall post-paid ARPU.
- Data usage is stimulated by uptake of smartphones. The number of smart devices has grown by roughly 31% since last year to reach over 2.2 million. For a second consecutive Quarter, smartphones have comprised roughly 40% of our sales and retentions in our post-paid.

Having walked you through mobile KPIs, let's turn to slide 16 for analysis of the fixed segment.

Fixed segment's top line has decreased by 5.4% in the first Quarter as compared to a 7.8% decrease a year ago, marking a continuation of the improvement in its evolution.

Its evolution is driven by 3 factors:

- Revenue from fixed voice services continued to decline at roughly 150 million zloty per quarter.
- Data revenues have been generally stabilised, as broadband is back to a quarter-on-quarter growth, stimulated by the encouraging uptake of our 3P bundles with voice over IP.
- Finally, revenues from wholesale and other have grown by almost 50 million zloty, helped to a large extent by our ICT activity.

Let's now turn to the next slide, to analyse fixed segment's KPI's.

Looking at fixed segment's KPIs, it is clearly visible how the new 3P bundles have had a large positive impact on the commercial activity.

Within our broadband base, we how have our 100,000 3P packages. In turn, this allowed us to stabilise its ARPU versus Q4, for the first time since the price cuts from Q4 2010.

Active migration from PSTN to voice over IP, now at 150,000 clients, is an important part of our market strategy, which aims to loyalise the client by providing him with total telecom and media products.

Finally, our TV customer base has continued to rise, reaching 660,000 subscribers. Thanks to the cooperation with TVN, pay-TV base is back to growth, exceeding 142,000 users.

This concludes my review of the top-line and I invite you to slide 18, for a look at the EBITDA evolution.

Group's EBITDA for the first quarter amounted to over 1.2 billion zloty and stood at 34.8% margin.

In comparison to the first quarter or last year, the EBITDA was down by 77 million, driven by the following factors:

- First, the pre-regulation decline of the revenue, down by 84 million zloty, mostly due to fixed voice.
- Second, almost 30 million adverse impact linked to the weak zloty. Without this impact, the EBITDA margin would have stood at 35.6% - so at the same level as last year.
- Third, a -15 million zloty impact linked to higher commercial activity – reflected in the rise of our commercial costs and interconnect.
- Finally, other costs were down by over 50 million zloty, due to our cost optimisation program and reimbursement of rebranding expenses.

Following Q1, we feel confident in our ability to control the cost base. We expect the EBITDA margin to perform within the range of the 2012 outlook, as it will increase in the next two Quarters.

Let's now turn to slide 19 for a review of the net income.

Very briefly, on net income – it amounted to over 240 million zloty in Q1.

Despite the lower EBITDA, it has grown by 76 million zloty, roughly 46% since last year.

This was possible as our depreciation expenses were significantly below that of Q1 2011 – this reflects their underlying trend and less accelerated depreciation related to network swaps.

This was then coupled by lower financial costs, as gross debt is down year-on-year, despite the DPTG settlement.

This concludes my review of the income statement. Let's now turn to slide 20 to have a look at the analysis of our capex.

Capital expenditure amounted to roughly 400 million zloty in Quarter 1.

They were significantly higher than in the comparable period of last year, as we aim for a more even phasing of our investment projects.

Roughly one-third of our capex was dedicated to broadband, as it remains the main area of our investment plan.

This of course includes capex linked to the memorandum of understanding with UKE. Counting from its signing, we have invested to over 900,000 broadband lines, and we are on track to fulfil our investment obligation with that respect.

The other important investment direction is IT, both hardware and software, as we strive to make our IT systems more customer friendly and agile.

Let's now turn to the next slide to see how all of this has translated into the Group's cash generation.

Please note that the cash flow analysis that we present on the slide, excluded the 550 million euro payment to DPTG.

Our net free cash flow generation progressed as we had expected, with 252 million zloty of net free cash flow in Quarter 1.

