TP Group Q1 Results Conference Call (Transcription)

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CONFERENCE DETAILS

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Chairperson:	Jacek Kunicki
Speakers:	TP Management Board

Jacek Kunicki

Good morning everyone. Welcome to TP Group's Results Presentation for the First Quarter of 2011. My name is Jacek Kunicki, I am the Head of Investor Relations. Today we are joined by the CEO of TP Group, Mr Maciej Witucki; CFO, Jacques de Galzain; Chief Marketing Officer, Vincent Lobry; Chief Commercial Officer, Mariusz Gaca and Chief Operational Officer, Piotr Muszynski.

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

Maciej Witucki

Thank you, Jacek. Ladies and gentlemen, in a nutshell the quarter one has confirmed that we are on track with our objectives as they have been fixed at the beginning of 2010. We continue to implement our mid-term action plan from February 2010 with step-by-step progress.

First on the regulatory front, we continue to work hard, create an improvement and more investment friendly regulatory landscape. We have – we continue a positive dialogue with the regulator, we are now close to reach the market wide agreement on investment in mobile network which would guarantee the slower pass of the voice MTR cuts. The cut to 0,15 groszy in exchange of roughly €100 million investments now looks likely, still we are waiting for the final numbers and the final decisions of the regulator.

We are also discussing a project of geographical differentiation of bit stream regulations in definite areas the project of such a regulation have been presented by the regulator. If implemented, it could lead to limitation of the regulatory obligations in those cities where TP market position is not dominant. This could be the trigger for us to begin the FTTH deployment in some of Poland's largest cities. But here it is important to underline that we don't plan to have a countrywide roll out just for the sake of replacing copper lines but we will invest only in those carefully selected areas where we will have the demand and where the customer will pay a fee sufficient to secure the return of potential investments.

Finally, the government is analysing to get another project potentially beneficial to TP which could lead to a conversion of around €200 million of TP Group's remaining UMTS payment into the network investments, again improving the quality of service and improving the customer experience. Those projects are not yet conclusive but the regulator has began to take note of operator's investment incentives and their involvement is evolving in a more positive direction, and you may see it with the latest declaration of the regulator which we do confirm as far as the policy and the overall new regulations are concerned.

We have also made progress in the strategic projects aimed at adopting more asset-light model for TP, so first we received the green light from the UOKiK (competition office) for the network sharing projects with Era. This now opens the ways for TP and Era to agree all details and begin rolling out the project. Second, we have signed a preliminary agreement for disposal of TP Emitel. The total purchase price amounts to PLN1.7 billion and the transaction would benefit our profit before tax with approximately PLN 1.2 billion.

Our commercial performance has been satisfactory as we have continued to see good momentum in mobile and increased our customer base even faster than before driving retail mobile revenue to over 4% growth. We have continued to work on revamping our broadband offer and the Q1 results have confirmed that the rebound is sustainable even if we are still expecting and waiting for the bigger numbers in the H2 when the market is much bigger.

In terms of financial performance, revenue evolution affecting the SMS MTR cut and the EBITDA margin helped by the cost savings was on level comparable with quarter one last year. All in all, our financial allow us to reaffirm our full year outlook and guidance. With this let's turn to the next few slides to review the progress in quarter one starting with the commercial performance on the slide number six.

Slide number six, key trends visible in quarter one confirmed our commercial progress, so first our mobile segment where we accelerate the customer base growth to 4.7% year-on-year by adding another 90,000 customers in quarter one. This was done despite intensified price competition in particular from Plus. Orange has responded to this new market challenge but not with the price promotions but rather by offering our customers more benefits within the 'animal tariffs' being on the market since 2010. Smartphone penetration continue to raise reaching almost 30% of the postpaid sales in quarter one and its impact on data ARPU is gradually becoming visible and it is extremely important that this trend starts to fuel our top line.

