# Conference Transcription

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| **Date of conference** | **:** | **22 April 2010** |
| **Conference title** | **:** | **TP Group Q1 Results** |

# CONFERENCE DETAILS

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| Conference Date: | 22 April 2010 |
| Conference Time: | 9:30 CET |
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| **KEY:** | |
| **words in bold** | Unsure if words heard correctly - please check |
| ?? | Words could not be distinguished |
| *(Inaudible - ....)* | Words that are entirely inaudible for the specified reason |

**Jacek Kunicki**

My name is Jacek Kunicki, I am the Head of Investor Relations for TP Group. Welcome to our presentation of the results for the first quarter 2010. I have with me today, our CEO, Maciej Witucki; our CFO, Roland Dubois, Chief Commercial Officer, Mr Mariusz Gaca and Chief Operation Officer, Mr Muszynski.

Before we start a short note that our results had been published this morning and are available on the IR website at www.tp-ir.pl. Quick words for those of you that have decided to join us right here in Warsaw, would you be so kind to switch off your mobile phones in order not to disturb the presentation.

Now, without any further delay, I will give the floor to Mr Maciej Witucki.

**Maciej Witucki**

Thank you very much. Good morning ladies and gentlemen. Just related to ?? my Chief Marketing Officer for personal reasons can't be with us. Of course if you have any questions about his area we will manage. The agenda of the today's meeting is as follows, first I will start with a brief review of the Q1 telecom market evolution and update on our mid-term action plan evolution. Then you will have Roland Dubois, who would provide you with a detailed review as usual of the TP Group performance. He we then hand over to Mariusz Gaca, Chief Commercial Officer and he will provide you with the new commercial offers presentation. And I will then conclude the presentation with the takeaways from Q1 and some elements of business for Q2. As usual we will finish with the Q&A session.

Let's start with the market review on the slide number five. The first quarter turned out to be a very much like we expected, like we planned in the mid-term plan action. The market evolved downwards but at a slower pace as in the Q4 of last year. The improvement thanks to slightly lower MTR impacts due to its timing last year, but as well due to some commercial changes or user changes by our customers. The revenue decrease is smaller than in Q4 and of course our full year outlook. The EBITDA margin was helped by healthy contribution from the cost transformation and it is slightly higher than in Q4.

We have implemented already within the Q1 some key milestones of our commercial strategy, the new mobile offer which have been implemented yesterday which is an important change, an important innovation on the market. And then the first step of the broadband pricing modification. Since competitors are still taking advantage of the retail minus bitstream pricing we decided to change our high speed prices sooner versus original plan. This means that TP on the broadband market is back with the competitive pricing on the top speed and we are expecting the new regulatory decisions within the Q2 to as well reshuffle the pricing on the low end obviously.

We have just given you the first flavour of how much that is impacting our numbers, those new offers for 6 megabits, 10 megabits and 20 megabits within one week gave us 50% increase of the sales of those products to our customers which give us a good hope for the future. And second of course we have continued our invention activities and we have been able to significantly slowdown the decline of our fixed lines. Still despite all those satisfactory elements, despite of the savings which we already achieved last year we have been launching new contracts or initiatives to further help the EBITDA margin. Roland will give you the more details about those activities. Finally the regulatory environment as you know is not stable and we have been continue to develop a constructive dialogue with the Polish national regulator.

Let me guide you through the overview of the market evolution on the slide number six. We do estimate that the telecommunication market continue to decline in value although at a slower pace that Q4. The improvement in trend is specially visible in the mobile segment because there the growth was the strongest due to the regulatory decisions which fell 6% in comparison to 9% decline in Q4. The market benefited from a smaller MTR impact on the year-to-year comparisons as the first MTR cut was introduced in March 2009.

On top of those changes driven by the regulatory effects we have also observed a growing usage and continued growth of mobile customer base. And I must say that this is a good news for future, good signs for the future of the Company. Fixed markets have declined by 4% to 6%, it was a mix of the moderate growth of the broadband offset by still decreasing fixed voice market. The new broadband pricing and the investment programme will progress to put Telekomunikacja Polska back in the driver seat for the broadband. But I must say that we will have to wait until H2 and the full implementation of the re-pricing strategy to see the material affects of these actions.

With that let me arrive to the slide seven for a quick look on our financials. I have just two comments regarding those financials, Roland will give you details. We have seen an improving trend in our top line, down just by 10% in comparison to 12.6% decline in Q4 2009. This is supported by the positive trend in customer bases and usage. As the internal impacts on the year-on-year comparison will become less important in Q2 and Q3 we expect further improvements in revenue evolution of the full year outlook as mentioned in February in our **strategic** plan.

As a reminder we expect the full year revenue for the Group decline in upper range single digit figure but that will be smaller than 2009. EBITDA is as expected that it is under pressure from the top line evolution of course but our cost transformation is working well and has contributed roughly at the level of PLN130 million in the Q1 year to year. CapEx was low in Q1 yearly also due to the weather conditions which limited hour civil works. We do expect nevertheless the CapEx to accelerate strongly in the incoming quarters for business reasons and because of the regulatory arrangements that we do believe that we will go into the range of the numbers of the **start** plan at the end of the year. Net free cash flow not perform Q1 2009 driven by the low CapEx but please remember that we have had a considerable ForEx gains in 2009 which distorted the comparison between the quarters. In summary Q1 gives us the confidence for our consecutive quarters

I propose that we go just on the last slide of the introduction with the progresses on our **start** plan. It show the progresses have been done in all three areas of the mid-term plan. On the regulatory front fee arrangements with the regulator is on track. On top of this they are have announced of no cuts of MTRs this year, also it does not change our revenue outlook. It brings more certainty to our forecast and then shows how the improvement of the overall regulatory on us and on the polish market.

