# TP GROUP
# 3Q'2011 RESULTS
# (Transcription)

# October 26, 2011

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| Operator: | Ladies and gentlemen, welcome to the TP Group Q3 Results conference call on 26th of October 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 the star, followed by the zero on you telephone for operator assistance. |
| | I will now hand the conference over to Jacek Kunicki. Please go ahead. |
| Jacek Kunicki: | Good morning, everyone, and welcome to our call. My name is Jacek Kunicki. I'm Head of Investor Relations. We're joined today by TP's management, so starting with the CEO Maciej Witucki; CFO Jacques de Galzain; Chief Marketing Officer Vincent Lobry; Chief Commercial Officer Mariusz Gaca; and Chief Operations Officer Piotr Muszyński. |
| | Two quick notes before we begin – first of all, as TP Media was consolidated in our H1 accounts and was outside the scope of consolidation for Q3, we have based the year-on-year comparison on the appropriate pro forma numbers. Second note is that our results have been published this morning and can be found on 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. Good morning, ladies and gentlemen. So the agenda for tomorrow is as follows: I will start with a summary of our achievements in the quarter three, then Jacques will follow up with the analysis of the financial performance for the Group, and then finally I will conclude the presentation very briefly and we go then to the additional Q&A session. |
| | So you will appreciate that we will not be answering if there are questions with regard to claims and litigations due to their sensitive nature. I'm always getting it automatically now it's some years. Our position in the dispute with DPTG has clearly been made public and all claims and litigation which may impact TP have been adequately described in the notes to the financial statement, so obviously no questions and no comments on this one. |
| | Let us start the presentation on the quarter three highlights, which start at Slide No. 5. |
| | So in a nutshell, we delivered solid performance in quarter three, in line with the H2 comments made back in July. The implementation of our medium-term action plan to bear fruit, and quarter three was another period of steady improvement in commercial momentum, coupled with the strong financial results. |
| | First, on the commercial front, where we continue to report step-by-step progress; it is especially visible in the mobile segment with quarter three being of no exception as almost 80,000 net additions brought total for the nine months to 280,000. It allowed |

us to maintain market share since last year, which is an achievement in a very competitive market where the fourth player continues to benefit from the large MTR asymmetry. Broadband growth is still below our ambition and potential. However, its pace is accelerating as we continue to implement our product strategy. With 21,000 net additions, quarter three is the fourth consecutive quarter of growth and is beginning to change the landscape. Revenue evolution is in line with our full-year outlook as the top line continues to benefit from the growing number of mobile and broadband customers.

In terms of profitability, TP Group delivered rock-solid quarter three performance. Our EBITDA margin was stable year-on-year at the high 38%. Net income amounted to almost PLN 380 million and was 9% above the restated number a year ago. It was achieved in spite of FOREX pressure as the zloty weakened in quarter three. Strong EBITDA and net income were reflected in the solid cash generation as it stands at roughly PLN 1.5 billion year-to-date. We are confident on delivering the free cash flow guidance, and Jacques will elaborate it further on.

Then, as you know from our report, we have reached an important agreement with our social partners. It allowed us to reduce TPSA headcount by 2,300 in the next two years and will significantly contribute to future profitability of the Group.

Finally, shareholders have voted in favour of management's proposal to conduct an PLN 800 million share buyback. We'll keep you regularly informed as we proceed with this program.

Let's now turn to the following slide to review the key aspects of our performance, starting with the commercial progress on Slide No. 6.

As already mentioned, we are satisfied with the commercial progress in quarter three.

Mobile in particular has well done. Its customer base exceeded 14.6 million, growing by 3% year-on-year. While we systematically grow the customer base, our mobile strategy is focused on customer value. Since 2010, we have promoted the idea of android-based smartphones for Poland and it's beginning to bear fruit. Smartphone base increased by 0.5 million within 12 months and is bound to grow even faster as smart devices comprise over 30% of post-paid sales. While this requires an effort on OPEX, it helps the top line, as demonstrated by the 30% growth rate of the post-paid data ARPU.

