Orange Polska (TPSA) H1 2012 Results Conference Call
25th July 2012

Jacek Kunicki – Head of Investor Relations

Good Afternoon, everyone. Welcome to Orange Polska results presentation for the second quarter of 2012.

My name is Jacek Kunicki, I am Head of Investor Relations.
We are joined today by the management board. So starting with the CEO, Maciej Witucki; CFO, Jacques de Galzain; Chief Commercial Officer, Mariusz Gaca; Chief Marketing Officer, Vincent Lobry; Chief Operational Officer, Piotr Muszyński.

Two points before we begin. First of all, please note that our results have been published on the investor relations website (www.orange.pl/investors). Second point is that please note that all of our results, the majority of our results are compared to proforma of 2010-11, so excluding the results and the impact of the two entities which we have sold. So TP Emitel and TP Paytel.

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

Maciej Witucki – Chief Executive Officer

Thank you, Jacek. Good afternoon, yes it's afternoon, ladies and gentlemen.

So the agenda as of today is the following one. So I will begin with the summary of, our achievements of the Quarter 2 and obviously in the first semester of this year. Later on, Jacques will follow-up with the details on the financial and operational performance. Finally, I will conclude and we're going to go to the Q & A session.

So without further delay on the slide number 5.

Results of the second quarter, both financial and commercial are mostly satisfactory. We have continued with our strategy based on bundles and competing for the market value.

This delivered the expected benefits. We have turned our Broadband ARPU and revenue back to growth, all-be-it the evolution of the customer base is below the target because the base remains flat in quarter 2. Furthermore, it helped us to contain erosion of our fixed voice lines far below that of the previous quarters. Mobile performance has been also positive. Despite market competition, we have added 144,000 customers. And clearly, I just want to underline, without changing any rules of reporting the number of net customers, gross adds of customers on the mobile market.

All of the above enabled us to significantly improve the evolution of our top-line. If one was to exclude the MTR impact, our Q2 revenues have grown year-on-year. Even with the MTR impact, revenue decline was much smaller versus past quarters.

In addition to our traditional Telco services, top-line was helped by the growth of our ICT sales. These consisted both of the contract with UEFA, but also of revenue coming from our ICT subsidiary. It is now almost since a year the launch of this company and we are happy that it is making any impact on our sales and top line, obviously.

Q2 was specifically marked by 2 projects: the Euro 2012 and rebranding of our fixed business to Orange. We have risen to these challenges. Our technical partnership was a success, despite very high quality demand from UEFA. I would like to take this opportunity to thank all of the people from Orange Poland involved in this project. The rebranding had also gone well. We have managed to counteract competitors attempted to poach customers by pretending to be the new TPSA. We have also utilised the opportunity of the Euro 2012 sponsorship by Orange to maximise the media effect of the rebranding.

Group's profitability has improved since Q1, as was said 3 months ago. Nevertheless, I must say that it is not at the level of our ambition, mostly due to the growing pressure from the commercial costs. In response, we have decided to accelerate our cost optimisation initiatives for the next 2 quarters, as we recognise profitability and cash are key metrics of our performance and value creation.

Let us now turn to the next 2 slides for highlights on the commercial performance, so slide 6 on the mobile.

Our mobile business has continued to perform well, as it is the main engine behind the Group's revenue evolution. Despite market competition that has focused in particular on volume, we have been able to add 144,000 clients in quarter 2. In effect, our customer base is growing by roughly 1.5% year-on-year and the growth has been achieved without compromising ARPU.

Smartphones continue to be an important part of our offer, as we satisfy the demand from our customers. They constitute around 40% of our sales and retentions in post-paid today and their number continues to rise, reaching almost 2.6million in quarter 2. This opens the new way of usage and fuels the growth of mobile data revenues.

Rising smartphone penetration does put a pressure on our cost base, as their prices exceed that the traditional devices. We will however offset this by other cost savings as smartphones will remain a vital part of our strategy and enable for future growth of the top-line.

Let's now turn to the next slide with key highlights on the Broadband.

So looking at broadband KPIs, it is clear how much we have gained through the launch of the FunPack 3P offer.

It is widely appreciated by customers and we have sold over 150,000 of these packages.

They have had a very positive impact. ARPU has grown by 2.3% since quarter 1. And this is a historical change as the ARPU is impacted by the price cuts 2 years ago. This a turning point time since we cut the prices by the quarter 3, quarter 4 of 2010.