Important progresses have been made in the commercial terms. We have launched a new post-paid offer yesterday based on the unique customer segment base and providing different segments with their desired features. We have also introduced a low-cost Smartphones into the offer. I believe that this will begin to transform the polish mobile market from purely price focus. It was more customer oriented, Mariusz will give you some more information about those new offers. Then the re-pricing of our top broadband speed options is an equally important development, knowing that the cost plus methodology is coming soon, we decided not to wait to bring us back to the competitive prices. This enable us to compete in the market place and will compliment our broadband users.

Finally the cost transformation, this is a must, this is an ongoing project. We have made good progress within the area, to give you some example those are those three big IT vendors consolidation contracts which have been signed by **sales** by the end of the quarter. This will bring us cost reduction when we finish those item by mid-May, end of May to sign the other contract. This is simplifying the processes as well which is under ?? of the future trading. And it will help us to better manage the investment pedigree. Roland will give as well some details in his presentation.

One more comment before I hand over to Roland that we shall not discuss as usual any ongoing legal proceeding due to their sensitive nature. Any information regarding provisions for claims litigation, risk and other charges including cases such as the DPTG or the European Commission inspection, please refer for the appropriate statement in our financial statement where those are described in detail and we will not comment them in the Q&A session.

Thank you very much for your attention. And I now pass the floor to Roland with the financial.

**Roland Dubois**

Thank you, Maciej. Good morning ladies and gentlemen. I shall begin my presentation with the Group revenue as shown slide ten. The year-on-year revenue evolution improved since Q4 of 2009. Obviously due to the MTR impact the revenue is still declining but it is at a lower pace than in Q3 and Q4 2009. The regulatory impact continues to be the biggest factor in the revenue evolution, it consists of obviously MTR cuts and also other fixed mobile price cuts that generally follow the MTR. It's impact was slightly smaller Q1 due to the MTR cut timing of 2009 and it will be also smaller in the following quarters.

Regulatory mobile contribution to the Group was flat year-on-year despite the saving price pressure in 2009. This shows the strength of this segment with growing customer base and usage is going to offset retail price pressures. This segment is obviously affected by the fixed voice substitution to mobile, next slide will show the progress made to limit this impact for the future.

Next slide is the slide 11, fixed segment. Two factors continued to drag the revenue down by roughly 10% on the year-on-year basis. The first is the fixed voice which is affected by the customers migrating to mobile and the second is also the regulatory impacting consisting mainly of the fixed-to-mobile price cut which are, as we said, the MTR reductions. Nevertheless we have launched a plan to counteract this effect first we are focussed on the fixed-term tariff plans for the fixed voice. And second we have implemented new pricing for broadband. Some of these actions have already started to deliver the first effects, it will be evident in the following slide. Others, such as the action in broadband, would take some time before it significantly influence the results.

Next slide is the slide 12 which focus on the fixed voice area. Key performance indicators show two positive trends in fixed voice. We have observed a growing base of new tariff plans launched by TP in 2008 and significantly modified in 2009 and their penetration rose from 13% of our customer base in Q1 2009 to roughly 22% by March 2010. It implies two positive factors for the future. First it means **earning** loyalty of the customer who have chosen this plan and second since a large share of this plan have defined duration it allows TP perform retention activities before the end of the contract.

Q1 result show a significant improvement also in the fixed line evolution. Net reduction of lines has been significantly limited, the retail customer base has decreased by 183,000 versus a decrease of roughly 230,000 in Q1 last year. Analysed as a percentage of the retail base this decrease has been limited to 2.6% which has to be compared to 3% decline one year ago. The continued update of our tariff plans should contribute to a gradual improvement in the fixed voice trends.

Next we move to the slide 13, fixed broadband. As expected broadband revenue is flat year-on-year. It is affected by the price pressure from 2009 as well as by low customer base growth. TP has a clear plan to restore growth in broadband revenue. We are the first to significantly decrease our pricing for the top speeds of broadband bringing TP back to competitive prices, coupled with broadband investment programme this should restore the growth for broadband customer base and of our broadband revenue.

Second our strategy for TV and broadband **downloads** continue to be well received on the markets. It is proven by the further growth of our TV customer base which now exceeds 400,000. It means that now over 18% of our broadband customers have also had our TV offers. Also within our TV customer base we see an update of the paid TV packages, it is still modest but it is continuously growing. It proves that the competiveness of our TV offering is significant and within some time this will start to play an important role in maintaining our global ARPU **forward**.

Now I shall go to slide 14 for review of the mobile top line. The mobile revenue trends have improved in the first quarter versus Q3 and Q4 of 2009. Excluding regulatory impact top line evolution would have been nearly flat for Q1. Considering the huge price pressures of 2009 this is quite a good achievement. It was possible thanks to further continued growth of the post-paid customer base by 6.4% year-on-year and secondly the continued growth of the usage with AUPU up by 16% year-on-year. The yearly evolution of the mobile segment revenue is strongly assisted the two MTR cuts done last year. However the impact will become less important in the following quarters.

Let’s go on to slide 15 for retail mobile. The retail revenue is slightly declining due to the strong price pressure coming from 2009. However increase in usage and development of our customer base have offset most past of this impact. This again demonstrates the resilience of the retail revenue stream. Post-paid in particular has developed positively reaching 48.7% of total subscribers. Improvements in customer **needs** as well as growing usage have defended well the overall retail ARPU which has stayed almost flat year-on-year despite the strong price pressure. The new post-paid offer launched yesterday should further simulate the positive trend on things, promoting higher commitment as well as data usage. This now ends my review on the top line.

