TPSA Half Year Results Conference Call

Conference Transcription

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CONFERENCE DETAILS

Conference Date:	27 July 2011
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ACT Operator

Welcome to the TPSA Half Year Results Conference Call on 27 July 2011. Throughout today's recorded presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation, please press *0 on your telephone for operator assistance.

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

Jacek Kunicki

Good morning everyone, welcome to TP Group's Results Presentation for the Second Quarter of 2011. My name is Jacek Kunicki, I am the Head of Investor Relations. We are joined today by TP Group's Management Board starting with the CEO, Maciej Witucki; CFO, Jacques de Galzain and Chief Marking Officer, Vincent Lobry. Please note that our results and presentations have been published this morning and are available on the TP IR website at www.tp-ir.pl.

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

Maciej Witucki

Thank you, Jacek. Hopefully within few minutes we will be joined by our Chief Operating Officer and Head of HR, if not we are going to manage with the reduced team, sorry for this period. Good morning, ladies and gentlemen, yes, he is coming, so we have Head of HR already joining us.

Our agenda for today's meeting is as follows. I will start with the summary of our achievement in the H1. Then Jacques is going to guide you through the deeper financial analysis. Finally, I will conclude with a brief comment on our expectation for H2 before we open the traditional Q&A session. You will appreciate, as usual, that we will be not answering detailed questions with regard to the claims and litigations due to their usual sensitive nature. Our position in the dispute especially with DPTG has been clearly made public and all claims and litigations which may impact TP have been adequately described in the note to the financial statements.

Let us now start the presentation with the highlight of Q2 presented on slide number five. Our achievement in the first half of the year confirmed the implementation of our medium-term action plan is absolutely on track. We have continued our progress both in terms of commercial activity as well as from the financial standpoint. Group's performance is in line with both 2011 objectives as well as with the medium-term targets. First on the regulatory front: dialogue between operators and the regulators secured a mild path for voice MTR cuts. The MTR has gone down by only 1.5 groszy from 1 July and would stay at this level for the next 12 months with another 3 groszy cut announced for July 2012. This enable us to declare more investment in 3G which as you can imagine will benefit our smartphone users from coverage and quality perspective.

Commercial progress have confirmed our product strategy to be correct, in particular mobile continue to grow with at a healthy pace with net additions now totalling 200,000 in H1. It allows to maintain our value market share again outpacing our main two rivals as quarter 2 retail mobile revenue grew by 3.4%. The broadband base has increased and while growth of 50,000 customers year-on-year is still too slow for our ambitions it confirm the change in the dynamics. In order to facilitate the growth we have expanded our marketing arsenal with the commercial launch few weeks day of 40 megabit to 80 megabit options as well as with a new pay-TV packages a result of cooperation with the TVN Group.

Strategic initiatives has also delivered the results as we have finished the sale of the TP Emitel, significantly benefitting both our cash and net income. I am happy to announce that the management board will propose to allocate about half of the proceeds from disposal of TP Emitel to a share buy back amounting to PLN 800 million. We have also signed a crucial network sharing agreement with T-Mobile which will permanently improve our cost structure on the mobile side. I would like to take this opportunity by the way to congratulate Jacques and Piotr, who joined, us who respectively managed these key projects with their teams.

All of above allows TP to deliver a very steady financial performance with an improving EBITDA margin, PLN 102 billions of net income and strong cash flows. Again it allows us to reaffirm our targets for this year but I will get back to this topic towards the end of the presentation.

Finally, analysing Q2 developments one cannot omit two feedbacks. First is the fine imposed on us by the European Commission, its rational is still being analysed by our legal team but already we can see that this amount is much too high in comparison to similar fines imposed on much larger telecoms. All that I can say today is that we will appeal against it strongly defending the interest of the Company and of its shareholders. Second is the decision on the cost deficit of providing universal service obligation. The PLN 67 million awarded for providing the service for the past four years is simply too low and we already filed an appeal to challenge this decision.

Let us now turn to a few slides to review key aspects of quarter two starting with the mainline of business on the slide number six. Commercial trends in the two key business lines are satisfactory. Mobile in particular has well done, our customer base is now exceeding 14.5 million customers. We have continued to grow at market pace and Play's market share is growing at the expense of our two main rivals. This is a particular success in quarter two when one considers all market price pressures as well as substantial marketing activity by the rival who launched a re-branding campaign.