We will pursue to grow customers' appetite for smartphones, tablets, netbooks and other devices that use our mobile and fixed broadband where we still have space and capacity. We'll also continue to focus on value market share, so I assure you that recently extended validity of prepaid SIMs will not impact our reporting.

In broadband, our performance is progressively improving. Growth of our customer base is accelerating as 21,000 net additions in quarter three bring it almost to 3% year-on-year. TP's share in market net apps rose to almost 30% in quarter three and is approaching to our overall volume market share. Interestingly, we continue to sell more broadband options at 6 Mb and faster, and their share in quarter three sales reached almost 50%.

Growth and improvement in customer mix allowed us to stabilize broadband revenue since quarter two. The VDSL offer was successfully launched in its target zone. We'll progressively extend addressable markets to new zones with identified demand.

Now let's turn to the next slide for a quick look on our cost base.

So our cost optimization program continues to deliver savings as we have fully embarked on this key part of our strategy. We have generated over PLN 130 million of year-on-year savings within the nine months of 2011. It contributed to a 4% decrease of TP Group's cost base year-to-date, reflected in the healthy EBITDA margin that we are reporting for quarter three.

We continue with execution of current initiatives like e-invoice and network sharing. Additionally, in quarter three, we launched a new, more effective retention policy to limit the smartphone-driven increase in commercial spending. As I have already mentioned, headcount restructuring will be continued in the upcoming years and this is already agreed with our social partners.

I believe that the cost optimization is now deeply embedded in the DNA of our company. While we strive to achieve commercial progress, we will do that with the effective use of our resources.

Let's now go over the key financials as presented on the Slide No. 8. Very shortly on financials, before I hand over the floor to Jacques.

So in line with our expectations expressed in July, revenue trends have improved since H1. It's worth noticing that without MTR cuts, Group's revenue decrease would have been limited only to 1.8% while the mobile segment would have grown by 4%. Q3 EBITDA margin is flat year-on-year compared to the restated number for 2010. In turn, this has also brought the year-to-date EBITDA margin to the level achieved a year ago, and we are in line for the full-year outlook.

Capital expenditure is PLN 82 million, up year-on-year, due to its advance in H1. We expect it to increase in quarter four but bearing in mind the full-year target of 17% of sales, it will be much lower than quarter four last year. Finally, as mentioned before, we are confident in our ability to deliver PLN 900 million of net free cash flow in the last quarter of the year.

Thank you, ladies and gentlemen, and now I will hand the floor to Jacques for the financial review. Jacques, the floor is yours.

Jacques de Galzain: Thank you, Maciej. Good morning everyone. Let's start the financial review with the market evolution, as show in slide 10.

The value of the Polish telecom market has decreased by 1.1% in Q3 as another MTR cut has affected its evolution. This trend reflects the detrimental impact of the SMS

MTR cut made in Q1 and the voice MTR cut implemented in Q3. We estimate that MTR cuts have also moved mobile dynamics into the red in Q3, despite healthy growth of its retail partner. Competition between the 3G big rivals continued to be predominantly value-focused with PLAY still benefiting from a 179% MTR asymmetry.

On the order hand, evolution of the fixed market has slightly improved mainly driven by increased international wholesale transit in TPSA. We estimate that evolution of the broadband market continues to be slow.

In this context, let's turn to Slide 11 for the analysis of TP Group's revenue evolution. Next slide, please.

Despite the additional MTR cut which strongly affected market value, TP Group's revenue trend has improved in Q3. It decreased by 3.8% year-on-year as compared to a 4.3% decline in the first half of the year. This is in line with our outlook commented back in July.

Excluding the MTR impact, Group's top line has decreased by 1.8% year-on-year. Growth of our mobile segment has partially offset the revenue contraction in fixed. Fixed segment revenue continued to decline, driven mainly by substitution of traffic and customers to mobile, although its pace has slowed down in Q3.

MTRs apart, mobile segment revenue has posted robust growth, driven both by an increase in the number of Orange customers and a resilient retail ARPU.

Let's take a look at revenue per segment, starting with Slide 12.