Revenue from broadband has also posted a 2% increase since quarter 1 and we are confident to accelerate this in the future.

Broadband base has remained flat since quarter 1. This is disappointment and it is still a challenge that we must overcome. The satisfactory performance that we achieve in smaller cities and rural is still offset by losses towards cable operators in the big cities. We will continue to modify our processes and adapt our sales, as this is the key shift broadband onto an acceptable growth trajectory.

As mentioned before, our cost program continues to be one of our priorities. Lets turn to the following 2 slides to track progress in our key initiatives, starting by network sharing on slide 8.

Network sharing is a very complex project.

So far, it is progressing completely according to plan, and for this I must congratulate Piotr and his team, as they have so far done a tremendous job on the project.

The joint-venture is now fully operational. We have chosen Huawei and Nokia-Siemens as our vendors for this project and physical works started.

By June of this year, we have completed network swap, modernisation and introduced reciprocal use in first areas. The results are encouraging, as we have increased coverage and capacity for our customers. Simultaneously, some sites are now ready for decommissioning and this will deliver savings in the next quarters.

By the year-end, the co-used network should be as large as 2,600 towers and further works will continue.

Let's now switch to the next slide to analyse the evolution of our headcount.

So as you recall, this year we have initiated a new social plan, enabling headcount reduction in 2012 and 2013. Total number of employees that will leave the Group within this period is over 2,500 and the target for this year is 1,500.

We have already started the execution and over 400 employees took benefit of the voluntary leave program in H1.

530 employees have already signed-up for the programme in H2, leaving us with further potential of 560 positions this year. We will feel the benefits of the program as early as in H2 of this year.

Let us now turn to the next slide for a recap of our financial performance so far.

Very briefly on the financials.

Our revenue trends have improved since quarter 1 and the top-line has decreased by 2.3% in the first semester. This is within the outlook, which we have set to no more than 3%.

The EBITDA margin is at 35% in H1, so in the bottom range of the outlook. We have launched additional cost savings measures and I am confident that we will improve in the next quarter.

Capital expenditures have been on the same level as last year and finally, net free cash flow has evolved as expected, It is down by 200 million zloty since last year. As our full year guidance was 400 million below last year – this is on track with the full year target.

Ladies and gentlemen, thank you for your attention and now I hand the floor over to Jacques, for the financial details review. Jacques…

Jacques de Galzain – Chief Financial Officer

Thank you, Maciej, good afternoon everyone.

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

The value of the total Polish telecom market has increased in Q2 by 0.8%, in comparison to the same period of last year.

The positive dynamics were predominantly driven by the mobile segment. Despite the MTR impact, its value has increased by 2.7%, driven by robust growth of mobile customers and nearly stable ARPU.

The value of the fixed market has declined by 1.4%, albeit this is an improvement versus the trend observed in the first quarter of the year.

Fixed-to-mobile substitution continues to be the main drag on fixed market evolution, however it was slowed-down by bundling strategies of various market players.

Let's now switch to slide 13 for a look at how Orange Polska revenues have performed in this context.

Our top line trends have been steadily improving over the last few quarters, but the improvement reported in Q2 is significant.

Q2 revenues have declined by just 1.1% year-on-year, as compared to a 3.4% contraction in Q1. As a result, H1 is down by 2.3% since 2011, versus the outlook of not more than 3%.

The impact of the SMS and voice MTR cuts was the factor that drove our Q2 top line into the slight contraction, affecting it by -50million zloty.

Apart of regulations, our Q2 revenues have grown since last year by just over 0.1%.

This was possible as growth of the pre-regulatory mobile revenue has offset the decline in fixed segment.

Let's go to the next slides to analyse top-line performance by segment, starting with mobile on slide 14.

Revenue from our mobile segment has decreased slightly since last year, driven down by the impact of MTR cuts.

MTSs apart, mobile segment's top-line has grown year-on-year by 1.5%.

Growth was achieved despite tough market environment.

It derived mainly from the growth of our customer base, which drove revenue up to 1.3% while ARPU has remained resilient to price pressure.

In effect, this allowed Orange to maintain its value leadership position and to stabilise our share of the market value since Q1.

Let's now turn over to the next slide, to see which were the drivers of the Q2 performance.

Our commercial performance development in Q2 was a success.

As mentioned during the Q1 conference, the competition has intensified, aiming predominantly at volume. We have not participated in this race, focusing on the value customers.

