TP Group H1 Results Conference Call

(Transcription)

Date of conference: 28 July 2010

CONFERENCE DETAILS

Conference Date:	28 July 2010
Conference Time:	12:00 Central European Time
Conference Duration:	Approximately 66 minutes

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

Welcome to TP Group's H1 Results Presentation. My name is Jacek Kunicki, I am the Head of Investor Relations. Today we are joined by TP's Management Board; also our CEO, Mr Maciej Witucki; our CFO, Mr Roland Dubois; Chief Operational Officer, Mr Piotr Muszynski, Chief Marketing Officer Mr Vincent Lobry and Chief Commercial Officer, Mr Mariusz Gaca.

Before we start a short note that our results have been published this morning and are available on the IR website at www.tp-ir.pl. Now without any further delay I will hand the floor over to Mr Maciej Witucki to begin the presentation.

Maciej Witucki

Thank you very much, Jacek. Because we are on time I can already say good afternoon ladies and gentlemen, so let's go immediately to the agenda for today's presentation. I will start with the presentation of the summary of our key achievements in this Q2 and H1 and a quick look on the market evolution. Then Roland will share with you the analysis of the TP Group's performance with some details. This will be followed a zoom on two important elements of the medium-term action plan, one on the regulatory side presented by Piotr Muszynski and one more on the product and new initiatives slide presented by Vincent Lobry. Finally I will conclude of this presentation with a brief comment on our H2 expectations and what they could imply for the full year outlook and guidance. And as always of course this presentation will be followed by the Q&A session from both participants here in Warsaw and on the phone.

Let me begin with a brief review of second quarter achievements on the slide number five. Clearly our achievement in the first half of the year, both commercial and financial, confirmed that the implementation of our mid-term plan is on track, the one we presented to you in February. We have made progresses in terms of new offers, we have continued the positive dialogue with the regulator and all our financial results are brought by robust Cost Transformation Programme.

Indeed the second quarter marks a significant upturn in our performance. It confirms that TP Group is well on its way to a turnaround, the one which have been planned within the mid-term action plan presented at the beginning of the year. We see a steep change in the revenue trend, so year-on-year evolution has improved significantly versus quarter one with a quarter-on-quarter growth reaching now 3%.

Our Cost Transformation Programme is delivering almost PLN300 million of savings in H1 helping towards a resilient EBITDA margin. The mobile segment has contributed strongly towards the Group results. In particular its EBITDA margin has risen considerably back above 30% level. Q2 commercial results are satisfactory, mobile KPIs have been very strong with record high net addition and ARPU up since quarter one. We estimate Orange value market share has risen to 31.9% by the end of quarter two versus 30.8% a year ago. We have also been able to further limit fixed line losses down to minus 143,000 in quarter two. We will continue our fixed term contract strategy for a fixed line market in order to keep the tendency.

When we presented our medium-term action plan in late February we have had four major challenges ahead of us: accelerating revenue decline, which was visible in our results; falling market share in the mobile; deteriorating EBITDA margin and a big challenge for us for the broadband market which was a concern for us for on both business and the regulatory side.

We have addressed the first three challenges and you can see the tendency that changes on these three elements being the revenues, the margin and the broadband market. We expect further improvement in those areas as new tariffs will have its full impact as we launch new savings initiatives to defend our EBITDA margin. As we will see later on the presentation our H2 actions will focus on the remaining concern which is brining broadband back to growth. We have been announcing it at the mid-term action plan session that the broadband will be for us still a concern in the second half of the year. And effectively this is something on which we will be very much focussing in the coming months. As Vincent will show in few minutes, we have a concrete plan to improve our performance leveraging on the new offers and the cost plus regulation to reverse the key trends in the broadband.

Now, let’s have a quick turn to the market evolutions, so at slide number six, so clearly very short comments on this slide. Our estimate show that the pace of market decline is definitely slowing down. This trend can especially be seen in the mobile market. The improving trend is predominantly attributed to the timing of the MTR cuts, obviously the last effect should disappear at the end of July beginning of August but also to growing market usage and still increasing penetration of the mobile. The fixed market evolution is also improving but at of course more slower pace. We expect the broadband market to improve faster but only when ADSL providers have been able to grab more of the broadband market growth away from the cable TV operators.

Now, let’s go to the next slide for a view on the key financials. Very briefly on the financials you have the results on the screen. I have already mentioned the improvement in the revenue trend and a strong EBITDA margin. Roland will speak more about cost savings as we continue to launch new initiatives to improve this EBITDA. CapEx is quite low, despite the catch up in quarter two. Of course the weather conditions especially at second quarter did not make it possible to maintain a normal run rate, so you should expect the CapEx ramp up in H2 and we are quite comfortable with that, we are quite ready to deliver. Indeed cash flow is a strong and above PLN2 billion run rate. It is driven both by high EBITDA margin and the CapEx phasing that I have just mentioned. So, I will comment on it a later on. Those are the numbers.