Sales of smartphones have stayed high at around 30% of sales pushing smartphone penetration to over 12% of the base. It is beginning to contribute more and more to ARPU visible through a normal 30% increase in postpaid data ARPU to be compared with 22% by the end of quarter one.

Switching to broadband, quarter two performance was as expected relatively slow growth on a flattish market. Our net add market share increased to an estimated 21% in quarter two to be compared with roughly 10% in quarter one but the absolute number of additions still needs to be increased as we should be the one driving market growth. Nevertheless, another quarter of growth confirms the effectiveness of revamping of our broadband offer at the continued growth share of higher speeds, now nearing 50% of all sales and it is a good trend for both customer satisfaction and of course revenue side. In order to facilitate both higher speed and growth of the base in general, we have launched an entirely new top end package which I would like to talk about on the next slide.

At the beginning of June we have launched our new VDSL based offer. It is a hybrid solution putting fibre within the few hundreds of metres from the customer, without replacing copper in residential buildings. This way on one hand we are able to offer speed options of 40 and 80 megabits per second, which more than meet the customer's throughput requirements. And while on the other hand we extend the useful life of copper avoiding the cost to replacement of infrastructure in the residential buildings.

These options are regarded by us as a premium service requiring a modified approach to the marketing, sales and service. For a start big cities are addressable market, where we see demand for high speed and add on such as the newly launched premium pay-TV bundle with TVN. Then again, big cities are an arena of hard competition from cable which benefits from the lack of regulations.

Taking that into account, which benchmark our price mainly vis-à-vis cable and have been able to launch the product with competitive prices as you can see on the slide. Nevertheless, we need to be selective in choosing the precise location as cable can differentiate pricing from building-to-building while we need one countrywide price list for broadband. All of this means that entering the big cities will require more local sales and marketing that TP is used to. We are on the learning curve on this field, so we decided to have a limited target zone at launch, which had been launched in six localities, and to extend this selectively as the time goes on.

While it implied that we will progress a bit more slowly to avoid costly mistakes in execution, we strongly believe that the high speed options are the way for us to re-enter big cities in the near future. Now, having walked you through the main commercial developments, let's quickly have a look on the cost base as we never take our focus off this area of P&L. Next slide, please.

For third consecutive year our cost savings programme continues to deliver solid results. It generated over PLN100 million of savings in H1 having in mind that these are year-on-year savings for the third year running. In effect, it helped us to achieve 42% decrease of cost base in H1 and a strong EBITDA margin. We have continued to launch new initiatives for the future. Another initiative that will be critical to our cost performance in the long-term is the network sharing project that we have signed with PTK, T-Mobile. Let's go to next two slides to view this in more details. Next slide, please.

As you know from last week announcement we have finally signed a RAN sharing agreement with T-Mobile providing for co-use of each other's access networks. These networks will be operated, managed and maintained by joint venture company for which we have also agreed common governance rules. Asset ownership and network strategy will remain with the parent companies. We will assess all our existing 2G and 3G based stations targeting a shared network of 10,000 sites by the end of 2014. We will also examine the possibility of co-use of frequencies where possible. Looking at it from the TP Group point of view, on one hand it should allow us to have increased coverage and capacity as we will use 10,000 sites instead of today's 6,400 and on the other hand it will allow us to switch off about 1,400 towers thus achieving significant costs savings from low rent, electricity, maintenance and so on.

Let's move to the next slide to view the financial benefits of this cooperation in more details. As you can see, building the shared network will take time due to its planning, sourcing and rollout. It is assumed that the full 10,000 shared networks should be ready by the end of 2014. As we will be conducting this operation it will have the following financial consequences. First, the short-term impact linked with some network quantification and partial replacement. Second, a gradual build up of costs savings due to the reduction in the number of base stations owned by each operator. Third, the CapEx avoidance both in case of standard assets renewal as well as technology shifts. We estimate this cooperation may deliver us with a total of roughly PLN1 billion net free cash flow benefits up to 2015. Beyond 2015 we will continue to benefit from this project. First, with the yearly cost saving of about PLN200 million. Second, we will also continuously benefit from the lower CapEx.