Nevertheless, we have posted a significant growth in the number of Orange customers, as it increased by 144,000 in Q2. In effect, our customer base has grown by over 222,000 year-on-year, and this is visible in the revenue trend.

Growth of the customer base has been achieved without compromising the retail ARPU. It has rebounded strongly since Q1, showing resilience to pricing pressure.

The number of smartphones has continued to grow in line with customers' appetite for more usage. It is contributing well to our top line but as you will see later on, it is also visible in our cost base.

Summing up on mobile performance, it is fair to say that we have performed well in this challenging environment and mobile continues to be the engine behind the Group's commercial performance.

Let's go to the next slide, for a look at our fixed line segment.

Fixed segment's revenue evolution has improved significantly. In quarter 2 it has declined by mere 0.4% year-on-year.

This was achieved thanks to 3 factors:

- First, the revenue from our ICT services has grown by over 80 million zloty year-on-year. It included the contract for the technical partnership with UEFA but also other projects realised by our ICT subsidiary. It is a second consecutive quarter that ICT is visibly contributing to our top-line, and I believe that this is a permanent change of our business model.
- Second, the trends in our fixed voice services have also improved since last quarter. The decreased of its top-line has been limited to 130 million zloty in Q2 versus -150million in Q1. As we will demonstrate on the next slide, it is the first success of our bundling strategy.
- Finally, wholesale and other revenues have continued their growth path, with sales of data remained flat.

Let's now take a look at fixed KPIs as shown on slide 17.

Throughout this year, we have pursued a strategy based on bundling our various fixed segment services in order to loyalise the customers.

Following Q2 results, we can clearly see that this strategy is slowly beginning to bear fruit.

Over 150,000 Orange customers have brought our 3P bundle, comprising of broadband, television and fixed telephony over the Internet protocol.

This has brought a number of improvements to fixed segment's KPIs.

First, the voice over IP offer has helped to slow down the pace of fixed voice line erosion. In Q2, their decline has been limited to 158,000. This is a significant improvement as compared to a decline of roughly 200,000 in the previous few quarters.

Furthermore, while we have not yet brought the broadband base back to growth, 3P bundles have turned the broadband ARPU around. It grew by over 2% in quarter 2, the first time since the price cut in 2010.

Finally, our TV base, which is also a part of the 3P offer, continued on its growth path. After Q2, almost 30% of our broadband clients have television from Orange.

This concludes my review of the top-line and I invite you to the next slide, for analysis of our EBITDA.

Group's EBITDA for Q2 amounted to roughly 1.3billion zloty and stood at a 35.3% margin. In comparison to Q1, EBITDA has increased by nearly 5%, with a slight uplift of the margin.

In consequence, after 2 quarters of the year, our EBITDA margin is at 35%, within the outlook for 2012.

In comparison to pro-forma for 2011, Q2 EBITDA was down by 74 million zloty.

We observe that in Q2 there was no adverse impact of revenue evolution on profitability. This was possible as our top line was significantly helped by the revenue from ICT services.

The impact of regulations was also neutral to the EBITDA – as MTR cuts decrease our top-line, but also our interconnect costs.

Then, higher commercial activity resulted in more expenditure. It drove interconnect up by 16 million zloty. It also drove commercial costs up, as the high share of smartphones continues to put pressure on the cost base.

Our cost base for Q2 was again affected by forex. Polish Zloty was weaker than a year ago, decreasing our EBITDA by 30millin zloty.

Finally, other opex grew by 40million zloty, partly due to cost of our ICT activity and this was only partially offset by our cost optimisation program.

As mentioned before, following Q2 we reiterate our outlook for EBITDA. Nevertheless, in order to secure this target, we will setp-up our cost optimisation efforts in H2. We have already launched actions to implement an even more rigorous cost control and its effect will be visible in Q3.

Let's now turn to slide 19 for the analysis of our net income.

Net income amounted to 255 million zloty in Q2, growing slightly since Q1.

In comparison to the pro-forma of last year, net income increased by 487 million zloty. Let us remember however that the pro-forma for last year includes -458 million zloty due to the provision for a fine from the European Commission.

This apart, the net income was flat year-on-year, as the underlying decrease of EBITDA and a slight rise in financial cost were offset by lower depreciation. It results from an underlying trend, as historical capex levels were far above the current ratios and from lower accelerated depreciation.