Mobile segment revenue grew only by 0.2% in the third quarter as it reflected the voice MTR cut. The voice MTR was cut on July 1$^{st}$ from 16.77 groszy to 15.2. Excluding the MTR impact, the revenue of Orange was up by an impressive 4% year-on-year driven by good positive enduring trends. First, rapid growth of our customer base, as it continues to rise by more than 3% year-on-year, this added over PLN 60 million to the Q3 top line. Second, despite price pressures, retail ARPU is almost flat within the last 12 months and growing since Q2. Finally, Orange revenue was helped by an additional of PLN 32 million due to growing cell phones sales, tablets and netbooks. All of the above have allowed Orange to maintain its value market share over the last 12 months.

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

Our mobile buyers have grown steadily over the last quarters, with Q3 being no exception. During the low season quarter, we have increased our customer base by almost 80,000. On a year-on-year perspective, we continue to enlarge our customer base at over 3% or 470,000 clients. The prepaid customer base is growing much faster than postpaid as the market for the latter has focused on retention and customer value rather than on volume-driven competition.

Speaking of customer value, we are satisfied with the way the retail ARPU has developed to-date. Despite the price pressure on a changing customer mix, blended prepaid ARPU has stayed almost flat year-on-year. It was supported by stong usage which continues to rise year-on-year, as well as by rapid growth of the data ARPU.

Let's now turn to the next slide of the analysis of the fixed segment.

Trends in the fixed segment have improved in Q3 with revenue decrease limited to 6.6% versus the 8% decline in H1. The top line was helped by a 9.4% year-on-year growth of turnover in wholesale. It is driven by an increase in backhaul services and growth of international transit revenues. Fixed voice revenues have continued to decline, although it was limited to PLN 150 million year-on-year as compared to 180 million in the second quarter. Finally, we have stabilized our broadband revenue at the level of Q2 as growth of the customer base and migration to higher speeds offset the impact of price cuts.

Let me now walk you through fixed segment KPIs shown on Slide 15.

Subscriber trend in fixed have improved in Q3 in all major categories. Broadband customer base grew by 21,000 despite the low season. It is the fourth consecutive quarter of growth and effects are visible. Broadband customer base is now growing by 63,000 year-on-year or almost 3%. We are gaining pace and TP's net adds market share in Q3 reached 26%. Growing broadband providers with the opportunity to bundle it with fixed voice in an attempt to loyalise that customer base. We are confident that bundling our offering is the best way to retain the fixed voice customer.

The number of fixed lines has continued to fall. Nonetheless, for the last two quarters we have limited below 170,000. It fell by less than 3% of the base in all quarters of 2011.

Finally, our TV service has continued on its growth path, exiting 600,000 customers. Over 26% of our broadband clients also have television from TP. While the end of some past promotions have impacted the evolution of the pay TV base, we have rolled out the joint TP-TVN offering and we are confident that it will attract new customers in the future.

This concludes my review of the top line, and I will now turn to profitability starting from Slide 16.

Please note that the EBITDA analysis is based on restated figures excluding the increase of DPTG risk provision from 2010, as well as the disposal of TP Emitel and the European Commission fine from this year. As mentioned before, the year-on-year comparison is made on a pro forma basis due to deconsolidation of Emitel.

Our EBITDA amounted to PLN 1.4 billion in the third quarter, roughly at the level we reported in Q2. It brought the total for the year to almost PLN 4.2 billion at a 37.2% margin, so in line with the full-year outlook. Q3 EBITDA stood at strong margin of 38.1%, stabilized since last year. It was strongly helped by mobile segment's EBITDA which was up by over 16% year-on-year and stood at the 34% margin. In comparison to Q3 of last year, Group's EBITDA has decreased by roughly PLN 50 million, driven by the following factors:

- first, the pre-regulatory decrease of our top line, although this was limited to just PLN 65 million;
- second, adverse foreign exchange impact due to the steep depreciation in value of the Polish Zloty. As in September, it reached 4.5 to one Euro. This caused losses on part of liabilities denominated in foreign currency. Finally, these were mostly offset by PLN 30 million savings from our cost optimization program and a PLN 40 million decrease in other costs.