Let me now bring you back to our recent performance with a look at key financial on the next slide. Very briefly on financials, as Jacques will discuss them in detail. So H1 revenue evolution is in line with our outlook and much improved versus the trend we remember from the H1 last year. Q2 evolution was slower than Q1, but let's remember that we had a pretty extraordinary Q2 last year. Mobile segment retail revenue continues to grow at a healthy pace of 12%. Q2 restated EBITDA margin without the European Commission fine and gains on Emitel disposal is at 37.3%. It has improved significantly since Q1 and also versus last year. This keeps us well on track for the full year outlook. CapEx is above last year due to the faster execution of projects and realisation of the UKE, so the regulatory arrangement, is progressing full speed ahead. Finally, net free cash flow is at a healthy level and in line with the full year target.

Let me now hand the floor to Jacques who will give you more details behind our year-to-date financial performance. Jacques, the floor is yours.

Jacques de Galzain

Thank you, Maciej. Good morning everyone. Lets start the financial review with the market revolution as shown on slide 13. The value of the total Polish telecom market has grown by 0.5% in quarter two with the year-on-year comparison in 2011 impacted by the SMS MTR cut. Growth of the total market is quite slow. It is worth mentioning that following Q1 reports of our competitors, we rewrite growth in quarter one down to 0.2%. The growth is driven by the mobile market with a 3% year-on-year increase in Q2, thanks to an increase of the global customer base and usage.

Q2 brought a number of development in the mobile market that decreased the level of uncertainty going forward. First is the voice MTR cut, finally been agreed on a moderate level of 1.5 groszy by the regulator. Second is the sale of Polkomtel. And third is the rebranding of T-Mobile which was done without harm to the market value. All of this don't ease the competitive landscape but shed more light on the possible future actions of our rivals and allow to plan ahead.

Fixed market continued to evolve in a similar pattern as in the past decreasing by 3.8%. Development of broadband did not offset the structural decline of fixed voice. In this context let's see how TP revenue has evolved as shown on slide 14.

TP Group's Q2 year-on-year revenue evolution was slightly lower than in Q1, down by 4.9% since Q2 last year. This was in line with our expectations. As you will remember Q2 last year was impacted an accumulation of force majeure events, one week of national mourning after the President's plane crash, volcano burst that had brought air travel to a halt and big floods in May. All of these items had increased traffic last year.

Looking at the drivers of the Group's revenue evolution versus last year, on one hand it is driven down by the decline of the fixed segment, where fixed-to-mobile substitution is structural. On the other end is the organic growth of the mobile segments top line driven by 500,000 additional customers and growing usage.

Let's now review revenue evolution by segments starting with mobile on slide 15. Despite the SMS MTR cut and an exceptional second quarter last year, mobile revenue has maintained a visible growth path. It reached 0.9% year-on-year growth in Q2 and over 1.5% in the first semester. MTR cuts apart the revenue is up by more than 3% in Q2 last year. It is driven by over 3% growth of our customer base, resilient retail ARPU and increasing revenue from sale of tablets, netbooks and other. This last item has in particular turned out to be a meaningful contributor to the top line growing by almost PLN50 million since Q2 last year. We estimate that all of the above has allowed Orange to maintain its value market share. In practice it means that once again Orange had outpaced its rivals as market share of Play grow at the expense of Plus and T-Mobile.

Let's now turn to the next slide for analysis of the key drivers of mobile revenue. Our mobile base has once again showed growth dynamics has 116,000 net adds in Q2 bring total to over 200,000 for H1. From a year-on-year perspective we continue to grow at over 500,000 or 3.6% visibly increasing both the prepaid and the postpaid segments, all this despite a very competitive market with an accumulation of competitive pressure materialise in Q2. It made Orange exceed 14.5 million subscribers making it by far the largest network in the country. Healthy subscriber growth was achieved without harm to the ARPU as operators continue to add more features for the same total price. Retail ARPU is up by over 4% in Q1 and showing great resilience to price pressure. It is supported by phone usage which have gone by 3% in Q1 and 1.3% year-on-year. Finally, we also see growing contribution from that ARPU in postpaid, it increased by almost 30% year-on-year and makes up almost 10% of total postpaid ARPU.