Secondly, with regards to broadband, we have delivered a third consecutive quarter of positive net additions, again even if they are still at below level. This is still relatively small and not up to our ambitions but it was achieved at the low season sales, so our market share in net additions was comparable with the quarter four 2010. We can also see continuous increase in speed options over 6 megabits per second which now exceeds 42% of total Neostrada sales. As the next step towards full broadband recovery we will follow this up in quarter two with the speed options exceeding 40 megabits and with new content on the back of cooperation with TVN. This illustrates that our commercial actions are on track and we still have more to achieve.

The other pillar of our strategy consisted maintaining a strong focus on cost savings. Let's turn to the next slide for a brief review on this item, so slide number seven. Our cost saving programme has once again delivered solid performance contributing to bring the cost base down by 2.8% year-over-year. As planned, this has offset some of the pressure on EBITDA resulting from revenue evolution and growing cost of smartphones, obviously growing in the sales on the postpaid market.

As I have mentioned during the full year results presentation, cost cutting continues to be and going to stay a very important part of our strategy. In Q1 we have maintained our strong focus on cost savings, these are critical to help us to reach our commercial objectives as well as positively impact our EBITDA.

Finally. before I hand over to Jacques, let's turn to slide eight for a quick look at our performance versus targets. Next slide, please. Very quickly on the financials, so revenue is as expected, affected by the MTR cuts. Since it is likely that the market will agree to the small voice MTR cuts, the SMS cuts of quarter one will probably be by far the biggest regulatory impact of this year. Our mobile segment continues to deliver healthy results growing by over 4% excluding MTR effects.

EBITDA margin is on the level comparable to quarter one 2010. Thanks to PLN 60 million cost savings, further cost benefits will come in the following quarters obviously. CapEx is above last year level as we entered the year with a full speed mode with regards to investment projects execution. And finally cash flow is in line with our projections, so we are on track to achieve our objectives of 2011.

Let me now hand over to Jacques for the financial review. Jacques, the floor is yours.

Jacques de Galzain

Thank you, Maciej. Good morning everyone. Let me walk you through the Q1 financials, starting with market evolution on slide 10. The value of the total Polish telecom market have grown for the third quarter in a row although the progression was slowed down by the SMS MTR cuts. The market has grown by just 0.6% in Q1, but I think it is worth recalling that Q1 2010 was down by just over 6% year-on-year. The growth is driven by the mobile market with over 4% increase in Q1, thanks to strong increase of the global customer base and usage. Evolution of the fixed segment is comparable to previous quarters, with Q1 increasing by almost 4% year-on-year compared to 5.5% decline in Q1 last year.

In this context, let's us now see how TP revenue has evolved on slide 11. As anticipated the SMS MTR cuts has affected our revenue evolution pushing it down by minus 3.7% year-over-year. This is in line with our expectation, following Q1 results there is no change to our full year outlook. Looking at the trends and drivers Q1 evolution shows slight progress as compared to the 5.1% decline in the whole 2010. On one hand, the evolution is driven down by the continued decline of the fixed segment where substitution of fixed voice to mobile is still an important factor. On the other hand, healthy organic growth of our mobile revenue has offset almost half of the fixed segment impact driven by 4.7% annual growth of our customer base.

Let's now review the revenue evolution by segments starting with mobile on slide 12. Despite the SMS MTR cuts mobile segment revenue maintained a visible growth path with over 2% revenue increase reported for the first quarter. MTR apart, the revenue has grown by 4.4% demonstrating positive dynamics of our mobile business. Our customer base has increased as 88,000 net adds in Q1 brings the total to 650,000 in the last four quarters.

Smartphone penetration is growing and their impact already starts to be visible helping to defend the overall ARPU. Handset tablets and other equipment continue to grow contributing well to the overall growth of our revenue. All of the above has allowed Orange to maintain its leadership position both in terms of value and volume. This is a major success when you think that we are competing on four-player market, with MTR symmetry for the fourth player, and in addition with Plus very aggressively this quarter.

Let's have a glance at mobile KPIs, next slide please. Our mobile base has grown steadily for the last five quarters. The 88,000 net adds in Q1 represent a 44% increase when compared to a year ago. Both postpaid and prepaid have done well, growing year-on-year by almost 4% and over 5% respectively. The 'animal tariffs' have been successful in growing usage which is up by 8% since Q1 of 2010. It has helped to offset price pressure and, as a consequence, limited the decline of ARPU.