Again, in summary, we see that the way we planned on the mid-term action plan is being delivered today. We have the major KPIs the main KPIs improving and we are on the track to deliver the mid-term projections. I will come back to you on the conclusion slide.

Roland, the floor is yours.

Roland Dubois

Thank you, Maciej. Good afternoon, ladies and gentlemen. Before we begin the financial review just a quick word as every time on our legal proceeding. As you know we do not discuss our legal proceedings in detail, it is due to obviously their sensitive nature. For more information including even current status on the DTPG proceedings, please refer to the appropriate notes to the financial statement. Nevertheless, of course I can assure you that we will promptly inform the financial community of any potential result of those proceedings.

Let's begin by the slide nine, revenue evolution in quarter two shows a significant progress versus previous quarters. It is now clearly visible that TP is heading for a turnaround. There were two main factors for improving this revenue trend. First, the timing of the MTR cuts which were in March 2009. This has limited the regulatory impact on the Group's top line to roughly minus PLN116 million in Q2 which has to be compared to minus PLN245 million in Q1. The second element is the important improvement in the pre-regulatory mobile revenue evolution. This wasn't really quite a change with quarter two year-on-year revenue growth of PLN86 million which has to be compared to a moderate decline in Q1.

Let's now go to the review revenue by segment on the slide ten. As I mentioned mobile revenue trend has improved considerably. Year-on-year the revenue is almost flat that's with a good growth of the retail part. It is worth recalling that Q2 revenue was up by more than 7% versus quarter one. Value market share is up and we are close to the number one position both in terms of value and also in volume. The performance upturn was possible thanks to three factors: growing subscriber base first; improving usage that helps the ARPU and also the growing contribution of fixed services.

I will now turn your attention to the next slide for the analysis of this and we go to the slide 11. Our customer base has grown significantly in quarter two and now is exceeding 40 million. Q2 net additions were at record high 254,000, it's a good growth which has been stimulated by our marketing efforts in Q1 as well as in Q2. I will start with the prepaid. We have carried out four large acquisition campaign enhancing tops up, increasing the free minutes and giving free numbers to customers. We have increased our focus on prepaid base loyalty and the Q2 churn rate is at 13.7% which is quite exceptionally low.

The second area is the postpaid. It is the driving force behind growth and is up by 5.3% year-on-year. Q2 net additions of nearly 80,000 are very success considering the first major events of Poland in April that everybody has in mind. It was exactly at the time of the launching of the animal offers. Retail ARPU has again proved resilient to price pressure. It is up by 3.8% since quarter one and that has been helped significantly by the positive trend in the postpaid, it is mainly due to the postpaid.

Let's turn now to the slide 12 on the fixed segment. Fixed segment has reached an inflation point. For the first time in the few quarters the revenue trends are showing a slight improvement, mostly explained by the timing of the fixed to mobile rate in 2009. As expected broadband is flat versus Q1 and even slightly falling year-on-year. This is in fact disappointing but we are determined to reverse this trend in H2 with the dedicated action plan and that will be further commented. Fixed voice has only slightly improved. But the progress in the subscriber base evolution will bear fruits in H2. And having said that let's go now to the next slide in order to analyse it, slide 13.

Still in fixed the net loss of lines was really low, 143,000 in Q2 which has to be compared 183,000 in Q1 and even over 220,000 a year ago which means that percentage of the base, the decrease of the base it is limited to roughly 2% versus almost 3% one year ago, so a significant improvement. Although we believe the flood has a churn reduction impact and we estimate around 15,000. Q2 results prove that the fixed contract strategy is right. We will continue our efforts to minimise the line loss by posting the contract strategy and also by improving our customer care.

Broadband base had been stabilised partially thanks to quite promotion for the top speed but their share in the total sales has doubled since Q1. TP has continued to grow and accounts for now 20% of broadband penetration which is, we have to keep that in mind, twice higher than last year. In H2 TP will make the most of opportunities given by cost plus and by the investment programme in order to restore the growth in this area, broadband is a key element for H2. This concludes the review of the top line, let's go to the next slide for EBITDA.

Our EBITDA is strong and is up by PLN52 million since quarter 1. The EBITDA margin is at the level of 36.9% for Q2 which is a second consecutive quarter of increasing margin. It has been helped in Q2 by a very strong margin in mobile which has exceeded 31% of the revenue. Nevertheless in comparison to last year Q2 EBITDA has declined by just over PLN80 million. In one hand it has been pushed down by three negative factors but also it has partially been mitigated by two positive one.