In comparison to last year, cash generation was smaller by roughly 140 million zloty, mainly due to 3 factors:

- First, lower cash from operating activities, before working capital and tax. This was roughly 35 million zloty below last year, due to lower EBITDA.
- This was coupled with over 230 million negative difference in working capital requirement, a combination of trade payables, receivables and inventories.
- Finally, cash out to capex vendors was 70 million zloty below Q1 2011, as was tax paid – by roughly 50 million zloty.

Let's now go to slide 22, to see how cash flow translated into our balance sheet position.

Very briefly on our debt position, before I hand the floor back to Maciej.

Despite the 550 million euro settlement with DPTG, our balance sheet has remained strong.

As a result of the aforementioned settlement, you can see that our cash position has decreased to the level of roughly 600 million zloty.

Nonetheless, this is sufficient of our operations, and taking into account remaining facilities at our disposal, Group's liquidity position is secure.

Our net gearing is at a safe level of 22%, with net debt to EBITDA at 0.8.

Ladies and gentlemen, with this I have concluded the financial review and I hand the floor back to Maciej.

Maciej Witucki

Thank you, Jacques.

Ladies and gentlemen, so my takeaways for the Quarter are threefold:

- First, we have reported stable financial results, with a progressive upturn in revenues, rigorous control over our spending and healthy cash flow and balance sheet. In turn, this allows us to look confidently into the future and reiterate all of our expectations for the full-year outlook and guidance.
- Second, despite the turbulent market environment, the Group has delivered a steady commercial performance. We have constrained ourselves from the price fight for pure volumes and remain dedicated to value creation. This is visible in our KPIs, as we have answered the market demand and focused our efforts on upsell and bundled products.
- Finally, the Quarter one was of vital importance for our competitive position in the near future.

We have responded to the recent offers from our competitors, matching and even beating their unlimited offers – by giving our customers more value and products within the price.

I also strongly believe that the rebranding of our fixed activities has been done at the most appropriate moment – just before the Football Championships. I am equally convinced that the recently launched convergent Orange Open product will be our true success in 2012, as it provides our clients with the best telecommunication and media package in Poland, and Orange is with our customers 24 hours a day.

Ladies and gentlemen, thank you very much for your attention, this concludes our presentations and we are now ready to take your questions.

Jacek, you handle this process.

Jacek Kunicki

Yes, I suggest we first take the questions from the floor following which we will switch to the teleconference questions.

Pawel Puchalski – BZWBK

Hello, Pawel Puchalski – BZWBK. Few questions if I might.

First one is on, relates to slide number 6. You present average broadband ARPU versus 3P ARPU and now I'm bit confused because you say this offer boosts your ARPU and what I see… Firstly, you've got 3P ARPU which is broadband + TV and then you've got VoIP and if you migrate VoIP from your regular fixed voice services into this new free pack, FunPack, then you are losing your

ARPU at some 40 zloty in fixed voice and you receive only upside of 6 zloty from this new offer. Is it a protection of ARPU or destruction of ARPU? That's the first questions.

The second one is, you mentioned again protection of ARPU in mobile sector and that's why you explained the decline in post-paid customer base. My question would be we say the first signs of the impact of the new offers by your competitors. In second Quarter will you be protecting again your ARPU and shall we expect the rapid declines in customer base because, well, if first weeks of promotional offers by play and other competitors brought 50,000 decline, which is material decline, shall we expect very rapid decline if you are still protecting ARPU?

Those are my two questions.

Maciej Witucki

So maybe I will take the second one very quickly then Mariusz, if you think you should add something on the volumes, I will give you the floor.

So clearly the… when you see the drop of the base in the post-paid in Quarter 1, it's basic about, basic in 2 elements.

It's about a big contracts of key accounts which have been moving from us in quarter 1. And I will not name the big key accounts publicly. Plus the drop in… at the end of Quarter 4 which was the Zeus disconnections. Plus… so this is the big number and then it's the permanent pressure from the fourth player rather than the, from the two big ones on the small business area.