Let's now turn to slide 17 for the analysis of the fixed segment. Key trends in the fixed segment have been stable for a number of quarters. Fixed voice is a key factor behind the 8% decline of segment sales driven by fixed-to-mobile substitution both in terms of lines and traffic. In broadband while in the short-term revenue is impacted by the price cut of last year subscribers trends both in terms of customer base and speed option shows us that it is on the path to recovery. Next slide, please.

Subscriber trends confirm the sustainability of the rebound in broadband. Each customer base has again increased bringing the growth to 25,000 this year of almost 50,000 year-on-year. All this on a very flat market gave us a 21% share of Q2 net adds, so slowly but surely we are getting back to market growth. Our TV base that's reached almost 600,000 subscriber or 26% of broadband customers. Increase of the pay-TV base was not as high as before as many customers were waiting for the new TVN packages. This was launched mid-June, so impact on Q2 is not visible. The number of fixed line has again declined although it was limited to 160,000 in Q2, so it still revolves around 2.6% of lines per quarter. We need more growth in broadband before noticing positive effects on fixed line evolution. This concludes my review of the top line and I will continue with an overview of our EBITDA on slide 19.

Please note that in order to easily analyse this and present an underlying picture of our profitability, we have based the analysis of EBITDA on restated figures, excluding capital gains from Emitel disposal and the fine issued by the European Commission. The restated EBITDA was strong in Q2, 5% up since Q1. It stood at over 37% margin so 1.2 percentage point better than the quarter before. In comparison to Q2 of last year, underlying EBITDA decreased by over PLN50 million although its margin has improved by 0.4 percentage point. Q2 EBITDA was driven down by the revenue decline at the level of PLN150 million. This was offset by almost PLN50 million of cost savings which brought the total to over PLN100 million savings in H1. Regulatory impact, ForEx, commercial cost and interconnect had offset each other.

Finally EBITDA was driven up by a PLN37 million decline of other costs driven mostly by non-recurring items. Of course, the reported numbers were strong with Q2 EBITDA at over PLN2.1 billion. This included PLN1.2 billion on disposal of TP Emitel and minus PLN458 million due to an increase in the risk provision in relation to the European Commission fine.

Let's go to the next slide to see how the strong EBITDA was translated into net income.

Net income is strong standing at almost PLN1.2 billions, so twice as much as in H1 of 2010. The positive difference is influenced by the gain on Emitel disposal and European Commission fine as mentioned on the previous slide. But even without these, underlying net income is at a strong PLN265 million in Q2 up by 40% since quarter one.

Analysing H1 net income we can see three drivers of its year-on-year growth. First, EBITDA is up PLN600 million. Second, depreciation is slightly growing driven by accelerated charge linked to network swap at the level of PLN120 million. Third, income tax is down by PLN44 million. The asset disposal is effective from taxation point of view. As an effect of the above, H1 net income is up by roughly PLN600 million year-on-year with earning per share already at PLN0.9. This concludes my review of the income statement.

Let's turn to the next slide for the analysis of our cash flow.

Group's cash generation to date has been predictable and stable. Despite large payments for last year's CapEx, cash generation has exceeded PLN900 million in H1. We are satisfied with the performance to date and confident about our ability to reach our full year objective with this regard.

Now looking at drivers of cash generation, first, we see that cash generated from operations before tax and working capital amounted to about PLN2.5 billion in H1 at the same level as last year. Second, cash outflows linked with CapEx amounted to over PLN1.6 billion which is PLN600 million more than a year ago. This related to payment for last year capital expenditure and also to a faster project rollout this year. Third, working capital requirements stayed almost flat this year as compared to PLN240 million increase in H1 of 2010. The result is a positive variance of PLN290 million. Finally, despite higher net income tax paid was PLN40 million below last year.

All of the above brought net free cash flow to about PLN900 million, some PLN270 million below last year. Taking into account the PLN600 million difference in CapEx this is a good performance. Free cash flow before financing activity more than doubled versus H1 of 2010 positively influenced by proceeds from sale of Emitel.

Let's now spare a minute to talk over the implication relating from the sale of Emitel presented on slide 22.

The sale of Emitel as you know was completed on 22 June. Its sale price amounting to PLN 1.7 billion provided us with a capital gain of PLN 1.2 billion PLN benefiting our profitability. As mentioned already by Maciej, the management board will propose to allocate about half of the proceeds to a share buy back amounting to PLN 800 million. We will initiate a formal procedure to launch the buyback and we will inform you in due course and form as to its terms and date. You will appreciate that I will not comment this topic in the Q&A session.