Let’s go now to the slide 16, we will analyse the EBITDA evolution. The EBITDA evolution was influenced by the following factors. Regulatory revenue evolution adversely impacts our profitability by almost PLN200 million. Regulatory still impacts EBITDA although less than in the past. Growing mobile base and increase in usage have driven commercial costs and interconnect up. Impact of voice was insignificant as operational expenses ??. We have also observed small increases in other costs. For example a price driven increase in energy costs or a slight rise of bad debt expenses.

Finally our cost transformation programme has delivered solid results of PLN130 million. Therefore its effects have been able to fully offset other cost increases as well as part of the regulatory impact. In front of the adverse revenue evolution we have reduced total OpEx by 7.6% year-on-year. Excluding interconnect the OpEx evolution is down by 3% in comparison to Q1 2009. We have launched and implemented new actions in Q1 to even further increase costs savings.

Let me turn now your attention to slide 17 which is the new transformation initiatives. A significant portion of Q1 savings can be attributed to the initiatives which we launched already in 2009. But the in-depth transformation of the Company's cost base which started last year is an ongoing process and we are continuously analysing our activities and operating performance in search of greater efficiency to keep up the good momentum we have also further initiated in Q1. We have signed three out of the seven key agreements with IT vendors to consolidate this activity and we started from **roughly** 50 vendors.

We have simplified the network infrastructure investment process by introducing end-2-end process responsibility and eliminating redundant activities. We have set up the process to increase the refurbishment of our livebox and set-top box. This is roughly 70% cheaper than the cost of the new equipment. And finally we have optimised our receivables collection process with better categorisation and an earlier sale of other due receivables.

Let's now go to slide 18 for the net free cash flow analysis. The evolution of the cash flow from operating activities is mainly driven by two factors. First the lower EBITDA and also an additional factor linked to side effects of hedging the liabilities. That's quite a paradox but the decrease of the Zloty last year led to gain in hedging activities and hedging derivatives. On the contrary the strengthening of the Polish currency in 2010 has led to a decrease of the cash flow.

But on the year-on-year decrease in cash from operative activities it has been partially offset by three items. The first is a lower demand for working capital. It is due to the instant timing in Q4 2009. Second is the lower cash outflow for capital expenses and the last one is a lower income tax rate. As the result of these elements the net free cash flow was only PLN62 million lower than in Q1 last year.

Let us now review the CapEx on slide 19. The very long and harsh winter in Poland has affected our capability to conduct civil works. As a consequence this has limited our CapEx in most areas. Nevertheless we have reached our broadband line production target from the arrangement with the regulator which is very important. As the weather condition has improved since Q1 we expect CapEx to accelerate significantly in the consecutive quarter. And with most probably an accumulation of investment anticipated for H2 in 2010.

Thank you for your attention. This concludes my financial review and I now hand the floor over to Mariusz Gaca, our Chief Commercial Officer.

**Mariusz Gaca**

Thank you, Roland. Good morning ladies and gentlemen. I am really pleased to confirm today that we have launched the action plans in our two core markets, which is mobile and broadband. Naturally with those actions we believe that this is a good starting point for the rolling out of TP Group's new commercial strategy, which actually is supposed to drive us back to the leadership position and gain on the top line position.

Let's go to the first slide. First of all yesterday, as it was mentioned many times, we have launched a new offer in the mobile post-paid. This is one great introduction. This is the concept, not the offer but the concept actually that already exists in some Orange countries like UK and France. It can be structured differently or named differently but it exists as a concept. For the Polish consumers we were making a very deep analysis and very extensive focus group introduced with our real customers being the real representatives of certain segments in order to find the right naming, of course the right feature set for those offers but and also the right pictograms and items.

Finally this offer is tailor-made for the Polish markets and for the Polish consumer. Now the offer is actually based on a new philosophy of the market segmentation. Instead of plastering customers based on the way and the amount of money they spend for telco mobile services, we took the approach to target those segments through the usage and needs that customers have which were the main points about this new post-paid offer.

Actually from the market perspective or from the operator perspective it has helped us to target better the communication, it has helped us to package better features, especially to moving customers who are using some multimedia services and data services and actually to propose to customers some different handsets depending on their needs. And by providing those tariff plans that we launched yesterday, we believe that we are able to reach three main points. First is to loyalise the base of new customers that will be supposed to be retained in a certain period of time, as I mentioned, to stimulate the usage, especially the usage of data part of the network for the multimedia services. Last not least, draw their spend to higher usage and stimulate our ARPU. We have named those offers the Dolphin, the Pelican, and the Panther. Let's see some details on the next slide about these offers.

As you can see on the slide there are three basic offers that are targeted or designed for three different segments. The first one, the Dolphin. The Dolphin is the offer for those customers whose primary usage is to talk. Second is the Pelican. This is the offer that is created for those customers that are constantly in touch with numerous number of people through calling, texting, smsing but also via the social networks. And the third offer, the Panther, this is the offer designed for those customers that are actually heavy users. Those that are not willing to be limited. Those are customers that are calling, texting and browsing the internet, whenever they are and however they want to.

By using this segmentation we are able now to structurise better the offer and features. As you can see from flagship components, for the Dolphin offer we have some free voice minutes for those customers. For the Pelican users there is a free text and community services accesses to Facebook for example. And for the Panthers this is a very expensive data package to browse the internet. As you have the example on this slide also, we are proposing but not forcing the customer to pick up the right handset to talk, to text or to browse the internet. Of course, the customer has a free choice to pick up any other phones he wants to and this is a fully interoperability between those offers.

Just to summarise, this is the concept that is **new** but this is the concept that is prepared for the Polish marketplace and they are real extensive. I don't remember any other offer that we spent so many time, we invested so many time with our customers to find the right set of names, the communication, and the features that are inside. We believe that this is a pretty modern approach in the Polish market in terms of the segmentation on the post-paid.