Let's now turn to slide 14 for fixed segment revenue analysis. Fixed segment revenue evolution in Q1 was similar to the last few quarters. Fixed voice is the main factor behind the 7.8% year-on–year revenue decrease driven by migration of traffic in lines to the mobile technology. Broadband whilst short-term ARPU trends may seem negative, it is on the visible path to recovery. It posted a second consecutive quarter of net adds and rising share of high speed option. The action plan launched in H1 2010 is bringing the effects and we are now confident that increase in the customer base will be followed by growth of the top line.

Next slide please. Subscriber trends confirm a rebound in broadband base after reaching an inflection part in Q4 it again grew in Q1 with 11,000 net adds achieved in the low activity season. Whilst this is still far from our ambitions, it brings the total net adds to 75,000 within last four quarters confirming a sustainable change in customer dynamics. These trends are supported by the dynamic growth of our TV base. It has continued to grow nearing 580,000 subscribers. The demand for TV and broadband bundle is further supported by the development of our Pay TV client base consisting of premium TV packages which has now reached 153,000 subscribers. Whilst the price adjustments made in 2010 brought us back to price competition, curbing churn outside the big cities, we continue to work on our TV and broadband offering. The fixed line base decline has again been limited to around 180,000 in Q1 keeping below 3% in the quarter. We continue to work towards limiting the decline in the future. It concludes my review of the top line.

Let's now turn to slide 16 for the analysis of our EBITDA. Our EBITDA was stable in Q1, with EBITDA margin above 36%, a level comparable to quarter one of last year. It was helped by the mobile segment where the EBITDA margin was improved by 0.6 percentage point versus a comparable period of 2010. In comparison to last year EBITDA has decreased by PLN75 million due to the following factors. First, the pre-regulatory decline of the revenue by PLN100 million as the growth in mobile has not offset the decline in fixed. Second, interconnect and commercial costs have risen driven by an increase in our base and usage impacting EBITDA by roughly minus PLN35 million. Finally, the cost optimisation programme has once again delivered solid results bringing cost base down by 2.8% and helping the Q1 EBITDA by almost PLN60 million.

Let's go to the next slide to analyse the evolution of our net income. Next slide, please. Our net income for Q1 amounted to PLN189 million. It was affected by accelerated depreciation in relation to asset swap in our network amounting to PLN51 million. Without this one-off net income would have amounted to almost PLN240 million so just PLN45 million below last year, as a result of the following factor.

First is the PLN75 million decline in EBITDA as discussed a minute ago. Second, a rise in financial costs, mostly driven by the volatility of the Polish zloty during Q1, this amounts to minus PLN16 million. The decline is partially offset by PLN30 million decrease in income tax. This concludes my review of the P&L. Let's turn to the next slide for analysis of the cash flow.

Q1 cash generation has been strong and met our expectation. Despite high CapEx payments we generated almost PLN400 million of net free cash flow, driven by the following factors. First, cash flow from operating activities before working capital amounted to about PLN1.2 billion, roughly at the level reported a year ago. Second, the effect of CapEx and CapEx payables amounted to over PLN900 million which is more than PLN300 million above Q1 last year. This related to faster CapEx scheduling in Q1 but also to payment for CapEx booked in Q4 last year. Finally, our working capital requirements increased by PLN160 million, which gives us plus PLN270 million versus Q1 last year offsetting the higher outflows for CapEx.

Thank you, ladies and gentlemen. This concludes my financial review and I hand the floor back to Maciej. Maciej, the floor is yours.

Maciej Witucki

Thank you, Jacques. So few words of the conclusions before we go to the Q&A. Looking back at quarter one, it was marked by a positive developments as we continued our disciplined execution of the medium-term action plan. The financials are in line with our expectations and our commercial activity is progressing positively despite the tough market. We maintained good growth in mobile, we have launched our response to our rival's offers without compromising the price but rather competing with the quality of our offering and by addressing customers' needs with additional features.