Neither of the proceeds nor the capital gain will impact our outlook and guidance. The proceeds are not included in the net free cash flow measure which is our guidance and EBITDA outlook was given excluding exceptional items. We will continue to report the EBITDA on a restated basis that fits the outlook as done for the quarter. Emitel was fully consolidated by TP Group in H1 and disappears in H2 of 2011. We will present our performance for Q3 and Q4 against the pro-forma for 2010. Table on slide 22 shows a summary of the pro-forma for 2010. In order to help you with the modelling the more detail pro-forma will be published in our KPI file on the IR website.

Thank you ladies and gentlemen, this concludes the financial review and I hand over back to Maciej for conclusion.

Maciej Witucki

Thank you, Jacques. Ladies and gentlemen, let me give you a very brief comment with regards to our H2 expectations before we conclude this presentation. The slide number 24, so H1 revenue trend have marked a progressive recovery on the retail part of our business with some adverse impact from new regulations. This should continue to be the case in H2 where we expect a better year-on-year revenue evolution than in H1. Therefore, we reiterated outlook range given at the beginning of this year.

H1 EBITDA margin was strong specially in quarter two therefore we reconfirmed the outlook range given for 2011. Of course we are referring to the restated EBITDA excluding exceptional items from quarter two as Jacques said. With regard to CapEx, we are satisfied with the investment utilisation and feel comfortable with a full year CapEx to sales ratio for 2011 close to 17% of sales. Finally, we are happy to reaffirm that PLN2.4 billion as net free cash flow target for 2011. I hope those brief comments help you to forecasting of H2 and now let's go to the next slide to conclude this presentation.

H1 of 2011 was a period of solid performance. Our results are in line with our full year target and also with the progress which was assumed in the medium-term plan. They are coupled with strategy development that increased our result this year and will also provide benefits for the future.

On the commercial front, our development can be summarised as follows. Mobile development is positive with clear market leadership gained within the time line of our medium-term plan. Broadband has been revamped but its growth path is still not at desired level. Obviously broadband is an area where we need to focus on in H2 of this year. We also strongly believe both market possibilities and our ability to achieve the broadband growth as planned. We are now halfway through the medium-term action plan. Looking back at the last semester but also at the last 18 months we are confident that the halfway through the plan TP Group is on track to achieve all its mid-term objectives.

Thank you, ladies and gentlemen. Our presentation is now concluded and we are not open for your questions. Thank you.

Jacek Kunicki

Traditionally, I suggest that we take the questions from the floor first which will be then followed by questions from the teleconference. Thank you.

Pawel Puchalski – BZ WBK

Hello, Pawel Puchalski, BZ WBK, starting this.

Jacques de Galzain

For the benefit of the conference, please speak English.

Pawel Puchalski – BZ WBK

OK. I heard what was said about PLN800 million share buyback, you will not disclose much more information about it. All I would like to know is to – I need a confirmation it will take place this year?

Jacques de Galzain

Just another comment on the buyback, PLN800 million just realise that it is three-fourth of the year of the capital gain, so it's huge amount. In term of timing as I said we will inform you in due course. We have now to organise the steps towards the approval of the buyback and then when it is decided we will inform you.

Pawel Puchalski – BZ WBK

If there a tiny possibility that this PLN800 million in share buyback will be executed in early 2012 which would imply that the total dividend that's PLN1.5 for the next year that it will represent part of next year plan?

Jacques de Galzain

As you know about 2011, 2012 this is a period during when the buyback will be executed and so depending on the exact timing, that I cannot tell you today, this will be an additional shareholder remuneration either in 2011, either in 2012.

Maciej Witucki

Only comment is Jacques used the expression additional and confirm that is additional.

Pawel Puchalski – BZ WBK

OK. One more issue, you mentioned that you expect better revenue evolution in second half of 2011. First thing first that excludes Emitel that's as you reported according to your guidance? Secondly, how can you deliver it because the mobile is firm but both other segments are falling at increasing pace?