So this is definitely not about the unlimited offers which basically have been ready by all the operators in the same time. And then basically, we have at least from our side, been planning to put it by the mid year on the market. It has been launched just before… launched beginning of April. We didn't want to copy paste at the same period because we have been adding the rebranding with the Orange Open, ready to imbed the mobile promotions as well. You didn't build in addition, I remind you that the offers for the standard offer unlimited, so call unlimited – today it's 79 zloty with Orange Open you can have 15%, 15 zloty additional discount if you bundle the unlimited with the Orange Open and clearly you don't build such functionality within two weeks between the launch of the offer by the competitors and the launch of our Orange Open. So we have been planning for it since long time. So definitely, it's not the impact of the so called 'unlimited'. The unlimited, I don't believe that it will have a substantial impact of anything from the volume perspective because everybody launched basically the same conditions to the customers so I don't believe the medium of sims by this or that of our competitors, it's simply a question now of managing the ARPU which is a sort of chance and risk at the same time.

Risk, because you have our solution of the highest customers eventually taking the 79 zloty offer but in same time remember that 79 is still quite high – the average is like 20 – 25 % above the average ARPU post-paid we have. So there is still an opportunity then to bring the customers being below into this unlimited offer.

So I think that this is, it will not have, as it was launched by everybody as we have been somehow including in to the bundle of Orange Open. I don't believe that it will have a substantial impact on the kind of market equilibrium and definitely the Q1 volumes have nothing to do with this offer launched at beginning of April. It's basically about the big contract of key accounts and it's about continuous poaching and we must defend ourselves until end of the asymmetry of the high value customers by the fourth player – I don't even want to say *challenger* because it's a big fourth player with simply too long asymmetry.

Mariusz, do you want to add anything on this one or…

Mariusz Gaca - Chief Commercial Officer

Basically, we just have…

Maciej Witucki

…Mariusz… mic…

Mariusz Gaca

… I will basically underline that, I would not make the direct link between increase and the net decrease. This is not that kind of a correlation. The Q1 results are mainly associated with what Maciej said - there are a couple of key accounts which were not of course empowered by them to name, this journey to our competitors which is a direct result of what was going on, on the market last year and this is the result.

This is, actually, what makes this result look that way.

Still, just underlying what Maciej said, we do not take part in the race for volumes. Still value is very important, which doesn't mean that we do not care about net adds. Here we have some one-off results, however this is 134% penetration market and we shall not expect miracles.

Maciej Witucki

And Vincent, on question number 1 about the broadband and the ARPU…

Vincent Lobry - Chief Marketing Officer

Yes, so you have to consider that today's market of broadband is mainly what you call ADSL market – which means basically no more voice. It was that people are not paying for the telephone PSTN access line and they just have the access plus the TV. So what we do there is, surely, for this customer, rather than to lost everything, we do an offer which is a little bit more than TV + ADSL, internet, and you have 13 zloty more for the voice over IP. So for this type of customer you increase the ARPU. The other thing which is important is that when you look at the ARPU you have to look at the ARPU of the customer not product by product. And when you looked of customer migrating from PSTN to broadband, you have quite good uplift of the value of the customer. Even if he's not paying product by product, he will pay less in voice over IP than if he was paying PSTN but the global ARPU including the access to internet… and the voice over IP if higher by roughly 14 zloty than the ARPU in pure PSTNs. So what you have to look, it's not the ARPU per type of product but ARPU by customer.

Pawel Puchalski

Alright. I still have one follow up question because as far as I remember, I don't have it infront of me, your ARPU in fixed voice is somewhere around 39, 38. OK, 30 something. So when you say that the voice over IP pays very low ARPU anyway, well there must be something wrong or your ARPU is overstated in fixed voice segment. Because at it looks for me, you've got BB ARPU, which is 53. Then add average fixed voice clients paying 36, 37 which makes 90, and then we convert this 90 theoretical ARPU into 59. What is wrong with my calculation?

Vincent Lobry

The market is no more PSTN and broadband here in the market with other competitors, which is mainly people moving from PSTN going to broadband. They don't take anymore their PSTN line and they just go through either cable TV or our competitors or us to what we call naked ADSL, so they pay just the ADSL part and they go for voice to mainly internetisation by mobile – they don't use anymore the PSTN line. So what you mention adding the 2 ARPUs, it's unfortunately becoming a dream – that would be the perfect world. But the perfect world is that people are not using any more the voice part – they use their mobile and doing voice over IP in the package is allowed us to increase the ADSL part if you want Internet + TV + VoIP.