So, the negative factors are: first, regulatory revenue decline roughly PLN83 million; secondly the growing usage and expanding customer base in mobile which has driven interconnect and commercial cost up by around PLN120 million; and last the regulatory impact on EBITDA even also limited to minus PLN16 million. On the other hand we have had two positive factors. First, the year-on-year ForEx impact resulting from very low zloty rate last year which had affected our 2009 results. And second, obviously the cost saving programme, it continues to deliver solid results limiting the expenses in Q2 by a gross amount of PLN150 million. The total amount of gross savings delivered in the whole H1 is now close to PLN300 million.

Let's turn to the next slide for the breakdown on the main elements. As mentioned our Cost Transformation Programme has generated almost PLN300 million savings in the whole H1. This composed of a variety of initiatives which were launched either in 2009 or even in Q1. As an example a 20% reduction and downgrade of our car fleet, also the reallocation of employees from half empty buildings in order to save on maintenance cost and property tax bills. Also significant labour saving had been generated, H1 labour cost we are down by 3.8% year-on-year. We have also reduced our headcount by almost 1,400 since the beginning of this year. And finally IT vendor consolidation has been completed in Q2.

While the programme has delivered expected benefit we will continue our cost rebalancing by taking additional measures for the future and we can take the example of extensive optimisation in the customer care area including the consolidation of calling facilities and customer care workforce. There are renegotiation also of e-contract for the maintenance and installation of civil works on our access network. And third point as an example the consolidation of back office functions from most of our subsidiaries which will be put in one centre for the Group. We believe that the new initiatives will further contribute to the cost rebalancing that is part of our medium-term action plan. We are also constantly looking at additional savings opportunities on an ongoing basis.

Now, when we analyse our cost saving progress it is important to remember the timing of this cost saving. We have launched the programme in Q2 last year reaching roughly PLN380 million savings in H2 of 2009. In H1 2010 we continued with almost PLN300 million of further savings in comparison to H1 of last year. The timing of the programme means that the comparable basis will become obviously less easy in H2 as we will be comparing in H2 a time in which the programme was already decreasing the cost base.

As a consequence although we will continue to deliver savings to fund the new initiatives obviously we will not stop. We cannot simply extrapolate the PLN300 million from H1 into H2. We believe that the new initiatives will further contribute to the cost rebalancing that is part of our medium-term action plan. We are also constantly looking at additional savings opportunities on an ongoing basis.

Let's now go to slide 16 for the review of the cash flow. The H1 year-on-year evolution of the cash from operating activities was driven by too many factors. As expected the lower EBITDA year-on-year and also an additional factor which is the same as in Q1 2010 and already explained. This additional factor is linked to the side effect of the hedging of liabilities. The decrease of the zloty last year led to gains in hedging the derivatives whereas strengthening of the zloty in Q1 2010 has led to the decrease of the cash flow.

The decrease in cash from operating activities nevertheless has been partially offset by lower cash out flow for capital expenditures even if we have been able to catch up in CapEx spending in Q2 of 2010. Generally the net free cash flow generation was strong in H1 which is suggesting that the run rate implies net free cash flow really above PLN2 billion for the full year.

Before I finish the financial review just a quick look at our balance sheet. And the balance sheet presented as of 30 June 2010 is stronger than ever. Net debt is roughly at PLN3 billion and is likely to remain low even after the dividend payment which take place in the 1 July. The net giving is at low 17%, has been decreasing quarter-after-quarter and even after the dividend payment the ratio will remain very prudent. The net debt to EBITDA ratio it has a safe 0.5.

And TP has maintained its solid A3 and BBB+ credit rating with a stable outlook which has been recently confirmed by two out of three rating agencies and we are just awaiting the confirmation from Moody's for this outlook. Finally, TP as a large available liquidity position which is really securing the business and investing activity.

Ladies and gentlemen that concludes my financial review. I thank you for your attention and I shall hand over to Piotr Muszynski, who will start the first report of our medium-term action plan.

Piotr Muszynski

Thank you, Roland and good afternoon everyone. I will now briefly explain the status of cost plus regulation. Let's start from the past regime. Under the retail minus regulations the cost of bit stream access service was always roughly 50% cheaper than TP's retail price. This has two implications, first it had put TP out of market price. As whatever price we would offer competition would always have that 50% advantage. Second for the same reason it did not motivate TP to lower its pricing. As an effect both us and the alternative operators were loosing ground to cable TV operators.

Now for the cost plus method, this calculation starts with a price of bit stream access which has been frozen for three years. Next we add on the cost such as sales and marketing, this provides us with a theoretical total cost base with alternative providers concerning its retail price we need to ensure that there is enough margin on this cost base so that an effective outset and replicate TP offer in terms of the price.

