Orange Polska (TPSA) Q1 2013 Results Conference Call
23rd April 2013

Jacek Kunicki – Head of Investor Relations

Welcome to our Q1 results presentation conference.

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

Please note that our results have been published on the investor relations website. Also please note that as we have indicated before, the results are in the new format of which the new layout in the presentation was published about a week ago. So they reflect the results of the group rather than showing per segment split.
Right now, without any further delay, I will hand the floor over to Maciej Witucki to begin the presentation.

Maciej Witucki – Chief Executive Officer

Thank you very much. Ladies and gentlemen, welcome to this presentation.

So, good afternoon to everyone. I will start this presentation with a quick review of our actions and achievements in quarter one. Then, as usual, I will leave the floor to Jacques to give you some details about the financial results. Then I will conclude and we will go to the traditional Q&A session.

So let's start with our performance of quarter one.

So in a nutshell, the performance in Q1 was as we expected. In particular, our commercial performance was satisfactory. The market has not become less challenging yet we defended our position in all segments.

We have maintained our value share in mobile since Q4, which is an achievement given the situation of the market. We had a positive result in number portability versus PLUS and T-mobile whilst we still have been losing to the fourth operator. Our convergent offer was welcomed by customers. This is demonstrated by the success of Orange Open – I remind you the product we launched in quarter 4 of last year and which was bought by almost 72,000 customers. Our unlimited fixed voice plans have been proved as the efficient anti-churn tool. Simultaneously, the positive impact of 3P bundles is more visible, as they help contain fixed line churn and to foster, to increase, the ARPU – which is at its highest point since Q1 in 2009.

Q1 of financial results has brought no surprise. Excluding regulatory impact, the revenue trend has improved slightly since Q4. The organic cash flow is at 210 million zloty, is safely in line with the full year expectations. Finally, we have been disciplined in our bids for the 1800 MHz spectrum and avoided to overpay. In turn, we have maintained a sound balance sheet, preserving cash for an important spectrum auction of 800 MHz.

We have also used Q1 to launch several vital projects of our new actin plan – let's now have a look at those on the next slide of my presentation.

First of all, we have responded to the new reality in mobile. We are launching a new mobile brand, called ‘nju.mobile’, which I will describe in a bit more details – ‘a bit more details’ because the commercial launch will come within a few hours, days. It is targeted to benefit from the demand for the low-cost mobile-only customers. In effect, it will allow us to address all price-points of the mobile market, including the customers which are not attracted by the benefits of convergence. So at the mainstream, we keep the Orange Open, the convergence strategy, but the ‘nju’ is really targeting the poaching of the market on the low cost, mobile only, customers.

We have used Q1 again to accelerate cost optimisation, as challenging times provide the unique opportunity to implement the change.

Headcount reductions is progressing as planned, with over 80% of the voluntary leaves for 2013 already applied for by the employees of the Group.

We will benefit from the funding opportunity provided by the reference shareholder, and this will reduce financial cost.

We have further strengthened our growing ICT activity, through an acquisition of a small ICT company called *DataCom* – with, again, the idea of building the ICT capability, of the ICT knowledge, within the company to benefit from the growth in this part of the market.

We won the contract to build the regional network in Warminsko-Mazurskie, funded by the EU. This is the third regional network that we will build and their effects on the revenues will be visible in 2014. Because clearly we will be the major contractor, the major construction company of those investments.

We will have initiated co-operation with the largest Polish home appliance chains – *Media Markt* and *Saturn* – whose prime location shops enlarge our sales opportunity. And again, it is a very important element of our strategy of being present on the street while controlling the costs of the distribution. We initiated, as well – and hopefully Mariusz is delivering on time, and I’m sure of it – we will see the first results on our commercial side and the first results definitely this year. And we did with *PGE*, the largest energy firm, we will resell electricity starting by the B2B customers, potentially as part of the Orange Open offer.

Let’s now review the progress of the Orange Open on the next slide.

The first results of our convergent offer – Orange Open – are encouraging. Following one and a half quarters, because basically that’s the history of this product, of the true promotion of this solution, it was adopted as I said, by almost 72,000 customers.

Orange Open sales are helped by a transparent and clear communication, dedicated to this product, which is easily understood by our customers.