Now let's move to the broadband on the next slide. First let me start from the market context. As you can see on the right side of the slide, there is a significant, and quite obvious for all of us, discrepancy between the EU average usage of the bandwidth and Poland. 60% of Polish broadband customers are within the range of speed between let's us say 128 megabits per second and 2 megabits per second. While in opposite in EU average is 25% of those customers are using up to 2 megabits per second. It seems obvious that customers want to have faster internet access, so why the take up is still so low in Poland?

Basically this was driven by the high price of our high-end portfolio or generally by the high bandwidth offer on the Polish market. Understandably considering the past regulatory regime it was quite difficult for TP to have attractive prices for this high-end. But in order to exploit this opportunity, as you perfectly know, we have launched a very large-scale broadband investment programme which is about roughly 1.2 million lines, of which 1 million will be able to carry the signal of the broadband which will be not less than 6 megabits per second. And to take the advantage for TP Group of this programme we considerably lowered the price for our high-end **broadband**. And we do believe that it will bring us back to the market pricing and at the end of the day to the leadership on this market.

Let's go to the next slide. As you can see the offer itself, which was roughly launched more or less two weeks ago, there is a significant discount to those offers. You have the example on the slide of 20 megabyte per second that is discount is up for 43% comparing to the old offers that was still on the market in March this year. What does it mean for the pricing and you have it on the right part of the slide. Well there is 6 megabytes per second up to 8 megabytes per second range, the key is now with the offer on the lower end of the market for high options which is bottom right we are equally competitive in terms of pricing.

But as we mentioned many times this is not our aim to be the market leader in terms of pricing. We will not be the price leader, we will not be the cheapest. And I believe we don't need to especially having in mind that we have pretty well developed and already 8 years experience of technical customer care for broadband users. With all those bundles that we are offering with Voice over IP and TV makes this offer competitive which does not mean it has to be the cheapest.

This re-pricing has been an important step also that we needed as a Group to strengthen our position on the broadband market considering of course the investment programme that we were mentioning before. I believe with the new pricing we are on the very competitive side. And having in mind the investment and the network capacity and the new networks that will be built which is actually coupled by this new attractive pricing. We believe that this is a very good step for us to regain the market position especially in the high-end options.

Thank you ladies and gentleman. Let me now handover to Maciej for the concluding part.

**Maciej Witucki**

Thank you very much, Mariusz. Ladies and gentlemen please turn slide number 26 with some takeaways from Q1. To summarise my assessment of Q1 we have four major points. First no big surprises in terms of financials. The top line revolution has slightly improved and the cost savings has helped the EBITDA margin. The second of all we have launched the two very important offers to step up our commercial efforts, so effectively it means that TP now after Q1 is on the way back to drive the broadband market and TP is a definitely trendsetter at the post-paid segment of the mobile market.

The fourth point on the cost transformation is it's a robust programme fully on track. It has achieved PLN130,000 million of savings in Q1 and in the comparison to the last year we have been able to significantly decrease the cost base of the Group. We have also implemented new initiatives such as vendor consolidation, changes in the investment processes, to ensure that the savings objectives are met and will progress in the coming quarters.

With regards to what we can anticipate for the second quarter, first of all we will be awaiting the response of our customers to the new offers that we just started. We believe that those are very interesting to the customers. They will not materially change the trend yes but we anticipate a positive response from the market and again a very strong effect of TP Group being back to drive the market. Rising demand for top broadband speeds is a good first sign for us and we hope that it will become a trend which will complete the investment linked with the regulatory arrangement.

Secondly, we should get the formal work completed for the new BSA offer, new wholesale offer with the cost plus method. This would allow us to put (*Inaudible – technical difficulties*) broadband price reshuffle probably like the very end of Q2 that we should expect a decision but still we are on track with the timing concerning the regulatory arrangement.

As far as the financials are going clearly we expect the top line trends to improve slightly. There will be year-on-year decline limited to the single digit in Q2, so we will go back to the single digit. The new post-paid offer may drive commercial costs up, this was planned it was in our strategic plan. But our cost transformation should then continue to – and be strengthened to allow us to manage the costs base and to allow us the investment into the top line by acquiring good customers with proper products.

As far as investments we expect CapEx rise as well as we will accelerate our broadband investment programme, so we do expect that we will stay within the range of 16%, 18% of CapEx revenues. All of this of course in line with the phasing of our outlook and cash guidance of full year which has been presented by the end of February. All in all our results are still not at the level of our ambitions, we are however working hard to turnaround the key trends. And I am happy to say that for now we are following the path which have been set in the medium term plan presented in February.

Thank you very much ladies and gentlemen. Now, this is concluding our presentation and we are ready to take the questions. Jacek.

**Jacek Kunicki**

Yes. We will first take the questions from the floor and just one kind request if you could speak up to the microphone for the benefit of the people that are listening to us over the conf call.

**ACT Operator**

Ladies and gentlemen, if you would like to ask an audio question, please press *1 on your telephone. If you wish to cancel this request, please *2. Please speak clearly so that everyone in the auditorium can hear you and kindly restrict yourself to one question at a time.

**Maciej Witucki**

(*Inaudible – technical difficulties*) of the absolute success in the communication. It's the first time in my career we don't have questions.

**Jacek Kunicki**

There is question from the floor. Thank you very much.

**Paweł Puchalski, BZWBK**

Hello. My question is, please show me your PLN130 million cost savings? On slide 17 you are presenting total costs of interconnect, in the fourth quarter 2009 there were PLN2 billion, in first quarter of 2010 they are lower as PLN50 million. If I were to judge, please show me your cost savings because from my perspective the costs are falling at much lower base than the top line.