The result in broadband has not yet met our ambitions but it confirms that we have achieved sustainable change in the trend dynamics, who will follow through with the new market elements in quarter two, such as speed options exceeding 40 megabytes and new content delivered together with TVN. This should in effect bring us closer to an acceptable growth path.

We have also launched a dedicated plan for fixed voice, it will include new tariff plans and bundling options aimed at reducing the erosion of the fixed line. On top of this we are accelerating the existing and launching new cost saving initiatives with the goal to create more room for our commercial actions and to boost the EBITDA margins.

Finally, the green light from competition office allow us to progress in the networks sharing project with Era. I hope to have this fully agreed and to start projects rollout this year. And all-in-all ladies and gentlemen following Q1 performance we are on track to meet all our objectives in 2011. This concludes our presentation and we are now ready to take your questions. Thank you very much. Jacek?

Jacek Kunicki

Thank you. I suggest we first take the questions from the floor here in Warsaw.

Leszek Iwaszko, Societe Generale

Yes, good morning. Three questions from me. First one on fixed side, on the broadband ARPU there was quite significant erosion quarter-on-quarter despite quite a significant uptake on Pay TV clients. I read it as kind of far away from your earlier comments that you were expecting ARPU on broadband to be relatively stable and that the migration to higher speed would offset the pressure, so can you comment on that and what can we expect going forward?

Ok, so two more questions. The second one is on mobile. When I look at your bridge graph showing the impact on revenues in the quarter of retail price and usage which seems quite a negative development looking at previous quarters. I think it was the most negative from the few last quarters and could you comment on the dynamics of the mobile market in the second quarter? Can we expect improvement or we should be rather assuming similar negative impact of pricing, usage factor going forward in 2011?

And the final, third question. Congratulations on the signing of the Emitel, it was I think a very good price that you achieved. Can you shed any light on the potential use of proceeds? That is all.

Maciej Witucki

I am going to pass the first two questions to Vincent Lobry. I just will remind as a introduction that we said that we have been expecting to see a short-term drop in ARPU mechanically from the 25% drop of the prices in October. But then, there is a speed, there are new offers starting only in quarter two, so the 40 and 80 and there is the television impact. Remember television today is 25% of the base only, so mid-term I still do maintain the fact that it is going to offset if not increase. And then Vincent any comments on the broadband or on the mobile side and, Emitel, may be Jacqes again.

Vincent Lobry

Yes, on the broadband Maciej said almost everything. In fact what we do today and you can see that already the share of bandwidth 6 megs and above is almost 50% and it is still increasing. And as Maciej said we introduced this quarter in Q2 new broadband with speeds of 40 megs and above with much higher ARPU, so it will also help. And also this quarter, by the way, we will have the TVN offers which would give much higher penetration of Pay TV and also higher ARPU in terms of Pay TV. And you can see that Pay TV for example is quite impressive in terms of growth, the problem is that we start with a very low base. But I also confirm that these two effects mainly speed plus Pay TV will offset the effect of the cuts, which were between minus 20 and 25.

On the mobile, there are different impacts. First, the Q1 is generally a less active quarter than the Q4 and also the usage is less than in Q4 in terms of ARPU usage. It is something which is we have seen all of the years, so it is not something new. In terms of dynamics we see that evolution on the smartphone starts to give a really very good impacts on the ARPU of data. You can see that last year for example the data ARPU was presenting something like 7% of the total ARPU. We are now at this quarter at 8.9%, so it is something which is increasing. Of course, it is increasing also with the customer base, it is not because we sell a lot of smartphone in Q1 as we change customer base. It is changing with the past and we can see that in Q1 the medium commitment of people with smartphone was 85 with the other phone it is 50.

We see this push and of course it would depend on the growth of the customer base. I think the dynamics is still OK on the mobile market mainly driven by the fact of data usage. And we already got bad news on the SMS termination rates, we have the impact in Q1 and we do not expect more bad news in the next quarters.