To finalize the review of our income statement, let's go to the next slide to see how EBITDA was impacted in the net result. Next slide, please.

Net income amounted to almost PLN 380 million in the third quarter and was up by over 9% versus the comparable figure of 2010. This was achieved through a combination of the following factors:

- first, as already explained, the EBITDA had fallen by only PLN 50 million year-on-year;
- second, depreciation was lower by PLN 30 million in comparison to last year as the third quarter was less impacted by accelerated depreciation;
- third, financial costs were PLN 20 million lower versus last year due to bond repayment and gain on derivatives' valuation, and finally;
- the income tax was PLN 70 million smaller than in 2010, as TP has benefited from a new technology tax relief claimed for the period from 2006 to 2010. We will continue to use this relief in the future but its impact on taxation will be small.

  The reported net income for the nine months of 2011 amounted to over 1.5 billion, which is satisfactory.

This concludes the review of the income statement, and I invite you to Slide 18 to review the cash flow. Next slide, please.

Gross tax generation throughout the year has been steadily improving. Almost PLN 600 million net free cash flow in Q3, brought the year-to-date close to 1.5 billion. It is roughly PLN 500 million less than reported for nine months of 2010. This is linked

- to lower cash from operating activities, PLN 120 million below last year,
- circa PLN 700 million more payments made to capex vendors and
- roughly 370 million positive difference in working capital, a combination of trade payables, debtors and inventories.

As you remember, our net free cash guidance for 2011 is PLN 2.4 billion. This implies strong cash generation in Q4, exceeding 900 million. We are confident in our ability to deliver this objective having in mind that.

- despite the expected acceleration, capex will be few-hundred million below the level of Q4 2010, as we target the full-year run 17% of sales.
- as Q3 capex was almost 170 million below last year, it will benefit us with lower payments to be made in the last quarter of the year;
- and we also expect to achieve a positive difference in working capital.

Thank you, ladies and gentlemen. This concludes my presentation, and I give the floor back to Maciej.

Maciej Witucki: Thank you, Jacques. Ladies and gentlemen, in the summary, today's presentation has two major takeaways.

So first looking back at the three quarters of 2011, TP Group posted a solid financial performance both in terms of top line and profitability. After nine months of the year, our revenues and EBITDA are in line with the outlook.

Second, we are also confident in our ability to deliver the net free cash flow objective for 2011, as explained by Jacques.

Third, throughout the year we have been pleased to report meaningful commercial progress. Mobile development is clearly visible. Broadband, too, has been steadily improving despite the quite flat market.

Looking ahead, we have two main tasks to fulfil for the last quarter of the year;

- firstly, to deliver our financial objectives, obviously;
- and secondly, to use the upcoming high season for commercial development, gaining new customers, maximizing up-sell to the existing base, and promoting solutions that will boost demand in the future.

Thank you, ladies and gentlemen. This concludes our presentation and we are now ready for your questions. Thank you very much, and thank you to the team.

Jacek Kunicki: I suggest that we first take questions from the floor, which will be then followed by potential questions from the teleconference.

Speaker: Hello. Leszek Iwaszko, Societe Generale. As many as three questions from me, please. First of all, how do you see outlook for commercial activity in the competitive situation in Q4 which is seasonally peak season? Is it going to be tougher, you think, than last year? How do you see outlook for promotions and subsidies? That's the first question.

The second question is on process of TVN. The head of supervisory board of Vivendi was recently quoted saying that they would be looking for a partner, a Polish company, in the process. My question is will TP be interested in joining such a—in being such a partner? That's the second question.

And the third question is regarding the rollout of fiber. How do you stand with negotiations with regulator? Recently, the head of regulator was quoted rather that there are no negotiations. How do you see that? Her stance seems to be quite clear. How do you see this development? That's all. Thanks.