Maciej Witucki

I would say first of all my answer will be as usual because we have the seasonality of H2 always being better compared to the H1. We don't see any visible threats which will change this trend in H2 of 2011. It's always most active period of the year and just this way we should have improving trends. By the way you have less and less impact of the regulatory decisions, so we don't see why it should be changed. We keep our outlook for the year.

Pawel Puchalski – BZ WBK

I understand you wanted to say higher and higher impact of regulator because we are about to see cuts to MTR as of third quarter. And this is included in your plan, so your revenues will have to be really strong to overshadow the certain decline from MTRs?

Maciej Witucki

I would say to conclude the answer to this question you are more than invited to the conference end of January beginning of February where we will disclose the H2 but again we are confident. We stated this because we are confident about the outlook.

Pawel Puchalski – BZ WBK

One more issue, last quarter we were discussing trends in broadband and I asked the question and you answered the ARPU were to stabilise. And what we see, I came after three quarters and I see that ARPU in broadband segment is declining at accelerating pace? Why should I not expect it to fall further?

Vincent Lobry

You have three impacts on broadband ARPU. First one is a big increase we had on the 1 October last year which continues, which is negative impact. Second impact which is positive is going to higher bandwidth and the launch we did on VDSL is in this direction.

But remember that VDSL was launched on 15th of June, so the impact on Q2 is zero and we start to see in H2 the effects. And last but not least, you have the TV increase, a third point which is positive also which is TV increase. We have today 26% increase in the basic TV and the goal in H2 is to increase both the percentage of broadband with TV but also and more important to increase the percentage of pay-TV base on this customer base in order to have more ARPU, so that the two elements that didn't change and we have still the goal to stabilise the ARPU in H2.

Pawel Puchalski – BZ WBK

OK.

Leszek Iwaszko, Societe Generale

Good morning, Leszek Iwaszko from Societe Generale. Three questions from me, please. First on the deal with T-mobile, during the presentation you used the term replacement when you discussed the changes in the network. Can you more elaborate on this replacement? So it's not simple cut in the network, in the base stations, you are going to replace base stations or how its going to be performed? If this is going to – what could be the financial effects of this replacements, any write-offs or accelerated depreciation stuff like that. That going to be my first question.

Second, on fixed broadband market. You repeat that it was almost flat in the second quarter and your performance was not satisfactory. How do you see this market? Are there any structural programmes with growth of this market? Is it saturated already or there is a higher than expected substitution from mobile, if you could comment on that?

Third question, what is going on the front of your discussions with the regulator regarding the fibre roll out?

Maciej Witucki

OK. May be I will take the third one and then the two others will be taken respectively by Piotr, Vincent and a bit Jacques. The regulator I mean today what we are expecting from the regulator it's the final decisions on the fibre regulations, so here we need the confirmation of our new BSA and LLU offers for this fibre market. If I am not wrong its still not issued, this is number one.

Second of all, we without having this decision issued we already started to build the NGA because VDSL2 is nothing else than the NGA, it's fibre to the cabinet, fibre potentially to the basement. I don't believe, and on this one to some extent I hope we agreed even with the regulator, that there will be in Poland in the foreseeable future 5 million households connected and sold because that was their first demand with fibre to the home. I believe that for the foreseeable future we will have selective fibre and here we need the acceptance of our wholesale offer.

Majority of the improvement of the quality is going to come from the VDSL which is much more effective from the cost perspective and which is providing more than satisfactory quality because you can go up to 120 megabit per second which customers can't use.

Leszek Iwaszko

But do you expect VDSL actually could be regarded by regulator as lines that are within the fibre requirement?

Maciej Witucki

This is NGA technology. It's an NGA technology , this is the technology which provide 80 megabit per second. Again I don't believe then in Poland we are going to have 3 million, 5 million FTTH, we can't afford it, TP can't afford it nor other operators can afford to this kind of investment when you don't have a secured payback of its. The major product will be the VDSL in the zones where we must fight against the micro monopolies of the cable operators really this is the target. And here again we continue to have a discussion with the regulator, hopefully within the next months we should have the confirmation of the weeks of the whole field for pure fibre then we can go for some selective fibre to the home. But again as long as Piotr can deploy quickly and Vincent sell 80 megabits on the several hundreds of meters of copper I am happy about it. I will not be a maniac having the fibre just to have higher CapEx. Now Piotr, on the network sharing.