Pawel Puchalski

The conclusion is just that the more successful you are in FunPack, the worse impact on EBITDA, it will have.

Vincent Lobry

No.

Pawel Puchalski

We just agreed that you used to have artificial 90 zloty if a client wanted BB and voice, and now clients chose this, your FunPack, paying less. Is this correct or not? If this is correct, every client warmed or adjusted by FunPack will imply lower revenues, lower EBITDA.

Vincent Lobry

It's not correct because what is… if you want to say what is true is the margin on fixed voice, pure PSTN, is higher than on ADSL – this one is for sure. And when people are migrating to broadband we have a small decrease of EBITDA between these customers. But the trend, and it's not only in Poland, it's all over the world, is that people are not adding the broadband part on top of PSTN but they are taking package because they don't need any more the PSTN lines when they buy broadband.

Maciej Witucki

And just to conclude this on this one, I think what is very important that as said by my first professor of business in my life, it is better to have a 10% margin on something than 100% margin on nothing. Both numbers are completely random and they have nothing to do with the EBITDA as margin of the Orange Polska Group. But seriously, those tools are basically about, are aiming to obviously upgrade the customers we have already but basically they are to prevent the drop of the fixed, to defend the fixed lines. So not only, and what we have today as offers, we have obviously the Open, the right pack, the products with the TV but don't forget that we have as well launched products where we have broadband and VoIP at quite attractive prices. And what we have just launched this Quarter, where for the 90 zloty you can have, well, a few megs only broadband but with unlimited fixed calls to Poland, EU, US, Canada, Australia and whatever, and even mobiles in US and Canada, those are clearly offers which are giving you added value because you have the broadband and at the same time you have a very abundant offer on the fixed line. So this is about stopping the drop of the fixed line and this is above my whatever percent of something.

Questioner Number 2

I have a question on the erosion of the fixed line. Last Quarter when it actually accelerated, you mentioned that the reason behind was mostly the cancellation of the social plan. Was there any specific reasons behind the acceleration in the first Quarter?

And the second question is, what should we expect for the rest of the year?

Thank you

Maciej Witucki

So I will just, let me introduce. It's unfortunately the same reason and I will give Mariusz the floor.

Mariusz Gaca

So for your question about the erosion of fixed lines due to the social plan. So the people living in Poland know this story from the press and television currently, that there are some unfair competitors on the market, let me not name them, that are just trying to play as Orange Polska and trying especially to make some elderly customers to switch, not even leaving them the copy of the contract. And this is, believe me, a huge scale. And this is a huge scale and Maciej's operation on the market that we are trying to avoid differently through legal actions and through some information actions by majority of the churn, I would say, a really majority of the churn associated with that kind of activity of door-to-door direct sales forces going to customers and telling them that we either disappearing on the market, either we are splitted, either they will be at the end of the day left without the phone. So these people are basically signing those contracts and you can read in the local press and the national press and see it on the TV how it works, and this is a really problem because FunPack competition that is taking place on the markets since Q4 actually.

Maciej Witucki

But, again. So we have this phenomenon basically those customers leaving, when you compare the drop of the line with the increase of the wholesale. So you see there's still a question of this 3 zloty forced increase of the tariff in Quarter 4 last year which resulted into the increased churn of the social plan and this is something which we still would see for some incoming months of 2012, impacting the fixed line disconnections.

So just to be very fair with our answers – competitors they don't call them Orange Polska, they call them Telekomunikacja Polska with something added behind. But clearly majority of the numbers are disconnections going to mobile. Of course, we are somehow hunting one third of them roughly with the market share of Orange. But, as well, we really go only into this kind of defeatist approach, we lose them points. That's why we also unlimited offers on the fixed, fixed to fixed, rather voice to fixed, to propose to those customers and to be more active, even more active on their attention, on the same test of customers to propose them with interesting offers of the IP telephony.