Maciej Witucki: So maybe I will quickly take the two—the second and third question, and the outlook for the quarter four, I will leave that to Vincent. So first concerning the partnerships, we know how to partner, we did partnerships in the past, the last one was with T-

Mobile in the Polish market, but I can only speak about the partnerships in which I have discussions, so I can only—that's all I can say, so I don't discuss with the head of Vivendi about the partnerships. If there is any proposition, then we will look at it. Today, there is nothing on this front.

Now for the regulator, what I like in our relations with the regulator today, we are not really in the process of kind of specific negotiations, we have normal contact between the regulated and the regulator, and this normal contact and normal relations, they include two major elements for any fiber or very high-speed broadband development, which are two specific wholesale markets which are to be defined by the regulator decisions, so they're the specific markets of market four and market five. So the two basic offers of unbundling for the fiber-based technologies, and we are simply in the normal contact with the regulator on those. When we have those two regulations issued, we will know what will be the future of the very high speed broadband in Poland. I don't believe it will be kind of large majority fiber to the home base; it will be rather based on the hybrid technologies, which by the way we are already deploying, and now the speed, the pace of it will depend on the regulations which are to be issued by UKE in the following months.

And Piotr, do you have any comments on this one, or I was clear on our relations with the regulator?

Piotr Muszyński: Crystal clear.

Maciej Witucki: Thank you. So—

Vincent Lobry: Yes, as you mentioned, Q4 is always a very active commercial quarter during the year, mainly for mobile, little bit less for broadband. So basically there is no real change in the competition, we have the same competitors, so we don't expect anything really new. Q4 is mainly promotions, new handsets, things like that, but not structural new offer, so we think we are ready to compete. I will not give you what offer we'll launch, because it's still secret. In the broadband market, you saw that we launched on Monday, so two days ago, a new triple-play offer called Fun Pack, which will be our main support for the sales starting this quarter, and frankly on the [inaudible], of course we'll have higher, as it is every year, commercial cost in the last quarter, mainly driven by volume, so we don't expect that unitary subsidies higher, but mainly it's driven by the volume of sales, so nothing special on this quarter. And also, as you saw, we were quite, let's say, cautious on communication and so on during this quarter, mainly due to the fact that some of our competitors were making a lot of communications and we thought it was not a good time to communicate too much in front of this wave of communication. So we'll have more communication, more sustained in the Q4 to sustain the commercial activity.

Leszek Iwaszko: Just a quick follow-up on that, do you see T-Mobile after the rebranding and play being more aggressive than it used to be, let's say in the beginning of the year or Q4 last year, or not real change?

Vincent Lobry: I think you have all seen that T-Mobile have been very active on communication since the rebranding, so I don't think there will be more activity in Q4 on communication because it's been already quite a lot of money[inaudible] . For Play, and Plus I don't see big changes in the activity in terms of, let's say, more money spent on the market on commercial costs.

Leszek Iwaszko: Thank you very much.

Jacek Kunicki: Do we have any other questions from the floor?

Paweł Puchalski, BZWBK: Firstly I'd like to just clarify, in Q4 you will have much lower EBITDA, you will have three times as high capex expenses, so I understand capex payables will have to be, well, reversed from negative 800 million to some positive 800 million, otherwise you will not deliver on your 900 million 4Q guidance—I mean, net free cash flow.

Jacques de Galzain: I will not go into your calculation. Probably we would need more time than that to agree something, just the equation. This is why the Q4 cash flow is a challenge, but anyhow, as I said a few minutes ago, we have—we will have less capex in Q4 than last year, and remember that last year we reached more than PLN 2.7 billion capex the end of the year, we will be below this mark this year. Then Q3 capex, we are below and so—so it allows to pay a bit less also in Q4. And finally it's clear we that we still work on the other items off the working capital, so trade payables, capex vendor, trade receivables and inventories. And this is the way we will achieve this PLN 900 million cash generation in Q4.

Paweł Puchalski r: My other question is, you mentioned somewhere in the presentation that [audio interference]. Is it me or is it you? That without impact of regulator, mobile growth would be at over 4%. You've reached growth—yes, you've reached growth at 0.2. That suggests that if not for the regulator, you would have PLN 75 million in 3Q more just for the impact of the regulator. The difference between 4 and actually zero multiplied by the actual last year figure, does it include MTRs and SMS, or it's just MTRs?