Now the status of the process, it is progressing in line with the assumption the memorandum of understanding signed with the regulators. TP has already submitted retail price proposals to Urzad Komunikacji Elektronicznej (UKE), and we have received a positive outlook from the regulator. We still need to go through the administrative procedure which should not last more than six weeks generally from now on as long as which line we pass the margins squeeze test retail price setting for broadband a pure marketing decision. They should start the regulatory progress needed for our broadband action plan.

Ladies and gentlemen, thank you for your attention and I will now hand the floor over to Vincent Lobry to speak about the marketing action plan for broadband.

Vincent Lobry

Thank you, Piotr and good afternoon to everyone. Our report on second half of 2010 we strongly focus on reversing the trends in broadband and bringing it back to growth. One of the important part of the action plan as mentioned by Piotr will be our new offer including of course a new retail price for Neostrada.

You may understand that for commercially sensitive information we will not speak today about precise date and precise price levels. But the recent development mentioned by Piotr lead us to believe that we will able to offer a very attractive package. However, new pricing will not be the only component of the action place to revamp broadband. Our whole approach to broadband will be modified. The plan is complex and involves not only sales and marketing but all the departments of TPSA.

I would like to raise your attention on five major points. Segmented offer, we will define offers that address specific segments needs more precisely, not one offer fit everybody but really segmented offer. Second point, regional differentiation, our communication and sales effort will be adopted to the regional specifics meaning that we will not have a countrywide approach to sell but regional one. This way we will be able to compete with cable TV operators who also have this regional focus.

Third point investment, we leverage on the new broadband investment as it will accelerate on H2, will be focused on identifying demand in advance and direct investments where we can sell our product. Number four, retention, we strongly work on our retention process as it is the key for the success of our broadband plan because we are moving from acquisition to retention market. We will be more proactive in our retention and leverage on the improved efficiency on the process in order to limit the churn.

Fifth, delivery. We will strongly revamp our delivery process. It is may be one of the element that was not perfectly working in the past resulting in loss demand. We have identified already key area in need of improvement and as a result of this improvement we expect to significantly improve the conversion ratio between order to sell and installation. This is also the first key improvements needing our approach to broadband marketing and sale. We have a detailed schedule of implementing them. It already started and therefore we are confident that we will be able to reverse the key trends in broadband and go back to growth during H2.

Thank you ladies and gentlemen and I will hand the floor to Maciej for the conclusion.

Maciej Witucki

Thank you very much, Vincent. Ladies and gentlemen to conclude, what you see after the H1 is the result of the committed team which not only you have behind the table but as well behind us in the organisation with the strategy, with the mid-term plan on which we have been working at the end of last year and which we are implementing with a mid-term vision, with a vision of a turnaround, of a vision of the improvement of the situation of our Group. And we see a very positive trend appearing in not only at the beginning of quarter one and now we see that confirmed and getting sustainable with the results of the H1.

Now I would conclude this presentation with the vision. What does it mean? What does mean for the realisation of our promises, the realisation of the mid-term plan? What does it mean for H2 for the entire Group?

Let me start with top line. The trends in H1 as seen in H1 have marked progressive recovery in the revenue trend this is more than visible. This should continue in H2 as the MTR impact fades away. We therefore expect H2 revenue erosion to be below 4% year-on-year. We have still events in front of us, we have still regulatory impacts, we still have announced the decision of the SMS MTRs, so we will believe that there will be the erosion of revenue.

All through we are more comfortable with the predictability on the market and of TP's performance, potential competitive pressures and the probable cuts of the SMS in quarter four convinces us to maintain the full year outlook for a time being because again we are more predictable, we feel better in control of our results and of the vision of the market that we have those specifically regulatory events in front of us.

We forgot the EBITDA and you will appreciate that this partially depends on our revenue assumption. We expect the H2 EBITDA margin between 36% and 37% excluding any exceptional items of course. This is again within the top end of our full year outlook given in February and so again we feel more comfortable on the predictability.

Moving to the CapEx, while we can confirm that 16% to 18% range given for the full year our comments on CapEx are that it will be pushed towards to the end of the fiscal year, so additional opportunity. This means that the CapEx ramp up in quarter four which will be visible but again we do maintain the range of 16% to 18%.

Finally, assuming EBITDA continues to improve and CapEx has a quarter four loaded profile with some Q4 CapEx related outflows pushed back to the next year we have decided to raise our full year net free cash flow guidance. We now expect net free cash flow excluding exceptional items of at least PLN 2.3 billion.

All in all on the good way to the turnaround, more predictability, better control of the elements of our P&L, more predictability on the market, better conditions from the regulatory perspective. Still actions to be delivered, so still we are not fully satisfied with the fact that we have still a drop in the revenues but we are delivering our promises from the mid term action plan and we are more than committed to continue in the H2 with the team here and with the people behind us.