Jacques de Galzain

About the disposal of TP EmiTel, so you know that values are still a big condition to achieve which is the approval from the competition body and so until I have the cash I do not elaborate on the use of this cash.

Paweł Puchalski, BZWBK

What troubles me in broadband is not decline in ARPU, I can't see volumes, where has your volumes gone? You told us that fourth quarter was the difficult one and you delivered 17,000 growth in total volume. Now it should be better, your low prices were available for the full quarter and we fell to 11,000 growth. What has happened there?

Maciej Witucki

As we said, the numbers are somehow following as well the dynamics of the quarter, so the quarter one is not the quarter where you have net adds on the overall market, this is the quite flat period. For us, and as we said from February 2010, the critical checkpoint or milestone is the H2 2011. That's exactly what we announced, we said we are going to change the prices in 2010, we are going to change offer including the higher speed, the television offer in 2010/2011 and those two elements and we must be ready with offer commercial and teams on the field to bring visible increase of the net base of the base of broadband in the period of harvest which is basically quarter three, quarter four of 2011.

We are today on track towards our plans for 2011 and again because by the way we repeated in the presentation several times that it is not yet at the level of our ambitions because we want to have a visible growth when the harvest is coming, so starting from the back to school period of 2011 and that would be the moment. If I am not showing you numbers then eventually I will have difficulties but as of today I am on track and it's a low period, the low season, it is quarter one.

Paweł Puchalski

Another question regards your forecast for full year 2011. You keep saying many times you are on track, but let me remind you, in first quarter you are down 3.7% at revenues, you are at 36.1% at EBITDA margin and we are about to see the full impact of

MTR cut in the second half of the year and we are about to see weak EBITDA margin in the fourth quarter, seasonal effect. Are you thinking of adjusting your full year forecast?

Maciej Witucki

We just repeated, we are keeping all the elements for the outlook for 2011. In the same time first of all the big impact of the SMS MTR its done. The voice MTR are as we said in the process of being fixed, I hope within the next days, in worst case, weeks. The cost cutting project is as you see on track and going to continue and we have been proving for last two years that we are capable to manage our EBITDA through the aggressive cost cutting programme. So, if I would be contemplating this I would have to share it with you, so we keep all the 2011 indicators in line with what we announced in Feb.

Jacques de Galzain

You mentioned Q4 low EBITDA but Q2 and Q3 are always EBITDA are always a bit higher than Q1.

Paweł Puchalski

Thank you. Last question, public service, you are quarrelling with regulator over the past periods. It is up to PLN800 million, someone says it is PLN500 million, I don't want you to comment on that amount, I would like you to give me idea what would be your charge, what would you like to have for public service for years 2009 and 2010?

Jacques de Galzain

You know, this USO [Universal Service Offer] - this is a long debate and we have applied for a lot of money but there was an audit asked by the regulator to check our figures. The figures have been checked they have been slightly reduced. It is still a big amount and we talk about a few hundred million of zloty but then it is only the end of the regulator. As you know there is noting on our balance sheet and we expect only good surprise in that respect.

Maciej Witucki

But the amount 2010 and 2011 is in the range of the additional 20% but again it is not on the balance sheet.

Paweł Puchalski

Thank you very much.

Jacek Kunicki

If we have answered all the questions from the floor I suggest we turn to the telephone audience.

ACT Operator

Thank you, sir. If any audio participant would like to ask a question, please press *1 on your telephone. If you wish to cancel this request, please press *2. We ask that participants wait for their first question to be answered before asking any further questions and please ensure you are clearly audible. Your questions will be polled in the order they are received and there will be a short pause while participants register for a question. The first question comes from Will Kirby from Nevsky. Please go ahead.

Will Kirby – Nevsky

Thanks. Just coming back to broadband, are you saying that the effect of television and of the new 40 megabyte offers is going to offset the underlying deflation, so we should get an ARPU increase for the balance of the year or could you just elaborate the ARPU dynamics a little more, please?

Vincent Lobry

There are two effects. The first one is ARPU coming from TV, so we are now 25% of the broadband customer with TV and it is still increasing so we have this basic one. But on TV you have also the Pay-TV, the premium TV, where today we don't have all the customers with TV offers with premium TV. That's also the second part of the dynamics and it will be boosted by an agreement which would be operational this quarter.