Jacek Kunicki: It's both. It's a year-on-year comparison, so it includes both cuts. If you look on Slide 12, you will see the regulatory impact of 75 million, which is both cuts.

Paweł Puchalskir: So the follow-up question would be, if my assumption that cuts to SMS subtract 20 million, that would leave PLN 50 million-some cut because of MTRs, and we had only 10% cut to MTRs in third quarter. We are about to see another 20% cut. Does it suggest that you will double your decline—your regulator will subtract, I don't know, some over PLN 100 million after another cut in MTRs?

Jacques de Galzain: You know, this is not so simple. You have regulation, you have the increase of ARPU, you have the price equation or saw the customer value, so we will not go in the detail. Just so you see that once again this year we are hit by regulation. Next year we will have also hit from regulation, but you see that we are reducing the drop of the top line and that's the trend, to reduce and reduce. And RIO , you know the MTR cut was very detrimental in the past year. Now when we talk about zloty, it is less and less as the MTR is low, and so—but we—this is for sure [inaudible] of the top line. You know that our EBITDA level, it was quite neutral and even beneficial for the margin. We are there; we live with that.

Paweł Puchalski: The very last question—well, sometime ago I read an interview with chief financial—chief executive officer, and I read that he—you expect, well, flat top line after the decline in 2011—I mean, in 2012 versus '11, and in 2013 versus '12. After third quarter and after markets—well, the most recent market developments, would you still say the same?

Maciej Witucki: What we did, we have been planning for 2012 and it's only, like, statements we made as an outlook for the Group, is that we're going to be close to—very close to zero in 2012, and that had been done at the period of mid-term planning when it was announced at the very beginning—and it was announced in 2010. Then what we somehow updated given the last cut of the—additional cuts of the MTR this year, we said this may move this magic moment from 2012 to 2013, but again, we speak about very small values today rounded to zero. It means we don't speak about the big gaps to zero. Let us deliver the 2012. Let us work in 2012 for the next, probably, vision of mid-term plan and then let us have some additional dedicated conferences on this one by end of next year, beginning of 2013, please.

Paweł Puchalski: Thank you.

Jacek Kunicki: If we don't have any more questions from the floor, I suggest we switch to the teleconference audience for their questions.

Operator: Thank you, sir. If any participant would like to ask a question, please pres the star, followed by the one on your telephone. If you wish to cancel this request, please press the star, followed by the two. Your questions will be polled in the order they are received. Could you please state your question clearly and slowly, and please ask each question one at a time. There will be a short pause while participants register for a question.

Our first question comes from Herve Drouet from HSBC. Please go ahead with your question.

Herve Drouet: Yes, thank you. Good morning. My first question is in fact on the financials and regarding income tax. Can you tell us what is the total tax relief on—you have, and how much you have used in Q3, and how much is left for you to use in the coming quarters? And the second question as well, again on the financials, about the depreciations. Last quarter, we saw depreciation in fact accelerating. One of the reasons, I think, at that time you mentioned was accelerations and a change of radio access network equipment to prepare the site sharing with your other mobile operator. This quarter we see a reversal of that. I was just wondering what is triggering it and how should we expect depreciation to evolve over time into the next coming quarters? Thank you.

Jacques de Galzain: So about the tax relief, so we recorded a bit more than PLN 100 million of credits in Q3 and this is linked to the year 2006 to 2010. Then in the period to come, we will have to—we could record in Q4 2011 and in the years to come, depending on the level of our capex relative to new technology, we can have also some credits.

Regarding the—sorry?

Herve Drouet: I was just wondering, is there any figures you can put of credit which up to now you can still use and haven't used yet?

Jacques de Galzain: No, no, I cannot give figures because this is based on the capex we spend on new technologies, so it's very difficult to predict, you know. It's a long story with the tax administration. You have to evidence that it is new technology, that you need a certification and so on; so it's not so easy and I cannot give you a figure today.

Herve Drouet: Okay.