**Roland Dubois**

OK. We can't just compare because we have made the costs savings and clearly line by line it is qualified, checked and I shall give you the details. But also at the same time we have some improvement in some ways advising that in some costs for example energy costs which are increasing and not leaned to our activity, we have some elements like that.

If we try to summarise line by line what is the effect of the – what is the detail of the PLN130 million, I will give you the detail labour is coming £6 million, commission is PLN30 million, G&A through a different programme for the reduction in car fleet and so on is more than PLN25 million, already tax also as we have been able – started and we are continuing to relocate our people in different cities and different building more than PLN10 million. Network maintenance has also been significant more than PLN50 million and some other very detailed elements and the total is PLN130 million.

But I understand your question, if you just compare simply total costs from one year to the other you cannot find directly the PLN160 million. And I will just add that we have been announcing from the February that we will use part of those saved costs to reduce the activity of the Company. We spent part of those costs savings on the development, on the new products, on the new investment into the top line growth. The point about is the difference between the net effect of PLN50 million or PLN60 million and £130 which have been cut from the, I would say, day-to-day OpEx line of the Group.

**Paweł Puchalski, BZWBK**

Thank you very much.

**Jacek Kunicki**

Anymore questions from the floor. If not then we can go, I believe we have a few questions from the conf call.

**ACT Operator**

Thank you. We have a question from Frederick Boulan from Morgan Stanley. Please go ahead with your question sir.

**Frederick Boulan – Morgan Stanley**

Good morning, I am going to ask you a few questions if it is possible. First of all on your outlook, so the comments on mobile termination rates, clearly it is getting ?? regulator since you set your guidance. My numbers is just helping me with a full year revenue by 1.5%. Can you explain here why don't you expect a positive impact? And if in fact you haven't sent your message is more conservative on money side or are you getting incrementally more negative on the business.

Secondly on your pricing. Can you go through on broadband side the pricing implications for the market, do you expect people to react? Can you clarify the regime in terms of whole pricing, I was given a retail minus regime where that will lead to a more aggressive pricing from competitors.

Question three on margins, can you comment a bit on the margin outlook in the fixed segment which was under a quite a lot of pressure? Specifically when I look at FX zloty was pretty strong this quarter, 13% improvement, that was the reason quoted last year for very weak numbers. But this time round when the FX is getting better we should have had around PLN60 millions improvements on margins and we just **intend** on the numbers. Can you comment a bit on the overriding effort and how the effects is reflected in your numbers? Sorry for the three long questions.

**Maciej Witucki**

Perfect. I will may be answer for the first two and then I would pass the one on the margin to Roland.

Concerning the MTR cuts as you remember the planned MTR cut was quite low compared to the last year slashing of the rates. We have been announced with a change of roughly 10% of the MTR for mid-year 2010. To give you exact number our calculation is that the non cut of the MTRs in 2010 should impact the top line positively by something like PLN50 million to PLN60 million only. This is not material towards the overall revenues and towards the overall value of the market. This is first answer.

Second, about the pricing of the broadband. Yes, there had been reactions of the competitors, one week or ten days after our offer that the main **altnet** operator cut the prices further strongly. So today they are at the low range of, if you take two LLU offer even going down with a minus 15%, 20% towards the TP offer. Still I would say more and more we don't compare apples to apples because we do sell television offer on top. We just sell the quality of service and when you speak about the customers buying 10 megs and 20 megs they do care about price as usual as all of us. But they start to take those high end customers, they do care about the availability of your info line and quality of the support you provide. And I would say we are quite confident that the quality of what we are providing to the customers is an argument to stay with our offer.

The question about the driving the market value, well it should rather positively impact. We do not go with those prices, below the prices of the 1 megs to 6 megs space, it will allow us to migrate the customers to the higher speeds. That's what we by the way announced with the strategy that the philosophy is we lower the curve of the prices but at the same time we push customers on my right which is to higher speed in order to not only avoid to depreciate the market but even to try to increase the value of the market.

Of course we have been able to do it only on the high speed because of the retail minus complex calculations even doing those 6 megs, 10 megs , 20 megs does not impact very much the other tariffs. Now we definitely need and hopefully as of my knowledge of today we are on track to go into the cost plus and then cost plus will allow us to grow with the movement on the low end of the speed. The range of the decreases will not be the same, we don't have the same space. I spoke about roughly 20% of possibility to move it. And if the cost plus is implemented then you have the full effect. You will have not only the effect of driving the migration to high speeds but then you will have as well the effect of growing the demands by providing the low ends offers and a very attractive speed. Those are movements.

Again competitors adjusted their prices last Monday. They are cheaper but they don't sell the same products. And we believe they do not sell the same quality, so that's from my side. Now, Roland concerning the margins.

**Roland Dubois**

Yes. And as far as I understand the potential impact was the evolution of zloty. We have a slight positive impact on the appreciation of the zloty this quarter which is PLN20 million only. Just a reminder if we try to understand the mechanism, last year we were around **3.50**, that's a decrease from **3.80**, **3.90** in last quarter and that zloty went down during the – it was in 2008 and in 2009 it went down much more. Now we are back to around **3.85**, **3.90**.

During the course of the last quarter 2008 and the year 2009 we have increased our hedging. In liability first we are the level at least 80% and in our ?? more than 50%. As a consequence the impact of the appreciation of the zloty is very limited this year but nevertheless last year we had been able to reduce the negative impact of the price, just above PLN200 million negative.

**Frederick Boulan – Morgan Stanley**

And more generally on the fixed side the fact that margins are worsening, are you seeing anything structural here or –

**Jacek Kunicki**

Could you speak up?