The second effect is the speed and there are two different effects. First, there is a effect on ADSL existing speeds which mean from 1 meg to 20 megs where we have an increase in the new customer but also the retention effect where we have the migration of the old offers to the new offers. And basically the goal is to keep the ARPU with a better offer with higher speed.

The second effect on the speed is new offer which will be launched this quarter on technology called VDSL which will allow us to have 40 megs and above speed rate with higher ARPU and also better TV propositions which combine both bit rate effect and the TV premium effect. That's really the two effects.

Will Kirby – Nevsky

OK. Thank you. Pulling all that together what's the outlook for blended ARPU for broadband subscribers?

Vincent Lobry

The goal in H2 is to keep the ARPU as it is now.

Will Kirby – Nevsky

OK, great. Thank you.

ACT Operator

Thank you. The next question comes from Dalibor Vavruska from ING. Please go ahead.

Dalibor Vavruska – ING

Hello, good morning. Just staying on the broadband issue, I know it was discussed in some of the previous questions. In terms of subscriber numbers, I understand that first quarter is not seasonally the strongest quarter but actually when you look at your DSL subscriber the number actually fell by like 2,000 which is I think slightly disappointing given the expectations that they have built. I am just wondering whether you can make any comment about what do you expect going forward this year?

Also in line the fact that you are actually one of the few telecom operators who is installing new lines based on this regulatory commitment. I know that there has been year-on-year improvement that the number of line losses or broadband subscriber losses were worst a year ago. But at the same time now you are actually spending quite a lot of money in investing new lines and we still see a decline in the subscriber numbers. If you can shed any light in terms of the speed of the turnaround in terms of the broadband subscriber numbers in the second half? Thank you.

Maciej Witucki

Thank you for the questions. May be on the construction of the lines, remember that within the plan for the three years 2010, 2011 and 2012 we have 1.2 million lines of which roughly 200,000 are brand new lines. The rest is an improvement or an update of existing lines who haven't been capable to carry broadband into the lines carrying 36 megabytes of broadband in the ADSL Technology or more in the VDSL. The absolute number of new lines is not as big, just one element.

True, the decline it's like stabilising, I remind you again that we have been aiming in the mid-term plan to reduce the churn or the loss of the fixed lines to the yearly 12% and this is somehow the level at which we have been last year and a level at which we are aiming today. I think its effectively a rather good result compared with what we have been planning to achieve only by 2012.

Then concerning the H2, I've got the same temptation as you have with my team to say, "OK, how far we should go with disclosing our ambitions?" but we decided that this is kind of turnaround year. This is the year where we are going to have full year offer, full year prices comparable to our competitors and the television it is too soon to guide with absolute numbers of net add for H2. What's important for me that H2 must show to you the numbers on which you are not going to have any problem to comment them in your report, a visible growth of subscribers based in the xDSL. This is the comment that I am expecting in the H2 and this is our commitment but not yet guidance on the absolute number of customers, it is rather a guidance on the title of your comments guys in the reports.

Dalibor Vavruska – ING

OK. Thank you.

ACT Operator

Thank you. The next question comes from Zoltan Palfi from Credit Suisse. Please go ahead.

Zoltan Palfi – Credit Suisse

Yes, good morning gentlemen. This is Zoltan Palfi here. I have a question regarding the competitive dynamics in postpaid mobile. We have seen the churn rate picking up quite substantially from Q4 to Q1 in postpaid and we have also seen subscriber acquisition cost going to record high new level. The question is, have you seen any new aggressive offers that you responded to in Q1 and where do you see subscriber acquisition costs going for the rest of year, please?

Vincet Lobry

Yes, we have seen in Q1 the normal activity of our competitors like Play but we have also seen much aggressive offers mainly from Plus, which have been really very aggressive. The competition did not slow down at all and increased in the case of Plus. What we can say on two points – first on the churn, first commercial churn did not increase, we increased a little bit on the vindication churn which in fact is a decision from us in order to be a little bit more strict and efficient on the vindication process. We have a small increase there but on commercial we did not increase.