On one hand, having one operator for all services makes your life easier. On the other hand, the cost benefits from Orange Open are easily explained by showing the progressive discount on the standalone prices of various products – a concept used in our campaign, the end of year campaign, called ‘100 ways to save money with Orange’.

However, the prices of the package are beneficial to the customer, Orange Open has a very positive effect on our total revenues. At the same time, it increases customers, on top of it, it increases customer loyalty, by providing multi-services vital to his communication and entertainment.

This is why we will strive to sell Orange Open – and this is an element of our engagement, strategical engagement for the three years – to as much as 50% of our post-paid clients.

That is the highest demand for convergence should be found amongst customers of our 3P bundle. Let's have a look at this offer.

Ever since the launch, our 3P offer – called the FunPack – was warmly welcomed by the customers. It comprises fixed broadband, television and voice over the IP.

By the end of quarter 1, we have sold over 286,000 of these bundles, implying a 155% increase over the last 12 months. In turn, this is having a growing positive impact on our fixed service KPIs:

- We have been able to grown the ARPU by over 9% year-over-year.
- As a result of the ARPU development of the revenues from broadband, TV and VoIP have been placed on a solid growth trajectory. In quarter 1, they have grown year-on-year by 36 million zloty or 9.4%.
- Finally, 3P bundles are continuously helping the fixed voice trends. The decline of the fixed voice is more than visible when its customers were limited to 109,000 customers, vis-à-vis 209,000 a year ago.

Let's now have a look at our new mobile brand. And again, I will give you some elements of the offers, while the rest will come on the market very soon.

So yesterday, we started to, I will say 'tease' about the new mobile as this product is being addressed to the youth, as the product is being addressed to the internet distribution. I'm sorry I'm not delivering the news all in the same time, they will come as the market will warm on this offer.

It is called 'nju' mobile, and on the slide, you see a sample of its brand, naming and visual identification. Its TV campaign will start tomorrow – so I invite all of you to our TV stations – as the commercial launch is preceded by a teaser campaign on the TV, to attract even more customers than our small meetings and press briefs.

The new brand is a way for us to address all price points of the market, as well as to take advantage of the growing demand for low cost solutions.

So it will also be an important tool for us to fight on the mobile war, as having differently positioned brands gives more flexibility to our marketing. It will be sim only, it will be web only, it will be pre-paid and post-paid. This is all I can give to you today and I invite you to the first teasers on the TV starting tomorrow.

Let's now review some characteristics of the product.

So there are three blocks of the product.

One – low price. Clearly, it will be lower than standalone products than the classic prices for the customers, which is something that many Polish customers – many customers, simply – consider to be a primary reason to choose an operator.

Second, there will be no commitment. As the customer does not have to declare a minimum monthly fee nor a defined contract duration – a concept that will differentiate nju.mobile from other cost products on the market.

Low cost. For us, Orange Polska, as customer management will be done through the internet, and marketing expenses will be minimised.

Such positioning of nju, allows us to cover the whole spectrum of the Polish market, Orange having the best offer for customers who are looking for quality, friendly service and easiness of convergence. So Orange remains the flagship for a big majority of the customers, and we will address nju to the very price sensitive customers. It will also make it more difficult for some of our rivals, to compete only with the price.

Throughout Q1, while we were focusing on the market battle, we did not forget our commitments to increase our efficiency – so let's have a look on headcount optimisation.

As mentioned at the beginning, challenging times are a perfect opportunity to implement the change in our organisation.

This is reflected by the headcount reduction program. So we have reduced Group employment by 1,600 full-time equivalents or 6.8% year-on-year. This includes almost 300 FTEs reduced in Q1 of this year.

Throughout 2013, up to 1,700 employees may benefit from the voluntary leave program. We have already received over 1,300 applications, so the program is progressing very fast and we are confident to reach all the objectives in 2013.

Increasing efficiency is one of our key optimisation initiatives. We will progressively show you and analyse different initiatives. We are accelerating the cost optimisation program and we are confident that it is going to help our financials.

Right now I will hand the floor to Jacques, for the financial review. Jacques, the floor, the camera, are yours.

Jacques de Galzain – Chief Financial Officer

Thank you, Maciej. Good Afternoon, everyone.

Let's begin the financial review with revenues analysis.