**Frederick Boulan – Morgan Stanley**

On the fixed line segments the fact that your margins are worsening, so the decline in margins is actually accelerating, is there anything structural or is it relating to commercial activity and what should be right here?

**Maciej Witucki**

On the fixed line there is the impact of the price and there is also – and the main **reason** is the decrease of the revenue. Please we have to keep in mind that on the revenue in fixed line we have a decrease of year-over-year more than 800,000 lines which has impact of around PLN180 million. In front of that it's quite difficult to get the same level of margins. Even if there are reduction of OpEx we cannot, we are not able to fully offset the impact.

**Frederick Boulan – Morgan Stanley**

Yes, the question was that in Q4 you had one point deterioration with 10% top line decline. This quarter we had similar top line decline and you have 2.5 points reduction even if the FX is helping, so that's what I was trying to understand.

**Maciej Witucki**

Yes, it's very difficult to make a comparison between Q4 and Q1 year-over-year because there is a seasonality effect which is very significant. And so it's really difficult to really compare. What I can say is there is one element we had a positive one off in interconnect costs in Q4 last year with some PLN30 million, PLN40 million.

**Frederick Boulan – Morgan Stanley**

OK. Thank you very much.

**ACT Operator**

Thank you. The next question comes from Alexei Gogolev from JP Morgan. Please go ahead with your question.

**Alexei Gogolev – JP Morgan**

Good afternoon. Quickly can you please repeat your CapEx guidance, as the one (*Inaudible – technical difficulties*) I couldn't hear it? Thank you.

**Jacek Kunicki**

Could you repeat your question?

**Alexei Gogolev - JP Morgan**

Could you please repeat your CapEx guidance that you provided because I couldn't hear it (*Inaudible – technical difficulties*) percent of revenues as announced in the mid-term plan.

**Roland Dubois**

16% to 18%.

**Alexei Gogolev - JP Morgan**

OK, thank you.

**Jacek Kunicki**

Do we have any further questions?

**ACT Operator**

Thank you. The next question comes from Markus Remis from Cheuvreux. Please go ahead with your question.

**Markus Remis – Cheuvreux**

I have actually just one remaining. Regarding your cost cutting programme the PLN130 million savings in Q1, how should we expect the development over the coming quarters? How much room is there still to go and how pronounced could be an acceleration in the coming quarters? Thank you.

**Maciej Witucki**

The cost cutting programme it's an ongoing programme, so we started, as I said, in 2009. In Q1 2010 we have an effect of PLN130 million. We will continue and I can give you some elements, for example. I said that we have signed three of the seven key agreement with IT vendors. What we think the first effect that it will be we anticipate at least PLN5 million for the following quarters just for that element. We will keep the size of OpEx cutting and we will increase slightly the impact after all the measures we have taken and we are currently taking.

**Markus Remis – Cheuvreux**

OK. Could you remind me of the number of the comparable number for Q4?

**Maciej Witucki**

For the whole year of 2009 it was PLN380 million, so it's not to be divided within four equal quarters because we started this programme in Q2. But I don't have exactly the figure in front of me but I think it's more or less comparable with a slight increase in Q1 2010. But I would say we have to compare PLN100 million and we have PLN130 million.

**Markus Remis – Cheuvreux**

OK. Thank you.

**ACT Operator**

Thanks. The next question comes from Zoltan Palsi from UBS. Please go ahead with your question.

**Zoltan Palsi – UBS**

Good morning, gentlemen. My questions relate to your new broadband and mobile promotions. Firstly on the broadband, my understanding is that the customer on top of these broadband fees also have to subscribe to one of your fixed line telephony packages. Have you made any changes to these packages? Also on the same note is there any downside with the fixed line maintenance charge which currently (*Inaudible – technical difficulties*)?

Secondly, probably it's too early to ask on the mobile promotions but did you have any quantitative targets to these new promotions in terms of revenues or profitability?

**Mariusz Gaca**

I will start off with the second, yes, but we do not go of course through the details. Guidance is on the quantitative number of Panthers or Dolphins we want to sell and we are looking for effectively to be in revenues no guidance on this one. Then concerning the pricing, yes, the pricing was in line which is to be added with and either would make up or with normal fixed line subscription. The downside is that this is depreciating very much and is changing very much with comparison between the offers. Especially that again what we should compare on the broadband in reality is a broadband plus TV package.

In the sales of the delivery packages are the main drivers for the development of the revenues. And I don't believe there will be any substantial – I don't expect any substantial changes in the subscription fees just because of the cost calculation with the regulators. There would be no major changes on this part of the offer.

**Zoltan Palfi – UBS**

Thanks very much. What's the cheapest tariff plan for the fixed line telephony package at the moment on the mass?

**Mariusz Gaca**

The cheapest?

**Zoltan Palfi – UBS**

Yes.

**Mariusz Gaca**

It will be the PLN29 offer of the – which is the answer.

**Zoltan Palfi – UBS**

Thanks very much.

**ACT Operator**

Thank you. The next question comes from Jindrich Svadtek from Raiffeisenbank. Please go ahead with your question.

**Jindrich Svadtek – Raiffeisenbank**

Good morning. May be I have overheard but when the new wholesale pricing regime based on cost plus formula for bitstream access should be implemented, is it like in May this year or when it is?

The second question is regarding mobile margin which is still below 30% and it will be first from your competitors. I understand that for example you pay a royalty fee for the Orange brand but what is the major difference between you and the competitors, why this margin is so low? Thank you.