Thank you very much ladies and gentlemen and we are ready to take your questions. Thank you.

Jacek Kunicki

I suggest that we first take the questions from the floor and then we will move to the telephone conference.

Leszek Iwaszko, KBC Securities

Two questions if I may. First is on the revised free cash flow guidance. What exactly stood behind it, was it EBITDA or CapEx or net working capital or a composition of both elements? That's the first question.

Second, as I understand we should be expecting UK statement of MTRs in the very soon time. What are your expectations for the MTRs cut in 2011?

Third question is about SMS wholesale rate. It's the new subject as I understand on the Polish market. What's your view on its impact on the entire market, your revenues, EBITDA?

My last question is about TP EmiTel there were some statements that you might be selling this company in the very soon. How much you are committed? Is this process expected to be closed this year? What can you say about this? Thank you.

Maciej Witucki

Maybe I will just take question number three and four and then pass the rest to Roland because those are easy and quick answers. SMS wholesale they announced decision is supposed to come on the quarter four. It may have an impact in the range of several dozens of millions of zlotys for the entire quarter. And it's absolutely embedded in our projections for the H2, so this is within what we announced to you today. This is number one and specifically it's impacting revenues then because we have the impact on the costs side as well. The EBITDA is not neutral but it's much smaller as the impact on the effective EBITDA.

Question number four which is about EmiTel. Yes, we are very much studying this opportunity, so if the study is being confirmed within the next weeks we should have a process which could then start this year. Only comment I may have on the question number four.

Maybe on the MTR expectations 2011 there is a glide path which had been announced by the Polish regulator, again embedded in the mid-term action plan so when giving you the financial elements of our outlook we are already embedding them in our budgets, in our prediction of the market flow. I have no additional comment on this one.

Now, Roland the revised free cash flow guidance impact.

Roland Dubois

Yes, clearly it's a combination of higher EBITDA than expected and also slight shift of the CapEx payable. We simply want to be transparent to show what will happen. I would like to add also that it would not change what we have in mind concerning our plan for 2011.

Jacek Kunicki

Anymore more questions from the floor? If not then I suggest we go to the telephone conference questions.

ACT Operator

Thank you, sir. If any participant would like to ask a question, please press *1 on your telephone. If you wish to cancel this request, please press *2. Your questions will be polled in the order they are received and we ask all participants to please speak slowly and ask one question at a time. We have five audio questions polling at this time.

The first question comes from Frederic Boulan from Morgan Stanley. Please go ahead with your question.

Frederic Boulan – Morgan Stanley

Hi, good afternoon everyone. Two questions, please. First of all on the broadband market, can you detail where is the price point of cable operators right now for triple play and how this compares with your current dual and triple play ARPUs? Just try to quantify the potential cuts to come in your retail prices. And how if you want to compete head to head in terms of pricing with cable guys or if you want to maintain a premium?

Secondly on the mobile market, if you could comment a bit on the 2011 outlook how is this competitive environment evolving? If we assume MTR cuts resume from January can you post a positive top line in mobile data ARPUs looks as they have declined in the second quarter so any action you can implement to change this trend. Thanks a lot.

Maciej Witucki

First of all on the question number two, outlook for 2011, I promise to you by January or February 2011 with the budgeting of full year outlook which we will deliver at that time. Still I will pass this floor to Vincent for the question number one on the broadband and eventually some visions but not for 2011, I would say rather the competitive landscape of mobile in 2010. Let's stick to this one Vincent if possible.

Vincent Lobry

Yes, in fact the price difference is much more important with other BSA operators like Netia and with cable operators. On cable operators we are more fighting on features and not only on the price, features meaning TV, contents and so on. I cannot tell you as I mentioned the final price we will have quite soon but we will reduce in a way that we feel really very comfortable to compete and the price difference will be manageable in terms of sales with Netia.

Maciej Witucki

Mobile, any comments on the mobile for 2010.

Vincent Lobry

2010 we are continuing day to day management of customer base and we mentioned we have now more than 40 million. And what we focussed is really to manage the churn and value of the customer on the customer base. It means focussing on high value customers, be sure that we keep them which doesn't mean increase of commercial cost but which means rebalancing between commercial cost among the different customers. And the trend is really to focus on the churn on postpaid and prepaid and also to increase the usage specially what we did on prepaid and to continue on that.

Frederic Boulan – Morgan Stanley

If I can follow up on the first question. You reported this quarter around PLN60 of broadband ARPU, how does this compares to Netia's pricing today?