As anticipated, we are facing a steep decline of the top-line, as it is driven down by a decrease in the MTR. Regulatory impact amounted to -145million zloty in Q1, and it brought Group's revenue evolution to -7.2% year-on-year.

Excluding regulatory impact, our revenues have contracted by 3.1% year-on-year, as compared to a 4.2% decrease in Q4 of 2012.

Turnover was driven down mainly by a 107 million zloty decrease in fixed services, all-be-it this was limited versus the trend from previous quarters.

Revenue from mobile services and equipment was 36million zloty down since last year, as growth of our customer base was offset by a decreasing ARPU.

Finally, other revenues grew by 35million zloty year-on-year, as we continue to develop our ICT activity – including equipment sales.

Let’s now analyse evolution of revenue from mobile services.

Revenue from mobile services and equipment fell by 9.6% or 166 million zloty since Q1 of last year.

It was predominantly driven down by -130 million zloty of regulatory impact, as the MTR was cut to 8.3 grosz on January 1st.

MTR apart, the revenue fell by 36 million zloty, as:

- Growth of our customer base drove revenue up by 27 million zloty
- But a steep decline of the ARPU drove it down by 59 million zloty. The price war in post-paid continues to affect our performance.

Nevertheless, we have been able to maintain our value market share, and market leadership in mobile.

Let’s now review mobile KPIs.

The analysis of mobile KPIs clearly shows the impact of 2 forces.

First, the growth in volume and demand. It is visible in the 274,000 year-on-year increase in our customer base.

Simultaneously to growing number of sim cards, we have increased the number of clients with smartphones. Their number has grown by 50% year-on-year and is close to 3.4 million. In turn, this contributes to growth of data.

However, volume growth is offset by the decline in the ARPU. It is heavily affected by the price war that is being wages in post-paid, and has declined by roughly 6% over the last 12 months. Its effects will continue to be visible on the ARPU in future, all-be-it we have now secured the vast majority of our base, over 80%, against migration to the unlimited plans.

Let’s now review fixed services revenues.

Revenue from fixed services has decreased by 7.3% year-on-year in Q1, following a 7.5% decline in Q4 and 7.9% decline in Q3 last year.

The slight improvement stems from 2 factors:

- Narrowband revenues are decreasing slightly slower than in the past, due to successful anti-churn actions. In Q1, they declined by 121 million year-on-year, as compared to an average decline of 144 million in the previous quarters.
- Simultaneously, the top line from broadband, TV and Voice over IP is growing by 36 million zloty year-on-year, partly offsetting the decline in fixed voice.

Let’s now look at the KPIs driving these revenue streams.

Looking at fixed KPIs, it is clearly visible that our bundling strategy is bearing fruit.

At the end of Q1, we have sold over 286,000 of the 3P bundles, and we continue to observe further demand.

In turn, they have helped to foster the ARPU. It is up by 9.5% year-on-year, and has reached its highest point since Q1 2009.

Simultaneously, the 3P packages are helping to retain fixed voice customers, as voice over IP is a component of the package. As a consequence, the decline of fixed voice customers has been significantly limited, and amounted to 109,000 versus the 209,000 reported a year ago.

This concludes the review of the top-line. Let's now analyse the EBITDA.

Our EBITDA amounted to 1 billion and 33 million zloty in Q1, and was 194 million lower than in Q1 of last year.

It was driven down predominantly by revenue decline, excluding regulation. This amounted to roughly -108 million zloty year-on-year, while regulatory impact on EBITDA as neutral.

EBITDA was further affected by impact of offers with unlimited voice:

- On one hand, they inflated interconnect costs by 11 million zloty year-on-year, due to more minutes to other networks.
- On the other hand, our efforts to contain further customer migration to unlimited raised commercial costs by 32 million zloty since last year, as we increased handset subsidies.

The cost base was increased by 29 million zloty due to ICT equipment purchase in line with the revenue increase.

Reimbursement of rebranding costs in 2012, and an additional provision for restructuring in 2013, affected the comparison by a total of -47 million zloty.

Finally, the on-going cost optimisation program delivered roughly 43 million zloty savings. We are again accelerating this program this year.

Let's now look at how EBITDA evolution translated in to net income.

Net income for Q1 amounted to 81 million zloty, versus 242 million reported in Q1 2012.