Piotr Muszynski

Replacement - yes. What is one of the major purposes of our strategy is to swap existing 2G, 3G BTSs. We are not swapping today the entire of our systems, we are just going towards the BTSs because today technology allow us to co-use one BTS by double coding what was not available two, three years ago. Instead of two we will have simply one on which will be supporting two codes of each operator, that will bring significant improvement in terms of the quality because we are building the network which will be 3G HSPA. And please bear in mind that this is the investment which will bring also LTE readiness because this technology will be ready for the future deployment of LTE.

In a matter of fact what we are doing we are somehow starting also the roll out of LTE despite of the fact on which spectrum the license will be developed later on, it doesn't matter from the hardware point of view. That's what we are going to do and that will also bring an answer to the question why that will take so much time because we plan to have that it in something like two and a half years. We have to swap the BTSs and then we have to integrate the network and we have to dismantle all together around 3,000 stations to reach certain OpEx and CapEx benefits out of it.

Jacques de Galzain

On the financial point of view there are two topics. First about dismantling the towers and so we will adjust when we know which towers will be dismantled. We will adjust the provision for dismantling in our costs and then there is an amortisation of the corresponding asset. When there will be swap of assets then it is normal accelerated depreciation and it will be a like this quarter eating of depreciation line.

Leszek Iwaszko, SG

This PLN1 billion free cash flow it's kind of net of any costs of replacement, cost depreciation is not cash but there will be certainly some cash costs as well.

Jacques de Galzain

There are for sure some cash costs because when you create a new company you have starting cost. But anyway as we transfer resources to the JV we do not want to add another structure in TP. And we will do that as we do the rest with cost optimisation.

Maciej Witucki

A question to Vincent, I understand it was about the fixed broadband market. Some broadband comment.

Vincent Lobry

I was ready to speak about fixed but broadband, it's not – I think there is still some room for increase of the market in Poland which is mainly driven by the penetration of PC, so penetration of PC is not so high as in some other countries especially Western countries, so there is still some growth quite slow, but there is growth, and its not a saturated market, so there is growth.

The problem of the market is that when you look at the net add we took little bit more than 20%, Q1 we were less than 10%, so we have better in the market which is growing quite slowly. What is important in the value, not on the volume but on value is to go to higher bandwidth and to more bundle offers. Bundle means double play with TV or triple play with voice over IP and that's really the trend.

In terms of cannibalisation of the mobile, first you have some areas which are not covered with ADSL but you have some solutions with CDMA, for example our number of customers in CDMA continues to increase. And then its purely when you increase in terms of bandwidth on the fixed side there is not really cannibalisation because the quality of service and the comfort with higher bandwidth with 10 Megs or 20 Megs and above it so that there is no cannibalisation.

When you are at slow bandwidth, 1 Meg you can have cannibalisation but as far as you increase the bandwidth this cannibalisation decrease, so it effects us.

Maciej Witucki I agree there are just two elements effectively we should see even the improvement of this against cannibalisation situation. First of all because we go into the Y zones with the regulatory arrangements with it and second of all because the VDSL technologies almost doubling the speed on the given line. One may compare it to the not very loaded 3G station was in the same range of comfort. When we bring 6 megs, 10 megs, 80 megs now it's definitely something because we invested as well into improvement of the existing market suddenly it provides for the customer a comparable comfort and should help us to fight against the pure wireless.

Leszek Iwaszko, SG
Thank you very much.

Jacek Kunicki

Do we have any other questions on the floor? If not, then I suggest that we switch to any potential questions from the teleconference.

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. We ask that when asking your questions, you speak slowly and ask only one question at a time. There will be a short pause whilst participants register for a question.

Thank you. Our first question comes from Herve Drouet. Please state your company name followed your question.

Herve Drouet – HSBC

This is Herve Drouet from HSBC. I have got two questions. The first one is: can you let us know what is the view of the regulator of the co-use of frequencies? I mean is it something that in your network sharing agreement the regulator is very happy with in terms of sharing frequencies and do you think that's going to stay as such in the future?

The second question is regarding the DPTG legal issue. I was wondering now that you are proposing a share buyback after the Emitel sale. Do you think depending on the results of the hearing of the DPTG issue may effect your cash dividend policy or not? Thank you.