This concludes my review of the Income Statement. Let’s go over to slide 20 for brief review of our capital expenditures.

Capital expenditure amounted to 471 million zloty in Q2, slightly higher than last year. In effect, the capex for H1 was almost exactly as in the comparable period in 2011.

Q2 capex was allocated to 3 main investment areas.

Broadband, including investments still required for the MOU with the Regulator, but also other capex, such as customer premises equipment; Our IT systems, including billing modifications for new products; and finally projects related to our core network, including capacity upgrade and modernisation.

Let’s us now analyse how all of these items have been reflected in cash generation, as illustrated on slide 21 – next slide please.

Cash generation has progressed in line with our expectations, with Q2 posting a significant growth versus Q1.

Net free cash flow amounted to 457 million zloty.

In comparison to last year, Q2 net free cash flow was down by 57 million zloty.

This was predominantly driven by 207 million zloty drop of cash from operating activities, a combined effect of lower EBITDA and higher financial cost.

This was offset by lower cash outflows for capex, down by 120 million zloty since last year, as well as by 30 million zloty gain on tax paid.

In effect, this brought cash generation for H1 to over 700 million zloty, roughly 200 million below last year. This is in line with our guidance of at least 2 billion zloty for net free cash flow.

Thank you ladies and gentlemen, this concludes my financial review and I hand the floor back to Maciej for the conclusions.

Maciej Witucki

Thank you, Jacques.

Ladies and gentlemen, before we conclude, let us quickly turn to slide 23 for brief comments on the outlook and guidance for the year.

Despite their challenges, the first two quarters of the year have generally evolved in line with our expectations. Following H1 results, we reiterate all our outlook and guidance targets for 2012.

Revenue has evolved within the outlook range, ending H1 with -2.3% year-on-year. We expect a boost in H2, coming from our ICT revenues, as well as from the turnaround in broadband.

The EBITDA margin has increased from Q1 to Q2 and we are within the outlook. Nevertheless, it has not met our ambitions. We are accelerating the cost savings initiatives and this will already be visible in Q3.

Capex is under control, and finally our Net Free Cash Flow has so far evolved in accordance with expectations and the target of at least 2 billion zloty for 2012 will be delivered. Of course these exclude capex for the potential 1.800 megahertz spectrum acquisition.

Let us now turn to slide 24 to conclude the presentation.

Following the analysis of our performance in the first half of the year, my takeaways are the following:

We have generally executed our plan for H1 and are on a good path to reach the yearly targets.

Our commercial performance has been satisfactory, with improvement coming in Q2. Broadband is perhaps the only visible exception, with customer base evolution that is far from the acceptable level.

Our financial performance has been steady, despite visible pressure of the smartphones on cost and the margin in the mobile business.

Finally our key cost savings initiatives, such as network sharing and headcount reduction, are progressing as planned.

Taking this into account, our agenda for H2 will predominantly focus on the metrics that have slightly disappointed us in H1.

We will continue to work on actions that aim to achieve acceptable broadband customer growth. The progress in this area has been disappointing so far and so changes are being made.

We will step-up our cost optimisation program, to offset the cost pressure of smartphones. I believe that it is in the DNA of this company to cut costs, and so material effects of this focus will be visible soon.

Finally, we will do our best to benefit from the 1.800 megahertz spectrum auction, striving to acquire the spectrum at the lowest possible cost.

Ladies and gentlemen, thank you very much for your attention and let now turn to your questions.

Jacek.

Jacek Kunicki

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

Leszek Iwaszko – Societe Generale

Hello, Leszek Iwaszko – Societe Generale. Two questions.

Maybe on fixed broadband. First, you mentioned that you see customer base as of H1 as unsatisfactory obviously. What kind of actions, I mean what kind of real steps you want to take, or the action plan to revive this customer base finally, in the seasonally best second half of the year?

And if you could also give us information on what is the ARPU on the fun pack service?
That's the first question.
The second questions is regarding ICT revenues in Q2. Of this 80million that you mention, how much is the impact of the UEFA contract?

And third question is on the spectrum, 1.800 mhz that is expected to take place finally in H2: When we are going to hear that you plan to spend X millions zloty on that investment, what kind of return should we be expecting in which, in what time frame, in which KPIs, are we going to see some improvement to return this investment in spectrum?

Thank you.

Maciej Witucki

So maybe for the broadband and actions for the broadband and ARPU, I will pass the floor to Vincent, still hoping that he will not present all the promotions that we have reviewed in the management board before this call because obviously they are planned for quarter 3 and quarter 4. As we said, this is the most important period.