The 161 million difference stems mostly from lower EBITDA, which was coupled with a 26 million zloty rise of financial costs, due to higher net debt.

This was partly offset by 28 million zloty decrease of depreciation, as well as by a 28 million zloty drop of income tax.

This concludes the review of the P&L. Let's now switch to capex.

Q1 capex amounted to 400 million zloty, which is in line with our full year guidance of less than 2 billion.

Close to 58% of total capex spent was allocated to various network investments, including the network sharing project with T-mobile. We now have over 3,100 sites of the co-used network and the project is progressing as planned. We are confident to have the LTE ready network, consisting of 10,000 co-used sites in operation in 2014.

We have delivered the 1.2 million lines, as agreed with the Regulator in 2009, for a cost of roughly 2.2 billion zloty, so less than originally anticipated.

Let's now analyse our cash generation.

Organic cash flow in Q1 of 2013 amounted to 210 million zloty, versus 253 million zloty a year ago. This is in line with our full year guidance of more than 800 million zloty.

The 43 million zloty variance year-on-year was a result of 4 factors:

- Cash from operating activities was down by 343 million – a combination of lower EBITDA and 151 million gain on derivatives in 2012, which was not repeated this year.
- Change in working capital requirement, as it decreased by 88 million zloty this year, versus a 70 million zloty increase in 2012.
- Cash outflows relating to capital expenditures were 221 million below last year, as we bring capex down.
- And finally, income tax paid was up by 85 million since Q1 of last year.

Let's now review our net debt.

Our net debt was reduced by 254 million zloty since the end of 2012, mostly due to cash generation.

We have maintained the net debt to EBITDA ratio at 1 and reduced the net gearing to 27%.

This was possible, as we stayed disciplined in bidding for the 1800 MHz spectrum and preserved cash for the 800 MHz auction.

As already mentioned, we decided to take advantage of the funding by France Telecom. This is provided under market conditions and is beneficial from the cost perspective. It will most likely be a main source of funding going forward.

We remain deeply committed to maintain our solid credit ratings. Our maximum debt metrics remain unchanged, as discussed in February.

Ladies and gentlemen, thank you very much for your attention. This concludes the financial review and I hand the floor back to Maciej for the conclusions.

Maciej Witucki

Thank you, my Jacques. So before we to the Q & As, ladies and gentlemen, to summarise. The quarter 1 was difficult but positive to us and we stay confident about our capacity to execute in this difficult times.

So our market environment is still challenging, but we have adapted and fought well, as is demonstrated by our commercial achievements in quarter 1.

Furthermore, we are actively approaching the market, striving to grow our share – and the launch of the new brand will change the shape of the mobile market in our favour.

Finally, while fighting for the marketing battles, the market battles, we have not been passive on the front of the cost adjustment – launching new initiatives to reduce the cost.

I believe that this was a successful start of the year and a positive launch of our new action plan. Following quarter 1, we are on track to execute our medium term plan.

Thank you very much. Thank you for your attention and we are ready to take your questions, which as usual, historically, will be managed by Jacek. Jacek – you manage.

Jacek Kunicki

Yes, I suggest we first with the questions from the floor following which we will switch to the telephone audience.

Pawel Puchalski - BZWBK

Pawel Puchalski – BZWBK.

Two, simple, questions.

Orange Open – can you disclose which option is chosen most because recently, are clients buying in two products, three products, or five products?

And the other question would be on working capital. We are one month in quarter 2, can you confirm positive trends in working capital because saw those positive change in quarter 1? Well, please comment on working capital.

Vincent Lobry - Chief Marketing Officer

So the product which is sold the most often is 2 products, which means one six product which can be also a bundle – so it can be either Neostrada our FunPack plus our other products.

So altogether if you take FunPack plus mobile, you have in fact 4 products.

Jacques de Galzain

On the working capital the improvement in Q1 is sustainable. So I think that we will keep this level of improvement for the whole year. But then, in terms of capex payable, there will be some changes because the smooth thing of capex along the year will be even – more even than it was – and so there is less peak in Q4 we will have less favourable trend on capex payable.

Leszek Iwaszko – Societe Generale

Leszek Iwaszko – Societe Generale. Also two questions from me.