**Mariusz Gaca**

OK, I will take the first question and I will pass the second one to Roland. First it's the date. Normally according to the calendar the new cost plus should be issued somehow in June this year of course, hopefully. And it means that we should have the possibility to modify our offers either in the – probably in the very beginning of July as this will be the period where I would expect a change. Then it's all tactical decision if we would change your tariffs in the middle of the holidays where the demand is not here but I would not comment further on the date of the introduction. But the timing offers, decisions from the regulator being on the market by the end of June somehow on track which is what we have been expecting. Question on the margins to you, Roland.

**Roland Dubois**

Yes, if we compare to the competition in the mobile we are on one side two elements which are I would say structural differences. The first one is that the leased lines are won by Orange to TP S.A. at a certain price which is a regulated price and which is higher than the market price. Obviously at the level of the consolidation it is cancelled, but on the mobile margin it doesn't effect, probably two points.

Second is we have **one fees** and that also is the difference compared to our competition. And the last item which is non-operational item is linked to the fact that we focus much more on the post-paid customer base, we increase it regularly, we are more than 48.7%. As a consequence we have more retention costs, it's slightly higher more costly.

**Mariusz Gaca**

We have on this leased line we are just somehow penalising TP or Orange on its margin. In the same time the good news is that we are today strict under the control of ?? at the level of roughly 85% of our powers TP S.A. being connected with the fibre which is not good and only remaining 15% with microwave connection which is giving us a commercial advantage in the situation where the mobile data offers should increase, be more popular and then should load stronger our network. It's penalising the margin but in the same time this is as well an element of the good quality of the backhaul network of Orange.

**Jindrich Svadtek – Raiffeisenbank**

Thank you.

**ACT Operator**

Thank you. Our next question comes from Jonathan Dann of Barclays. Please go ahead with your question.

**Jonathan Dann – Barclays**

Hi, it's really just trying to pull together all the comments on mobile and broadband. Can you just give us an idea of the size of the step change in revenue improvement between 1Q-2Q, 2Q-3Q and then 3Q-4Q? How will this phase through the year?

**Mariusz Gaca**

I would say it's an excellent question but obviously we will not give detailed numbers on our targets for the third quarter. The only element is, the only impact which is predictable is the impact of the MTR cuts. And those are mechanical, those you could find on the last year numbers, just cuts the MTRs by 50% and you will find – and you will cut it and you bring it back to the normal evolution starting from the Q3 but no detailed guidelines on the revenues, neither margins for annual target.

**Jonathan Dann – Barclays**

Could I ask a follow on in terms of what could we monitor through say improved line loss or broadband net adds?

**Mariusz Gaca**

Normally yes we would ask for the broadband net adds. Definitely we should see the change starting from H2 and that's what we announced again in February, we said H1 will be very difficult, our competitors will take advantage of the difference of price especially when they know as it is confirmed by the high speed promotions two weeks ago that we will lower the prices. Today you may have on some speed – we are today somehow like up to 30% penalised towards the offers of the competitors so obviously it's difficult to drag the net adds in this situation.

When we look on what we announced that we will do after the cost plus introduction, mechanically the space – even the mechanical space between our prices which you remember may then find otherwise quite easily and say the LLU cost will give you the margin of manoeuvre for the competitors, so clearly the gap will be smaller. Television offers being strengthened and we will continue to be strengthened. The coverage will grow up because the investments linked with the UKE arrangements it is not about satisfying the regulators, this is about building the new accesses or better accesses. Of course all these starting from Q3 can bring better shape on the net adds, but we do not guide on the given quarters. We just said that we want to keep at the mid-term plan the stable positions of the market share in the range of 30% for the broadband and that's all what I can give you today.

**Jonathan Dann – Barclays**

Thank you.

**ACT Operator**

Thank you. Our next question comes from Vera Sutedja from Erste Bank. Please go ahead with your question.

**Vera Sutedja – Erste Bank**

Thank you. Just some question about the mobile termination rates. The last time I heard would be cut from next year to €3.03, is this still the case? And if there is a mobile termination rates cut, do you still keep your mid-term outlook for 2011 for example of flat revenues?

**Mariusz Gaca**

I will give the first question to Maciej Witucki. He is the guy managing state regulations with the regulators so he must be the best informed person in the Group.

**Maciej Witucki**

Unfortunately it was publicly announced so we know that the MTR cuts were postponed to January 2011 and so we expect 30% reduction, so the price will go down €3.03. We will see the result depending on the euro to zloty exchange rate maybe beginning of next year.

The second question's answer is a simple yes, we do maintain the outlook in the guidance.

**Vera Sutedja- Erste Bank**

It won't impact your 2011 outlook?

**Maciej Witucki**

The MTR cuts?

**Vera Sutedja – Erste Bank**

Yes.

**Maciej Witucki**

I don't believe that it will change significantly. Again just the fact of postponing the MTR cuts gives you a net impact on the revenue in the range of PLN60 million which is not substantial towards the top line of the TP Group. Those changes somehow if we take them at the mid-term, if you change in the middle of 2010 or change them at the beginning of 2011 and net effect does not change substantially the curve of the revenue. We do not change anything after those announcements about the MTR easing I would say by the polish regulator.

**Vera Sutedja – Erste Bank**

Thank you. I have a further question please on the zloty effect. It was mentioned that it has PLN20 million impact only in the first quarter 2010. Was this impact on EBITDA or was it also on financial results?

**Maciej Witucki**

The PLN20 million refers to EBITDA only. That's the effect on the revenue rate timing and the effect of the cost which are not the part which is not hedged.

**Vera Sutedja – Erste Bank**

Do you expect this power of cost, I would say, boost or a positive impact on cost saving will be higher in the next quarter considering the strengthening of zloty?