Jacques de Galzain: Anyhow, I said during the presentation that it will be much smaller, eh? In year 2006 to 2010, so don't—I don't dream and don't dream you too about big tax credit in the years to come in that respect.

So regarding your second question about depreciation, so, yes, the last quarter and especially the 1H, the first semester of this year, depreciation was hit by accelerated depreciation related to swap of the active part of the network. So in Q3, we have less accelerated depreciation. What does it mean for the future? You know, Q3 is just showing that without accelerated depreciation, it's less, which is something very factual. In the periods to come—you know starting in 2008, we have less capex than in the past, so clearly the depreciation trend is rather decreasing

Herve Drouet: Okay. Do you see any change, again, of potential replacement cycle of the radio access network looking forward? I mean, does it come at project and you have the seasonal impact, or it's not the case? I mean, Q2 was kind of maybe a bit of an exception and what we're seeing in Q3 is more kind of the current trend.

Jacques de Galzain: You know, we announced and we said that we did a swap related to a HSPA++ technology, and this is more or less done; so then the future swap in the network equipment, probably Piotr, you can elaborate a bit more about the future there will be.

Piotr Muszynski: Future in mobile is strongly dependent to our common plan which we have in the Rainbow project, together with our partner. We are about to finalize now within the common tender for a swap for a new supplier of the new technology and we'll be having a common rollout in the next coming year. The rollout will take at least two years and that we will have a commonly managed, the most modern network, which will be LTE-ready. So this is more or less the future plan for radio.

Herve Drouet: All right. Thank you very much for your answers. Thank you.

Operator: Thank you. Our next question comes from the Daria Fomina from Goldman Sachs. Please proceed with your question.

Daria Fomina: Yes, hi. My question is regarding your mobile segment. We saw you experienced MTR cut in the third quarter, but looking at your data, it seems that APPM is not—it slowed down—the decline is slowing down, sorry, compared to the previous quarters, so meaning that you're not—the market is not passing it on to the subscribers. Does this mean that the competition is slowing down? Because in the second quarter, we heard some—basically a news flare that the competition is getting tougher. Could you please comment on that?

And the second question is on the profitability of your mobile segment as well. Do you see the margins—do you see the margins going back to high 30s as they were before, or was this quarter a bit more one-off sustainable reversal of the profitability trend?

Maciej Witucki: So maybe I will start and then probably let the floor to Vincent for any comments. So first what you can see, then—one answer to your first question, that the MTR cuts haven't been translated into the cuts on the final customer prices, and this is the way. We didn't depreciate—the markets haven't been depreciated on the retail prices after the last MTR cuts, so yes, it shows—well, to say this competition is slowing down, it's hard to say when you look on the block of commercials between the news on the TV or when you go outside in Warsaw and you see who is occupying, say, more than half of the billboards in the country. So the competition is absolutely not slowing down. The competition is more based today on the services, on the new added value services. Of course, we have a fourth player, but again, as long as those guys, they have a gift of this extreme asymmetry, they can afford it. Let's see what's going to happen starting from 2013 when the asymmetry will disappear.

But short answer is, yes, we have more service quality, added value based competition that the one which was the kind of brutal fight on the huge cuts of the retail prices following each cut of the MTR. So this is definitely the—this is definitely the point.

Now onto—I wouldn't be over enthusiastic on the MTR margins because remember that this competition is based on smartphones, tablets, and those devices must be managed very carefully not to impact negatively the margins, because the Polish market is fully subsidized, and when it's fully subsidized, it increases—each smartphone increases dramatically your SAC and SRC . That's why, by the way, we keep it, I would say in the high range because this 30% is quite high for Poland in the number of proportional smartphones, but we don't overdo it in order not to equip the customers either not covered by 3G or customers not interested by the smartphones. We do not over-equip them with the devices which are harmful to our EBITDA.

I don't know if Vincent has anything to add on this market?

Vincent Lobry: Yes, just to comment, in fact, the only area where we have an automatic decrease of the price following the MTR is a fixed mobile price, because we are on the fixed mobile, we are regulated, and we have to have a decrease of the retail price following the decrease of MTR. And the other comment that we are no more really now fighting on the price per minute because now it's much more sophisticated, there's a lot of bundles of abundance and so on, so the fight is not on the price per minute as it was some years ago. We are now more on bundles, abundance of [inaudible].