Questioner Number 2

So you expect the challenge will decline compared to first Quarter?

Maciej Witucki

I think we will still have higher than normal churn for the incoming months of 2012 until this social plan database is transformed into other plans, into VoIP or into mobile to fixed substitution.

Questioner Number 2

Normal being around 10%?

Maciej Witucki

Normal, we with the ones we would just end in the previous years. So we always said the range of 10-12%.

Questioner Number 2

Ok, thank you.

Leszek Iwaszko – Societe Generale

May I ask about your view, what you expect about the EBITDA margin in the next quarter – that you expected increase – what is the ground for that view? You mention the market is turbulent so doesn't it mean that you'd be forced to somehow invest more in the commercial activities especially in the mobile part?

And the other factor being the additional royalty payments – correct me if I'm wrong, they would be paid already in 2012?

Jacques de Galzain

So in terms of EBITDA. So, I mentioned that without forex impact the EBITDA margin would have been at 35.6%. You know that the polish zloty is now a bit stronger so the forex impact will be lower in the Quarters to come.

Then you know that there is some seasonality and always Q2 and Q3 are better than Q1. In addition to that, our optimisation program will bring more to it starting from Q2, in fact, in Q1 we have signed a number of agreements for people leaving the company and they will start to leave in Q2 so this will bring some savings.

In terms of commercial activity, for sure we have increased a bit the commercial costs in Q1 and this will be true in Q2, as the smartphone cost more than the normal handset, but this is integrated in our outlook.

Leszek Iwaszko

But there are royalties as well.

Jacques de Galzain

Royalties, yes. For sure we will… the level of royalty will increase in 2012. When we made an assessment this will be for the fixed part and when I [inaudible] for the remaining parts, broadband and fixed voice, I remind you that the wholesale did not, is not integrated in the brand fee. So based on the 2011 figures, it would have been less than 75 million zloty for the whole year.

Maciej Witucki

Then, obviously, a follow up, obviously all imbedded in the budget.

Leszek Iwaszko

Excuse me?

Maciej Witucki

And obviously all embedded in the outlook, our internal budget and the outlook which we have been planning for the rebranding for some months.

Leszek Iwaszko

And the second question. It's on actually the network sharing agreement with T-mobile. When we should be seeing any first savings on that front – either on capex or opex? Is it 2012 or only 2013?

Maciej Witucki

So maybe Piotr… with progress… and savings…

Piotr Muszyñski - Chief Operational Officer

The project is going as planned. We are starting to integrate the first cluster in, we started to integrate the first cluster in April. So, operationally, the project will speed up in H2. It means that in May, we are of course working and we are integrating the network, but with maybe a bit lower speed with the other circumstances.

So capex savings are already visible because they are contractual - we have signed a contract and the savings are visible. Opex savings will be definitely visible from the next year. But the good news is that we pay for the network a little bit less than we expected when we budgeted. So we have very slight savings already. But they are symbolic but showing exactly the trend which we expected to have by merging and building the economy of scale, not only in the buying process but also in the maintenance of the networks.

Leszek Iwaszko

Thank you very much.

Questioner Number 4

I would like to ask about the labour expenses. In the first Quarter, there was the decline in employment by 1800 people. Meanwhile, the labour expenses decrease only 4 million zloty. What are the reasons behind such small decline in labour expenses?

Jacques de Galzain

There are three topics in fact.

First one, you know that there is this additional 2% on pension contribution. This is true, unfortunately, also for TP.

Second topic, we have a timing difference in social provision so it will revert.

And third one, is that in Q1 last year, we had an adjustment of the Jubilee provision which was very positive for the labour expenses.

Jacek Kunicki

Do we have any more questions from the floor? If not, then I suggest we switch to the teleconference audience.

Operator

Thank you, sir. 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'.

Your questions will be polled in the order they are received and there will be a short pause whilst participants register for a question.

The first question comes from Dalibor Vavruska. Please go ahead, Sir.