**Maciej Witucki**

The impact of zloty should in my expectation, in our expectation, is the fact that the zloty would stay more or less at the level of where it is now, that's around **3.90**. In that case it should not have a big impact on the savings. PLN20 million is probably something which could be - we can see the same level in the following quarters, so it will improve a bit but not so much.

**Vera Sutedja – Erste Bank**

Thanks a lot for your information.

**ACT Operator**

Thank you. Our next question comes from Anna Bossong of UniCredit. Please go ahead with your question.

**Anna Bossong – UniCredit**

Thanks very much. My first question concerns 3G. You are mentioning that you have the ?? a lot of base stations now. I am just wondering why your revenues from messaging and SMS, and which I assume includes your 3G as well, is being going down for the last two quarters and what you expect going forward?

My next question on the new expectations regarding the lower BSA wholesale prices with cost plus. What I understand from alternative carriers is there is this profit squeeze rules, which means that if you are squeezing the margins or even if the price is cost based that you are going to have to cut the wholesale price. I am just looking at your comparison of pricing and seeing that dialup for example is still more expensive than you are. I am wondering if therefore they would be able to claim any cut in wholesale rates was a price squeeze or profit squeeze for them. And whether you think therefore that there is a threat to or you are being able to have a potentially flat or higher wholesale tariffs.

Just finally on the mobile broadband subgroup was that - you were saying that the market has got stronger. Was this something that you think where you just kept up your market share more or less unchanged in the market or do you think that you have actually been gaining market share in the first quarter? Thank you.

**Mariusz Gaca**

We didn't hear you very well but I will try to answer to what I heard from your questions. The second one was about our expectations for the wholesale rate. There will be no – I would say there are no surprises or margins of manoeuvre on those prices as they are fixed by the arrangement, and again it was strictly under the control of ??. But they are somehow fixed with the frozen rates for three years and with the margin squeeze there we know our costs, so we can predict that the margin squeeze result. Once we have those cost plus methodology introduced the base for our competitors will be fixed under the three years' time and somehow the freedom of manoeuvre for us will be fixed as well. The situation will be very much predictable and we shouldn't expect any surprises on the wholesale revenues or our comparisons of offers.

**Anna Bossong – UniCredit**

Can I just ask you if I may? Therefore, are you expecting the price to be same as it is now or lower or higher of the wholesale prices?

**Mariusz Gaca**

The wholesale prices are fixed so they will stay the same.

**Anna Bossong – UniCredit**

No, adjusted on retail minus and you just cut prices.

**Mariusz Gaca**

Yes, they will fix the current retail minus prices for three years' time.

**Anna Bossong – UniCredit**

Even though you are going in to cost plus, that's very strange.

**Mariusz Gaca**

Cost plus is a kind of normal methodology used in many countries so this is something which we agree upon with the regulator. We know that those wholesale prices today, they are still below, but this is an important element for you that those prices are still below our audited costs. We agreed with the regulator to freeze those prices because in the same time we have the cost cutting progresses in the TP which then will allow us to align those two numbers. They are advantageous today to the competitors, you freeze the prices at the level below the audited cost of TP but at the same time there is a ?? for TP to adapt to reach those costs in the mid-term.

Your question about how do we expect to regain or do we expect to regain the market shares and get back into the net adds referring to the third question. If we – when we have, I would rather say, by end of June, beginning of July the possibility to go with the new pricing then the internet in Poland is already even compared to the purchasing power of the Polish citizens is getting really cheap compared to the other European countries. With all other competitors we have somehow comparable technologies compared to the prices, compared to comparable market expense and marketing spending. We have somehow the same economics tool to place the offers and out of there will be short-term possibilities of very cheap very promotional offers. The economics are there, so I don't believe that there will be a movement of exceptional price differentiation between ourselves. There will be cost plus but no way that we will get back into the situation where TP is 30% or 40% more expensive and cannot move towards the alternative operators. This will bring us ability.

On top of this we do not sell the same thing. We sell quality and we sell the television and other services, and development of those additional offers is extremely important those **DODs**, those DTHs, those offers through the internet, to explain to the ?? to explain to our customers and to offer to our customers something different, something with a bigger value for which the customers will be ready to pay a bit higher price. And this is what all incumbents do. We will not provoke, advise or will not try to be the cheapest on the market, there is no way on this side. I didn't grab your first question.

**Anna Bossong – UniCredit**

It was about the revenues in the mobile side from messaging and services and other, and that I assume includes 3G revenues and it has been falling for the last two quarters.

And I would have thought you would be rolling out more and more 3G services and seeing an increase in that, should we start to see more increase in the future?

**Maciej Witucki**

I must say that I don't have detailed numbers in front of me. What do we expect effectively is those numbers might go up. I will give you one example which I am giving to everybody. It's when you looking on the Polish society and the usage of the mobile internet, I don't speak about the wireless internet, the downloads which I don't like because they do eat a lot of your capacity, they do consume a lot of your resources and don't bring you the great revenues update, but the mobile internet, the real smart ones and I even show this one ?? go into the advertisement. But if you compare the ratio of the very known American smartphone in Poland per capita with the Western countries using and selling the same very known American smartphone, the difference of per capita numbers is factor 6. This shows you how far we can still have possibility of development of revenues from the mobile internet.

By the way the Panther offer of the post-paid telephony is there to stimulate its users. We must provide the country, as we don't have the same revenues as the Western Europe, we must provide customers with attractive offers with eventually higher range or the higher percentage of the cheaper smartphones but still smartphones are the way to increase the data revenues in the future and we deeply believe on this.

**Anna Bossong – UniCredit**

That's all. Thank you very much.

**ACT Operator**

Thank you. We have no further audio questions at this time.

**Jacek Kunicki**

Thank you very much and I will see you back on 28 July.

**ACT Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

*END OF CONFERENCE*