First one – if you can comment on the competitive environment, in the Polish mobile market, now versus which you comment two months ago, how it stands at this moment? How do you see that?

And the second question, on slide 15 – there is this statement which says that, which explains the decline in retail ARPU, but explains the migration of clients to unlimited offers. [Quotes] ‘Further uptake has been strongly limited’. So this has been very interesting to me. If you can comment, why is that? Something more about that.

Vincent Lobry

So on the market – in fact, the market is still as competitive as before. There was some...

Leszek Iwaszko

Not more, not less. So you could say level of competitiveness is stabilising or something like that?

Vincent Lobry

Yes, stabilising. There was a little bit of new price wars beginning of Q1, but it was not as level as it was before. So it was stabilising but you never know what will happen tomorrow.

Slide… on the retail ARPU on the mobile. In fact the main decrease of ARPU was mainly on the segment of what you call [inaudible] – small enterprise. The unlimited offers which were clearly very cheap compared to the previous bill of the customers. So there we had at the beginning clearly a big migration of customer going to this type of offer. Now the migration is much less and we are also pushing this customer to migrate to unlimited but with other features which have a bigger ARPU, not just the basic unlimited 65 but higher ARPU on the B2B market.

Leszek Iwaszko

So does it mean that less say, if we go further in to the year that the decline of the retail ARPU will cost by this element can be like contained, we will see likely lower impact of that in Q1?

Vincent Lobry

You know it's always difficult to predict. We have now, you know we have two years, normally, contract, so we have migrated the most. So we should have, let's say, the same trend in the ARPU.

Leszek Iwaszko

OK.

Vincent Lobry

If there is no new price wars, of course

Jacek Kunicki

Do we have any other questions from the floor?

If not, then we switch to the telephone conference.

Operator

Thank you.

The first question comes from San Dhillon from Barclays. Please go ahead.

San Dhillon – Barclays

Hi guys, just a couple of questions.

On ‘nju.mobile’, your parent company equivalent brand *Shosh* in France, that’s caused France Telecom to suffer a fairly significant back book and it’s caused significant repricing of its subscriber base. How will you manage that risk? And how large do you think the sim only, web only market is in Poland?

And sticking with mobile, what percentage of your mobile gross adds are M2M sims?

Thank you.

Vincent Lobry

So, on ‘nju’. So first, I cannot give you the details of the offer today. It’s not such, let’s say, copy and paste offer, it has different characteristics. I cannot give precisely today. So, of course, there will be some people going from offers of Orange to nju but we expect to minimise this migration due to the offer we have today. And we are not targeting the same segments. Nju is really targeting the segments which is around 15, 20% of the people who are really looking for low price offers. And Orange, as mentioned by Maciej will be more on the quality, more service and also convergent type of offer.

On the offer, what we say that it’s not only a low price but it’s also a low cost offer. It means that it’s sim only, so none of these equipment. Its web only offer – both for sales and for customer care – so it’s a real low cost offer. So in our business plan, we of course took in to account some part of cannibalisation – I cannot tell you the amount – but we of course have got all the experience from *Shosh* in France and through the offer we try to minimise this type of cannibalisation with the major goal of ‘nju’ is to come back on the market of the low price and the low cost, and to be able to win efficiently, especially against before.

(Machine to machine – you have the numbers).

Mariusz Gaca - Chief Commercial Officer

So Machine to Machine, if we take a look at number of gross adds, I would say both markets – B2C and B2B – it would be around 10% of the current sales.

[Inaudible]

More B2b.

San Dhillon

OK, fantastic. Thank you, guys.

Operator

Thank you.

The next question comes from Tibor Bokor from Wood and Company. Please go ahead.

Tibor Bokor – Wood and Company

Hi. Thank you. Two questions on capex.

First, the memorandum of understanding capex finished in first quarter. Should we expect that the capex will decline starting second quarter by this amount?

And second, if you can update us on the network sharing with T-mobile. They were getting some significant capex and opex savings expected already in 2013, 14 and 15. You mentioned that there's acceleration of this network sharing. Can you just refresh this capex and opex savings, thank you.