On the ICT, we don't disclose the commercial contracts we have with UEFA, so I can't give you the exact speed of those revenues. But again, those revenues are not pure UEFA revenues as behind your question. No the ICT, you've seen it last year, as was already about the thousands of billions of zloties and before we went into the UEFA venture. So it is progressing as we planned, I would say, on top of the UEFA revenues…

Leszek Iwaszko

…Is it fair to say that out of this 80million, significant parts came from UEFA? Is that a fair statement?

Maciej Witucki

Important part came from UEFA if you want a quote from the CEO but nothing more.

Then on the spectrum 1.800, I will just start then again let to Vincent an explanation on this one. But for me clearly, there are the areas of the development because 1.800 is clearly the LTE spectrum, not the major one, because the major one are 800 and 2.6. But the 1.800 is clearly devoted to this one. But I would say the majorment you see the smartphones growing, clearly we need capacity. So I have seen on the internet one of the comments on our very good improvement of [part?] ratios sold in quarter 2. One of the internets said yeah but to all the operators those successes are translating into the slowdown of the through put on the data cards and smartphones we have. So I would say the first element of the business case is to be capable to deliver those services we need more room and we need more spectrum. So this is the first part.

Then, new services, I will let this road to Vincent. So this are the two elements – broadband actions without details of this morning and the ICT.

Vincent Lobry - Chief Marketing Officer

So on the broadband, chance in fact as mentioned by Maciej, there are two different dynamics. One, which is in the big cities, which is more difficult, where we have the competition from the cable tv. There we are pushing for mainly higher band width, including VDSL, and there we have some plans concerning mainly the simplification of the process and to be able to deliver very quickly, because it was one of the issues that we were quite long to deliver the services. So we have action on this and we will not go into detail.

In other areas, dynamics are quite different - especially thanks to BBI, small cities and the areas where there are no cable we are growing because of the investment. And we are also growing the ARPU of the existing customer because of higher bandwidth and possibility to add TV. On the plan, on this area, we are simplifying the offer – very quickly, it will be next month – so to have something which is much more appealing for the customer. Second thing, we continue since the rebranding, we have to educate the people on the relation between Orange and [unclear] – it was done during the rebranding but it is something we have to sustain in the next coming months. And there is another special actions which is related to the CDMA. As maybe you know that we close an empty services in June, to use this frequency to have a sub carrier for the CDMA broadband offer which we use in areas where we don't have [unclear] and gives us a little, let's say, 80,000 more customers we can deliver on CDMA which we've also been developed in the following months.

So there are different actions: quality, simplification, communication, and also some technical action like CDMA.

Leszek Iwaszko

Can you say, if I may, on that what is the ARPU on fun pack service? First…

Vincent Lobry

…I can give you the…

Leszek Iwaszko

…Average ARPU…

Vincent Lobry

… It's more the tariff. So if you take the fun pack, it depends on the speed but it's between 25 – 30 zloty above the normal ARPU on the [unclear].

On the LT, there is not so much we can say on the 1.800mhz. We are working today to prepare the tender and it will depend of course on the cost of the licence and we cannot give too much detail on that today.

Leszek Iwaszko

OK, thank you.

Jacek Kunicki

Do we have any other questions from the floor?

Pawel Puchalski - BZWBK

Hello, Pawel Puchalski – BZWBK. Same issues, slightly different questions.

If you do not give us the details ICT revenues for second quarter, please give me what was the ICT revenue in quarter one. That's the first question.

And the other one: I understand that if you pay X zloty to spectrum, you will come short of 2billion zloty in net free cash flow - not in your guidance, your guidance will be fine, but you will be short of this. I sense you assume taking another debt float to finance dividend maintain 1.5 zloty per share.

Jacques de Galzain

So for the… for sure, the cost of the frequency is not included in our net free cash flow guidance. You know that, as of today, our debt is not so huge and we do not need additional financing to face the cost of 1.800 mhz. That's quite clear. When you look at the various frequencies, 1.800 mhz we could have to pay this year, but this is that the likely cost is much lower than what is expected for the other 2.6 mhz and 800 mhz.

Pawel Puchalski

And question number one?

Maciej Witucki

In the range of the 20s.