Vincent Lobry

It's a little bit above Netia's pricing. But as you know the ARPU is a mix of differencing, it's a mix of the cost but it is also a mix of the mix of broadband offer. As mentioned by Roland we increase by a factor of two the percentage of I broadband which means between 6 and 20 in Q2. And we have to continue this trend in order to counter balance the erosion of tariff by moving more to I broadband in order to keep the ARPU.

Maciej Witucki

I will just add on this one that because we are speaking this bubbles to give the number we went from roughly 6%, 7% at the launch of those offers and we are in the quarter two at the level of 15% of sales of the high speed offer which is again a good indicator for the ARPU. And the second element which is differentiating us we should not forget it already 20% with the TV customers on the broadband base. This is the second element which makes the offers and the revenue streams not really comparable.

Frederic Boulan – Morgan Stanley

OK. Thanks a lot.

ACT Operator

Thank you, sir. The next question comes from William Kirby from Nevsky Capital. Please go ahead with your question.

William Kirby – Nevsky Capital

Thank you. I have two questions, please. Firstly, on the mobile side the improvement in contractual or postpaid ARPU seems especially dramatic. Can you comment all about what Play is doing there and what the competitive environment is like?

Then my second question is on your EBITDA guidance. You mentioned that you are going to have high commercial costs in the fourth quarter. What are those please and do you expect those to persist through 2011, 2012? Thank you.

Maciej Witucki

May be on the EBITDA its nothing exceptional, it is a normal seasonality. We have always had the fourth quarter which has a huge commercial expenses and it is only seasonality so nothing on top of this one. I hope that the increase as we've seen it in H1 the increase the seasonality will be even better used this year than previous years on the leveraging to the future revenues. That's on the EBITDA, so no exceptional events.

On the mobile for me it's a bit difficult to comment on my competitors. I don't know if Vincent have any comments on the market situation again.

Vincent Lobry

I cannot comment on the reserve of Play of course. But what we did was to increase a little bit our market share knowing that Play also increases its market share. Of course it is the consequence as the two others were loosing market share, all we can say.

On the mobile I will only add that it's a bit to soon to comment on the exact results of the animals offers but what is clear that we see important to as well the fact that we have been simplifying the communication to the customers who wanted the easy to understand offers, easy segmentation and that is definitely helping us to communicate with the customers to propose those new offers. It must have – it is having impact on the commercial and then financial performance of the mobile market.

William Kirby – Nevsky Capital

OK. Great thank you.

ACT Operator

Thank you, sir. The next question comes from Herve Drouet from HSB Capital. Please go ahead with your question.

Herve Drouet – HSBC

Good afternoon, two question on my side. The first one is if you can come back on the good uptake on postpaid, I was wondering the increase we have seen during the quarter in postpaid is it coming more from corporate segments or is it coming from the retail segments? Did you have any particular corporate contracts you may have signed either in the public sector or in the private sector that may also have impacted those numbers?

The second question is regarding usage, I was wondering if you have seen any change during the particular event that happened in Poland with the national moaning etc in Q2 that may have impacted usage and specially the mobile usage? Thank you.

Maciej Witucki

OK, so I will pass the first question to Mariusz [Gaca] because he is the boss of the sales and the numbers and the contract of the big customers. I would say on the usage we have usage and sales of course we have got this impact of and you have seen in the presentation of both the tragic events of April and then of the float on top of this in May. But when you try to quantify them I wouldn't treat it as a dramatically impacting our numbers, so trading strongly and normally you have seen a bit on the less churn on the big side. Definitely more difficult launch of the animals offer because it just when the end of April but nothing which would substantially impact our analysis of the results.

Now Mariusz Gaca concerning the postpaid net add.

Mariusz Gaca

OK, so answering of this question the growth is equally spreaded among consumers and business. There is no one key driver driving those results to this extent. In terms of any exceptional contracts with the public segment yes, there is one with Polish National Office of Statistics for several thousand of sim cards, voice and data. But for Q2, we could only see something like five or six thousand of them being activated, so I do not consider them as significantly influencing the result of Q2.

Herve Drouet – HSBC

Right, thank you.

ACT Operator

Thank you, sir. The next question comes from Liam Hynes from Occam. Please go ahead with your question.

Liam Hynes – Occam

Hi, how it is going. I have a couple of questions. One is on revenue and fixed voice. Can you guys give me a split between fixed lines between a corporate and retail just the numbers there may be a split in revenue? And also with mobile data do you see any trends in mobile data, is this what is driving the ARPU? And also with the new 1.2 million lines what kind of update do you expect on those?

The second question will be on cash flow. What level of net debt do you guys target? And can you give me a guidance on CapEx to sales in 2011 and 2012?

Finally, with regards to your dividend policy is there any scope for an increase in 2011, 2012? Thanks very much.