Jacques de Galzain: Regarding profitability of the mobile segment, it's clear that with the 34% is a very good achievement. This is quite simple to explain. We have stabilization of revenue despite MTR cuts, then the consequence of MTR cuts, it is less interconnection costs. And as in the meanwhile, we have been able to stabilize and even to decrease a bit the commercial costs, the margin is increasing. But then—we are in Q3. Q4, you know there is that, like always, more commercial activity, and so Q4 margin will not be comparable to Q3.

Daria Fomina: Thank you.

Operator: Thank you. Our next question comes from Dalibor Vavruska from Citi. Please go ahead with your question.

Dalibor Vavruska: Hello, good morning everyone. Just two quick questions. One is on market share. I mean, I see some subtle signs of stabilization of market share when you look at the fixed market getting stable for the first time in value terms, and I think you may be losing a little bit less in broadband. Can you comment about the outlook, say, for the next 12 months in terms of market share compared to the previous periods? I mean, are you seeing some benefits of this consolidation, and do you think that in terms of—I mean, I don't know if you can comment about how much you think the market is going to grow next year, but basically I'm just trying to establish what—how optimistic you are about your ability to defend market share from now on in the key categories.

And the second question is, again, very simple, about cash flows. I don't know if you can comment your next year's expectations in terms of cash flow uses. I think this is one of the key questions that investors are looking at right now. Thank you.

Maciej Witucki: So maybe on the market shares, I will very quickly comment on this. Our mid-term action plan was stabilize the market shares for the broadband. What you can see as the growth of the net adds market shares is driving to this situation since we add almost 30% net adds. We have roughly 35% market share. The target is to realize what we promised, the target is to grow at the speed of the market, and I think we're on a good path.

On the mobile, the situation, it's really very good. I would say given the facility of the fourth player to be the only one to maintain the market share is the great success of the team, and obviously if we continue this trend, we begin to realize the target which is to be the leader on the market. And I would say, yes, we have consolidations but I wouldn't expect the consolidations to be a major factor of our successes. It's simply because we put good resources into good places and we put good tools into good places. It's not because the market is consolidated. And basically, we still have the same big enemies. They didn't change. The consolidations eventually will be moving some smaller players, but basically the landscape for us is the same. We have two major competitors on the mobile market. If they want to be a leader, it's fair enough if—again, I'm good on defending against the fourth one, but I can't do miracles given the asymmetry. But the most important is to be better than the two others, that the two other big, and that's what we do.

On the broadband, it was really get back into the momentum and have a competitive offer, change the perception on the market, and it's not only about the pricing. It's about working out the perception because we have been much more expensive than competitors. Now we're at a comparable level. We bring additional value-added, we bring television, and this is starting to bring positive elements. So I wouldn't be over-optimistic. My point is we have a professional team delivering professional promises for the three years plan.

Now Jacques, on the free cash flow?

Jacques de Galzain: Cash flow generation, you remember that when we announced the mid-term action plan, we said above PLN 2 billion per year. Last year, we delivered more than that. This year, we will deliver once again 2.4 billion. For next year, please wait a few months and I will tell you what is the guidance.

Dalibor Vavruska: All right, thank you.

Operator: Thank you. As a reminder, if you'd like to ask a question, please press the star, followed by the one on your telephone. To cancel this request, please press the star, followed by the two.

As a final reminder, if you would like to ask a question, please press the star, followed by the one on your telephone.

Paweł Puchalski, BZWBK: When do you expect cuts to fixed mobile, right, affecting your fixed line segment?

Vincent Lobry: We have it already, it's a very small impact on the fixed, but you have it already.

Jacek Kunicki: If there are no more questions, then thank you very much for participating in our call, and I already invite you for the quarter four conference in February of 2012.

Operator: This concludes the TP Group Q3 Results Conference Call. Thank you for your participation. You may now disconnect.

**END**