Jacques de Galzain

One remark about the ICT activities and the UEFA, you know this also the, in the ICT activity you are more on the, you are already from time to time dealing with long term contracts which is the case with UEFA so you do not recognise the revenue only at the end of the period but progressively when you incur the cost. So there is more probability than you can imagine.

Pawel Puchalski

Thank you very much.

Maciej Witucki

And just to finish with the ICT it's clearly, EURO 2012 is not the end of this tour of ICT and Orange Polska. Clearly it's important growing part of our top line, not at the same EBITDA but not at the same capex either. So the return on the capital you employ is different, and we see successes. UEFA deal for us was an important reference point and we are going to continue to grow this activity and we have been very much kind of vocal and consistent on this message.

Pawel Puchalski

One more issue if I might. I noticed from your presentations that your net additions in broadband, if I might call is that, was -7.5. That suggests that you were expecting market growing at some 53,000 net adds which a half versus quarter one, also based on your expectations. Well now we are one month later, do you see segments dying or it's recovering?

Jacques de Galzain

You have to wait three months for the answer to this question!

Maciej Witucki

But clearly we are disappointed at this, we are not hiding it with our numbers. They are partially resulting from the fact that the market is not growing as expecting – the fixed market is not growing as we have been expecting. You see it, and by the way you can deduct it from our wholesale numbers. So there is, I wouldn't say contraction by slow down. So we have to somehow build the market – we are in charge of the growth of the market. The problem is we are doing it on the outside of the big cities while the cable is somehow doing it in the big cities. But we need to combine, the both of us, in the dense areas. And that's why the processes and the offers are the major elements – first, not to lose customers to cable, second to develop the higher speed in the urban zones. I have no fears about anything out of the big cities – here we are fine and we are gonna, as Vincent said, we have been consciously stopping the CDMA sales in the first half of the year. It's back to the market since we changed the technology, it's going to impact the H2. But let's be clear – for us, the real battle is the battle of the very high speed broadband, whatever is 20+. And here, there is disappointment, we don't hide it. But again, we are discussing it not farther than an hour ago and we believe that we have a solid time for H2, to use the [unclear]. Hopefully the market will get a bit better.

Jacek Kunicki

Do we have any other questions from the floor?

If not, then I suggest we switch to the teleconference audience.

Operator

Thank you. If any audio participant would like to ask a question, please press the '*' followed by the '1' on your telephone. If you wish to cancel your request, please press the '*' followed by the '2'.

There will be a short pause whilst participants register for a question.

Thank you. Your first question comes from Ivan Kim from RenCap. Please go ahead.

Ivan Kim – RenCap

Good Afternoon. Two questions if I may, please.

First, you're saying that you expect margin improvement in the second half of the year. Could you please elaborate on the drivers besides the personnel layoffs, and maybe you can also calculate the effect of personnel layoffs as well?

And the second question is on the mobile data, the mobile messaging services and content revenue growth slowed to 7% year-on-year in the second quarter. So basically do you see a slow down on data or in just messaging going down, and what is the outlook in this segment?

Thank you.

Jacques de Galzain

About the margin improvement in H2: there are few actions in addition to what is on-going, which will be implemented. If I start with the restricting plan, you know that there is the people that left the company in H1, we will have the saving in H2. So this is one topic.

Second, in term of labour, we have a few other actions, very simple action. We were a bit careful during June to keep the people on board to manage all the contracts and especially the high quality contract with UEFA and so people did not take their holidays. So they will take their holidays in Q3 and it will change also the shape of the labour costs.

There are, for sure, actions in the GNA area to control a bit more outsourcing, to control the travel costs, the representation cost, the cost of living, and then a few other actions, keeping in mind that we are prompting you to fuel the commercial engine. So we will preserve our capacity to acquire and to retain our customers and so our efforts are mainly on the non-commercial costs.

Maciej Witucki

Ok, and now on the data. The second question, as I understood, was about the data revenues and the question the data revenues in quarter two have been impacted by messaging, SMS, an ARPU dilution on the mobile data. Vincent?

Vincent Lobry

There was a one off on the Q2, which explains data ARPU. On the messaging, we have SMS and MMS, we are still continuing to grow. So we don't have any impact of application like what's up or this type of implication on the top. And SMS is growing even better than what we planned. And data is, in terms of volume, also growing, at quite a good range. So there is no evolution, especially in SMS. So we are quite happy because the volumes are still very high. The growth is quite important.

Ivan Kim

Sorry, you said there was a one off in mobile data. What was the one off?