Maciej Witucki

Yes, there is a lot of strategic and mid-term questions that we got announced of the mid-term plan in few months ago, so eventually I would not update it today. And may be I will just comment on the question concerning the new lines. The number of lines billed is exactly public. We gave them from the signature of the arrangement with the regulator and it is known for this year we have 146 which have been delivered on the H1 and for H2.

Roland Dubois

Yearly we have a target of 370 which will be probably extend.

Maciej Witucki

Those lines are built according to the plan and I don't foresee any further transformation on this line. What do we expect and clearly we do expect and definitely we want to defend a mid-term market share of TP, the natural market share of TP. It's the one around the 40% of the value, so definitely to keep this market share we must sell the comparable number of those new lines. And all ?? organisation failed is today adopting to use this opportunity of the new lines to up sell the speed or to sell completely new accesses. But again it will be substantial number of lines you will see them by the H2 of 2010. It means that the potential of impact on the broadband by the way mentioned in the mid-term plan will be visible in 2011. This is concerning the new lines.

Mobile data, we have seen increase out of memory 14% on this market. It is a factor of course of the growth of the base. Still when you see the current price level of the mobile data on the Polish market I would say it is not a major element developing the profitability. I would rather concentrate this an important element of the offer but the one which is driving the majority of the result is the postpaid is the voice market.

Now concerning the dividend policy so of course the dividend policy we announced at mid-term plan and if there would be any changes we would announce it. And we confirm year to year dividend every single end of the year, so nothing new here.

Now may be Roland on the split and the two other questions.

Roland Dubois

Yes, the cash flow and net debt target. I think we simply need to stick on what we disclosed for the announcement of mid-term action plan. Our guidance was at least PLN2 billion per year of net free cash flow. This year we say that we will be slightly lower and we say to ?? that we stick on the guidance which is at least PLN2 billion per year. If we are able to generate a little bit more cash flow it will reduce the debt. But we have no net debt target in fact. You see that we have a very cautious balance sheet. We try to keep a very cautious balance sheet. The objective is definitely net free cash flow.

Dividend policy is the same as Maciej said. We have disclosed the view of the management. All these two elements starting together and our target is the cash flow generation.

Liam Haynes – Occam

Thanks very much.

Roland Dubois

CapEx to sale, sorry I missed the question. We still stay between 16% and 18% of revenue in 2010 and 2011 and in 2012.

Liam Haynes – Occam

Perfect.

Maciej Witucki

We do not guide on the split of the fixed voice between corporate and retail lines.

Liam Haynes – Occam

OK. You can't disclose that, OK. Good, thanks very much.

ACT Operator

Thank you, sir. The next question comes from Alexander Balakhnin from Goldman Sachs. Please go ahead with your question.

Alexander Balakhnin – Goldman Sachs

Hi, two questions if I may. First is on the market environment on the mobile business. Do you feel a pressure from smaller operators or they no longer a factor of the competition?

Second question on your lower CapEx this year. Does that mean that some CapEx from this year will be rolled over for the next year or not? Thank you.

Maciej Witucki

I will start the first question and then I will pass the floor to Vincent. Of course we feel the pressure of all the competitors not only on the small one but the two others as well. The market is definitely under the pressure. Now to measure that it is bigger or smaller than the past period it is very difficult to say specially when you have new offers basically coming almost everyday. I would say if it continues it is a very competitive market, it's a continuous pressure and then we see it in all the fronts.

Still what is important from the strategic view perspective is we should really well define our major enemies. And I would say you have the fourth player which has the extremely strongest symmetry, which has then advantages to play some extremely aggressively offers. And of course we will compete against them but we will not try to stick to the same conditions. Of course financially it's not possible or it is very difficult. Second of all it is not wise simply.

Our target number one is a group of three big players on the market and we want to be the leader of the market so our main, if I may say, enemies was for the commercial part of my sole is the other big players. Now the fourth one has advantages, regulatory advantages I hope that those advantages will disappear rather sooner than later and the estimate given the announced market shares will disappear from the market. But to sum it up it's a competitive market, it's a very aggressive market and we don't really see any relief from any side. I don't know if you want to add something Vincent.

Vincent Lobry

No, I think your answer was quite complete. I think the main risk we have to avoid is to overreact to the attacks from the fourth player because we have a big customer base so we have to be very careful in the management. And also to have a value proposition to the customer which is not just price per minute but much greater than that was philosophy of the animal.

Maciej Witucki

Roland, concerning the CapEx for next year.

Roland Dubois

Yes. We said few minutes ago that there will be a catch up in H2. That means clearly that our target remains same for the year 2010. We will achieve the CapEx at the level of between 16% and 18% of the revenue as it was disclosed in the plan.

Alexander Balakhnin – Goldman Sachs

Thank you.

ACT Operator

Thank you, sir. The next question comes from Jindrich Svatek from Raiffeisen Bank. Please go ahead with your question.