When you look at the dynamics which is the best way to look is at the number portability, you can see that we are positive even with the new offers of Plus, we are positive with Plus and with Era. And we are negative with Play which continues to get customers but we are less negative than the two other ones. Dynamics are more or less the same as before but even with very aggressive position of Plus we still keep our position vis-a-vis Plus and without decreasing our prices. What we did this quarter was really to give more for the same price but not to enter price war with Plus. And up to now we have been successful to maintain this position.

Maciej Witucki

I will just add on this one that the total amount of the commercial costs have been kept stable from quarter four to quarter one. The cost of handsets increased obviously because of the smartphones but we have been capable to manage the other commercial costs in order to keep the overall amount stable which I believe is again a good sign of cost management. And to give it a comparison because eventually it's not being seen outside of Poland but we have got the quarter one effectively with extremely aggressive offers from Plus which is first time in my life I have seen a telecom operator offering cash not, air time or services.

So you have got retail customers being offered by our competitor cash in the amount from €50 to more than €100 per subscribers. I believe it was a good result to not go into this escalation of offers and to keep the postpaid fuelled with handsets, so smartphones and offers because this is about the future. That on the smartphone side we still do see there is a lot of customers taking the smartphone and using only the phone side of the equipment and this creates a big base for up-sell of the data packages of the real usage of the data, so ARPU is already moving positively but we see a lot of those smartphone users to whom we can now up-sell the usage of the data, so up-sell the increase of ARPU.

Zoltan Palfi – Credit Suisse

Thanks very much. That is extremely useful.

ACT Operator

Thank you, the next question comes from Danielle Chigumira from UBS, please go ahead.

Danielle Chigumira – UBS

Hi, good morning and thanks for the call. I just staying in mobile briefly and noticed that your postpaid had grown a bit less than prepaid and just wanted to get your outlook on this and how you think it might affect mobile ARPU?

Maciej Witucki
I'm not sure if I grabbed your question. Could you please repeat it because the line was quite bad.

Danielle Chigumira – UBS

Hi, sorry about that. It was just on your mobile adds, so it looks like your prepaid adds have grown more than your postpaid adds. And just wanted to get your outlook on this and how you think it might affect mobile ARPU?

Vincent Lobry

As I mentioned before the competition mainly with Plus has been not on the prepaid but on the postpaid. And also the churn I mentioned was on the postpaid, that's why we have less net adds, we had more on the prepaid. But it's not – I think we are in our plans and so we have no issue with that in terms of revenues.

Danielle Chigumira – UBS

OK. Thanks.

ACT Operator

Thank you. The next question comes from Maria Kahn from Bank of America Merrill Lynch. Please go ahead.

Maria Kahn – Bank of America/Merrill Lynch

Hi, more a medium-term question. Could you comment where you think your margins in the mobile could go over the medium-term? I mean it used to be in mid 30s, now it has come down and increasing back up again. I am just wondering with all this competitors pressure and increased acquisition or retention costs. Do you think that margins could continue to improve over the medium-term?

Jacques de Galzain

First, we are today able to grab some new customers with an increase of the margin which is a good signal. It is clear that in the future the market would become more and more retention market than an acquisition one, so we can imagine also to reduce acquisition costs. And we are in the Group cost optimisation programme and if I take one example, the future potential JV with Era in the network will help to increase the margin.

Maciej Witucki

And just one comment from my side as well. Our target is obviously the Group margin, so the target which we are following is really given that the business are getting closer and closer it's really what we are following everyday, it is 36%, 37% range for the Group than the specific margin of the specific legal entity of mobile or fixed. But you have seen a small improve of the mobile EBITDA in quarter one 2011.

Maria Kahn – Bank of America/Merrill Lynch

OK. Thank you.

ACT Operator

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

Jacek Kunicki

Thank you. If you have no other questions then thank you very much for listening to us and see you back by the end of July.

END OF CONFERENCE