Jacques de Galzain

This is a correction in the calculation that was done in Q1 and then the Q4 last year.

Ivan Kim

OK, thank you.

Operator

Thank you. Your next question comes from Jiandrich Svatek. Please state your company, followed by your questions.

Jiandrich Svatek – Raiffeisen Bank

Good Afternoon – Jiandrich Svatek from Raiffeisen Bank.

I would like to ask you about possibility to unbundle cable operators in Poland. Like, is there any chance that the Regulator would require to regulate the cable operators? This is my first question.

The second question is related to potential TPSA payment to European Commission because of abusing the dominate position in the broadband area. I know that there is a risk that TPSA can pay a penalty around half billion zloty. Do you expect this payment this year?

Thank you.

Maciej Witucki

So, number one on the European Commission, is on-going so we go against this case and nothing somehow decided this year. Obviously we are strongly disappointed with the decision, so disappointed not only with the decision but with the amount which is absolutely outrageous when you compare it to the comparable cases in the past.

Now on the cable and the unbundle, I would like to answer 'yes' but I have absolutely no clue as of today. What is important to us, is that we have in Poland today the first analysis of the market being done. So, by the way, this is the base of the decision of last year the deregulating 11 largest Polish cities, based on the fact that the competition is there. I believe that this kind of studies of the micro market will default in the future so that will demonstrate which extent somehow there is a disproportion between the position of the big cable operators in the cities towards the corporate operators as we are, and theoretically it could conduct the unbundling but I wouldn't expect it in the immediate future. This is rather a question to the Regulator than to me. If it would depend on me, you would have the unbundling tomorrow, well, yesterday.

Jiandrich Svatek

Thanks for the answers

Operator

Thank you. Your next question comes from Grzegorz Witkowski from Nordea. Please go ahead.

Grzegorz Witkowski - Nordea

Good Afternoon, gentlemen. I've got two specific questions regarding your costs presented in the P&L. You have not showed this in your presentation, but if we could refer to your financial statement.

I think the first one is the easier one, and it refers first to the commercial expense. I think you have this actually during the presentation, this cost has increased quite substantially in the past quarters and as I understand this is the price that you pay for subsidising the smart phones. If you could confirm this, or comment if there is any other reason for that increase?

And the second, I think, is more intricate for me. It is the line in the income and expenses and this has been consistently over 100 million in the past quarters but in this year, it has diminished. And after two quarters, it's only 30 millions in that line. Whereas in the past years it was, as I said, it summed up to 500 million per year. So if you could comment on this – why this line has decreased by so much? And give any guidance for the coming quarters?

Jacques de Galzain

Yes, you are very precise and I congratulate you to look at the figures in such detail.

This is true that, in fact, the answer to the second question is linked in to the first one. The commercial expenses have increased in Q2 because the subsidies, and especially on the SRC have increased, but remember that the cost of the smart phone and the forex impact on the cost of the smart phone is very detrimental right now. And second, we have most of the rebranding expenses, which are in the commercial expenses, and the reimbursement by the Group of these rebranding expenses are in other operating income. Much between the lines, and it explains why the other operating income expenses are, in fact the net, are much higher than usually and also part of the increase of the commercial cost.

Grzegorz Witkowski

Alright, so this is the sole reason for that very strong decrease in other operating expense? Because, it was already visible in the first quarter – I think rebranding started in second quarter, right?

Jacques de Galzain

Yes, the rebranding you know we did also part of the preparation in Q1. So there was already some other operating income related to rebranding in Q1 and you have another tranche, and bigger than Q1, in Q2.

Grzegorz Witkowski

So could you confirm that it's around 100 million, because it is by how much this cost line has decreased in the Q1 and Q2?

Jacques de Galzain

This is not far from this figure.

Grzegorz Witkowski

So this should actually end in the second half of the year, right?

Jacques de Galzain

Yes. The rebranding has been done successfully and now we have to use this nice Orange brand for ourselves and to decrease our marketing cost - using one brand other than two is helpful also to unify and to standardise the marketing campaign.

Grzegorz Witkowski

Alright. Thank you very much.

Operator

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

Jacek Kunicki

Ok, if we have no further questions, thank you very much for your attention and I invite you back to join the conference towards the end of October for the Q3 results presentation.

Thank you very much.

Operator

That concludes the Orange Polska Half Year Results Conference Call. Thank you for participating. You may now disconnect.