Dalibor Vavruska – Citi Group

Good morning, everyone. It's just a brief question about your outlook for the fixed line business. I mean, I know that three years ago when you, or more than three years ago, when you signed the deal with the regulator, you said that we're going to spend a couple of billion, 2.3 billion more on capex than were going to turn around the fixed business. Now the trends are maybe a little less favourable than you expected at that point and now you're saying we're going to pay Orange these branding fees and you're going to turn around your fixed business.

I was just wondering if you can give us some guidance in terms of if you agree to pay these fees and rebrand, how is gonna impact the trends, the revenue trends in your broadband revenue if you think that for sure you're gonna turn it to at least positive growth? What do you think about drivers etc.?

Maciej Witucki

Ok, so basically, thank you for this excellent question for our February 2013 meeting which will be the one with the 2012 results and next three years outlook, which we're going to present.

So, obviously, I can't get in detail about what we expect but, what's important is that: Yes, we went into this deal with the regulator, or Orange went with the regulator, and Yes, we avoided the last three years many serious problems and threats to the company. Wholesale rate, functional separation, and an overall pressure, regulatory pressure, I would say inferred regulatory pressure on us, which we know in the past. We spent, by the way, less than initially announced. So if you remember the initial numbers have been in the range of 3 billion zloty. Now we know that we are below those expenses while realising the, while realising all the obligations to the regulator. In the same time, and this is extremely important, we improved very sensitively the quality of the network. So the fact that today we offer more than 50% for the very high broadband. Today we are capable to deliver HDTV, the way today we have the VDSL, remember that this is all within the same, again limited towards the initial number, amount of spending.

So yes, the market is growing slower than we expected. We have the broadband penetration which have been in number, of household penetration, was raising by only a bit more than 1% last year. So the base of the growth of the market itself, it's slower. So here, we go slower as well. Yes, we have, as I said in the presentation, we still need more ammunition to fight cable in the very dense zones. So with VDSL, we are now capable to in the area as well [inaudible] is not fully present. We are capable to contain the cable. But the overall volumes are, are what they are. So we gain new customers in the less dense areas and the same time lose almost the same numbers in the big cities. But the trends are improving, the offer is improving and Orange is one of the elements of the offer. Today, Vincent said, we don't sell basically too much of the PSTN lines. We don't sell, by the way, even this much of the naked Broadband. Customers are looking for bundles. And when they look for bundles, it's the case of [accruancy] to try to sell the fixed line from TP with the mobile from Orange, with the television basic should be from Orange because people, when we asked them, they do not associate the old brand. They did not associate the old brand of TP with the television offer or bundle offer. So they are obviously, I would say, proven and validated by management business cases behind the rebranding. I will not go into detail. But I would said outside of the business cases, we have the kind of simple reasoning of, or business intuition, or not even business intuition, it's more customer expectation of having one stop shop and one brand with one offer. And obviously if I go for the 4P, I wouldn't offer this offer as Telekomunikacja Polska say. So there is a kind of marketing rational on top of it.

Then for the numbers and long term or midterm expectations - end of February or second half of February 2013.

Dalibor Vavruska

Thank you, thank you so much. Can I ask you one quick follow up?

Maciej Witucki

Go ahead.

Dalibor Vavruska

Yea, I'm just wondering, can you say, I understand the market its growth is disappointing, if you expect this Orange rebranding to have material for the effect on your market share? Any specific plans for that?

Maciej Witucki

I would say, let me present it in the midterm view rather than at the next week because we next review. It's definitely a vision of bundles impacting my long term perspectives and results on the market. Then those bundles because of the, I would say, marketing logic, gonna be branded Orange. So it's not a kind of miracle solution of the Orange, even if the brand is nicer, smarter, warmer than the one of TP. But this is the only brand we would, we could select for the bundles. And the solutions are protect not this much brand behind.

Dalibor Vavruska

Ok, thank you.

Operator

Thank you, sir. Once again, 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'.

Jacek Kunicki

Ladies and gentlemen, since there are no more questions, thank you very much for your attention and I invite you for the Q2 disclosure towards the end of July.

Good Bye.

Operator

Ladies and gentlemen, this concludes the TP SA Q1 presentation. Thank you for participating. You may now disconnect