Jindrich Svatek - Raiffeisen Bank

Good afternoon gentlemen. I just wanted to ask you what was the behind the significant increase in net additions in the prepaid mobile segment? Did you make any special promotion?

The second question is related to the broadband market. Did you see any improving demand for high speed broadband lines because I notice that the broadband ARPU actually little bit decelerated, so this is my second question.

May be third question, can we expect the marketing combined with the new broadband prices probably in September or October this year? That's all from my side. Thank you .

Maciej Witucki

The answer to the question number three is yes probably because I have been said that I should answer it very quickly and briefly.

Now concerning the broadband demand for high speed as we said we have seen the factor two increase since we launched the new offers. And again the new offers have been launched in March so it was the best period to go, April was the best period to go with this strong promotions on the market. And without strong support basically using it rather internally in the retention process went from 7% to 15% of sales already on the higher speed.

Definitely the demand is here and hopefully with the new investments, with the new offers, as you know we announced that we are already testing the front user test of the VDSL2 technologies. We are testing today and also the 40 up to 80 megabit offers on the VDSL2 technology. There is a room and a demand for improvement and of course the idea all of this is to migrate customers to the higher speed to defend ARPU or to improve the ARPU of the customers.

Now question number one, so increase of the net adds in prepaid, Vincent.

Vincent Lobry

The main driver is the decrease of the churn. It means for that its early to play on the fidelity of the customers which means basically give promotion to the customer who is still longer with us which are making new top ups, so they have interest to stay with us because they will have more advantage. It is just fidelity, there is not only one offer there are four, five offers which are dealing with that and which has been quite successful. And the main driver is really decrease in the churn.

Jindrich Svatek - Raiffeisen Bank

Thank you.

ACT Operator

Thank you, sir. We have a follow-up question from Liam Hynes from Occam. Please go ahead with your question.

Liam Hynes - Occam

Hi guys. I just have a couple of follow-up questions. One you said you would like to maintain a cautious balance sheet. Can you just explain what you mean by cautious or can you give me a rough guidance on net EBITDA ratios or something like that that would maintain a cautious balance sheet.

The second would be, can you give any ballpark figures at all on the split between fixed corporate and retail, like 25/75 or 50/50. Any split at all, please. Thanks.

Maciej Witucki

OK. Actually for the question number two we don't disclose this information now. You may see a if Roland will speak what he believes being the safe balance sheet.

Roland Dubois

The safe balance sheet there mean absolute term ?? balance sheet. We simply said in the past and we call this in the same figures we do not want to exceed the net gearing at 35% even at maximum 40%. And we do not want to exceed the net debt on EBITDA ratio higher than 1.5. Between the figures we have and these figures we are able to make our business and to make their choices. But we do want to keep this target and it was already said some years ago we stick on that.

Liam Hynes - Occam

OK. You definitely do not want to exceed gearing of 35%, max 40% and net debt EBITDA 1.5, OK. Thanks very much.

ACT Operator

Thank you, sir. Once again, if any participant would like to ask a question, please press * 1 on your telephone. To cancel this request, please press *2.

Thank you. There appear to be no further audio questions at this time. Please continue.

Jacek Kunicki

Thank you, ladies and gentlemen. That ends our conversation.

Maciej Witucki

Any questions from Warsaw side?

Leszek Iwaszko, KBC Securities

One follow-up from on ARPU on Internet which dropped quarter one roughly quarter-on-quarter, what was behind that? You said that the higher speeds of internet was so popular and I believe there are more even after the interest they are more expensive than the lower speed so what was behind the decrease in ARPU?

Vincent Lobry

Nevertheless today we are speaking about the growth at which are going increasing quite quickly on the higher bandwidth. But it is still only 15%, so that's the trend and we made the decrease of higher bandwidth in Q2 in order to be able to increase this move towards higher broadband. And the idea is very simple is to have more broadband for the same price and to avoid price erosion. That's really it was the beginning of H2 and now and it would be also in the new offers ready to push higher bandwidth to have more for the same price.

Maciej Witucki

Let's be clear on this one as well. We have still a lot of customers below the 2 megs, where the pressure and the price difference churn are the highest today because we still do not have this cost plus implemented. Here is the element which is impacting us and probably will still have some short-term impact on the blended ARPU of the broadband. That is because of this it is extremely important that this cost plus or the margin squeeze have been validated and we will be able to equilibrate the offer. We add then the higher speed even on top and you can build the full dimension because today the 10 MB, 20 MB is not enough, to save us from the huge double digit difference on pricing on 1 MB and 2 MB.

Jacek Kunicki

Any other questions from the floor? If not then, thank you very much and see you back in one quarter's time.

END OF CONFERENCE