Maciej Witucki

OK, so first of all second question, I will not comment in details, only one element, we said the DPTG is not impacting our vision of the dividend policy of TP Group and no more comments on this one.

Now on the first one, view of the regulators so, as of today in my opinion, no necessity of the official view of the regulator because each other keeps its ownership of the frequency. But of course we spoke about it and we haven't seen any major difficulties. I don't know if Piotr you want to add anything on this one.

Piotr Muszynski

Just one additional comment to your question, regarding the frequencies we have to bear in mind that today in a Polish legal system you don't have a clear regulation about the co-usage of the frequencies. But you do have cases of the operators who are co-using it based on a set of the different regulations. What we expect to have, we expect to having a new Polish telecommunication law and new regulations, so we expect that it will be embedded a general directive of the European Commission which is allowing the operator co-usage of the frequencies. In a matter of fact today it's not forbidden but we strongly believe that in October, November when we will be having a new Polish telecommunication law, it will be precisely regulated in line with the European Commission directive - which is positive.

Maciej Witucki

By the way just adding, this is a simply positive, I mean everybody keeps the responsibility, the ownership of the frequency. It's positive to the market, its positive to the customers who will benefit by it, the end customers of the both companies will benefit from it. I can hardly imagine that such an improvement would be stopped.

Herve Drouet – HSBC

OK. Thank you for your answers.

ACT Operator

Thank you. As a reminder, we would like to ask participants to please ask only one question at a time.

The next question comes from Vera Sutedja. Please state your company name followed by your question.

Vera Sutedja – Erste Bank

It is Vera Sutedja from Erste Bank. I have only one question regarding the tax in the second quarter. As mentioned in the presentation that the Emitel sale did not effect the Group tax rate, so what that actually mean this. That mean it is exempt from tax payment or do we expect that to occur in the next quarter?

Jacques de Galzain

No. For this transaction of TP Emitel we used all the regulations from the Polish tax law. And the profit on the sale of Emitel is quite net whole from a tax point of view so there will be no increase of tax in H2. In H2 if you want to model your net income you can take the usual tax rate of 19%.

Vera Sutedja – Erste Bank

Basically it is you don't need to pay tax on the Emitel gains?

Jacques de Galzain

That's right.

Vera Sutedja – Erste Bank

Thank you.

ACT Operator

Thank you. The next question comes from Danielle Chigumira. Please state your company name followed by your question.

Danielle Chigumira – UBS

Hi, good morning. The question I wanted to ask is just around the mobile, so we saw some stronger net adds in prepaid rather than postpaid and I just wanted to find out the dynamics on ARPU there?

Maciej Witucki

Could you just repeat the question? We understood that there is stronger prepaid than postpaid adds and then ARPU.

Danielle Chigumira - UBS

Yes, what's the dynamics on ARPU given that prepaid is obviously a lot lower ARPU?

Vincent Lobry

OK. On the customer base that's true that the growth but not only on TP, on the Orange was higher on the prepaid than on the postpaid

In terms of ARPU dynamics it depends how you compare to the quarter one year ago which as mentioned by Jacques very special one with lot of events, so it's quite difficult to compare. If you compare to last quarter, first quarter it's you have also seasonality. In fact in ARPU what is important that we increase a lot as mentioned by Jacques the data part which is also policy to increase by 30% in one year the data part of the ARPU.

When you look today to the non-voice revenues it's little bit below 25% of the ARPU of the postpaid customers. And this increase of data is sustained by two things, first the fact that we spend more on the smartphone, so we put more smartphone specially on the postpaid and also on the smartphone we increase our attachment rate of data package to the smartphone, so that's clearly what are the dynamics of ARPU it is on voice more or less stable or little declined because we have the effect of the Emitel also.

On SMS we have a little decline due to the SMS interconnection and you have the growth on the data side which is quite good and which is sustainable.

Danielle Chigumira – UBS

OK. Thank you.

ACT Operator

Thank you. As a reminder, if you would like to ask a question, please press *1 on your telephone.

Jacek Kunicki

If we have no other questions then thank you very much. And just to remind you we will reporting quarter three numbers on 26 October. Bye.

ACT Operator

Thank you. This concludes the TPSA Half Year Results conference. Thank you for participating. Your may now disconnect.

END OF CONFERENCE