Maciej Witucki

Ok, so I will take the first question. So no, there will be no specific decline. Just remember that what we do in quarter 1 this year is just a slight increment of the memorandum which normally finished by the end of last year. But we decide to reallocate part of the investment to fibre to the home so we have a kind of pilot deployment, commercial pilot deployment, of cities for several thousand of customers in Warsaw now and hopefully in some more cities. So no, we shouldn't expect that quarter 2 and farther is capex going to go down. Remember that we are already at the reasonably low level of the capex extra revenues in the year when the revenues are dropping very sharply. We really should maintain the investment capability of this organisation to maintain the revenues of the future days.

So this is on the question number one. The question number two, I pass to Mariusz, sorry, to Piotr Muszyñski, who is the father founder, co-founder of the network…

Piotr Muszyñski - Chief Operational Officer

Thank you Mr President. We are absolutely in line with this network sharing project both in number of sites to be consolidated as well as in the budget. So all the guidelines we were given towards the capex savings are met. I might say that we have, that we are even slightly better than expected savings.

Regarding opex savings, as we also declared, there will be more visible when we will finish the consolidation so from 2014 up because then we will see all the benefits expected by sharing the maintenance costs together with T-mobile.

Today, still we are keeping the two bit different models of maintaining the network. We will be joining the forces when we will finish the consolidation what is a very pragmatic approach and quite clear to understand. But all the guidelines are met.

Tibor Bokor

Also, in line with the guidance for this year for capex less than 2 billion, should we still expect the 200 million capex savings from the network sharing kicking in 2014? Is that still, sort of, relevant number compared to the guidance of 2013?

Piotr Muszyñski

…Jacques, I think we can confirm, yes? Absolutely.

Maciej Witucki

Nothing changed in the business case.

Piotr Muszyñski

Nothing changed in the business case.

Tibor Bokor

OK, thank you very much. Very helpful, thank you.

Operator

Thank you.

The next question comes from Dalibor Vavruska from Citi. Please go ahead.

Dalibor Vavruska – Citi

Oh, hello. Just some questions on, and sorry if I repeat something which was asked already on mobile. You seem to have stabilised the market share in Q1 compared to losses in the value market share in the previous quarter. I'm just wondering what do you think was the main tool that you used to stabilise the market share? And if you, we can discuss the outlook in terms of your revenue market share as well?

And on that subject, I'm just wondering if you can say, if you can comment a little bit on the pricing differential, let's say between you and the cheapest operator which is most likely *Play* in terms of permanent pricing. And what do you think is going to happen – I mean what do you think is the difference which is in there right now which is sustainable or whether you think that Play's prices will go eventually up or your prices will eventually go down? How do you see the market share stabilising in mobile? Thank you.

Maciej Witucki

Yes, so maybe I will just give the beginning of the answer then let Vincent to comment.

So, what is the major reason? The major reason is the proper management of the customer life cycle value, the proper management of the offers. I think not running for pure volumes but really managing between the value of the customers we acquire and the cost of the acquisition. And we are still quite high on the [inaudible] expenses, on the commercial costs, it's voluntary because we do belief this for the main stream on the Orange part, it's of value to maintain the policy of attracting good value customers to Orange.

Now the second part of the policy obviously is to have nju, which is another positioning and this is another positioning. The second positioning should allow us, and hopefully as well the competitors not to work on the full repricing or the full 'flagship' offers but eventually to have the sub offers for the and not deploying the somehow the traditional Polish theory or methodology of 'who is having the lowest price, I just copy it on all my offers and all my customers' which makes no sense from the customer expectations even, perspectives. Some customers are ready for better quality and better service.

On the other point, on the current differentiation of the prices…

Vincent Loby

So I don't want to elaborate too much on the price because I'm sure that our competitors are also listening. What I can say that it's price one thing, it's also the commitment you have. So, which is important as mentioned by Maciej, it's not an offer with long term contract and so on. So the structure of the offer is very different and we think is very beneficial for all the customers looking for really, for paying for what they need at the good price, at the low cost and corresponding to the real needs. We will be really competitive versus closest, let's call him P4, on this segment of low price.

But I will not give you the price today.

Dalibor Vavruska

Ok, but overall, I think, you know, if you look at the difference between, if you calculating the average price per minute for your business and let's say *Play* – I mean do you think that one is sustainable or there will be some kind of convergence?

Vincent Lobry

It will not be a difference between the real price that people would pay to P4 and to us.

Dalibor Vavruska

[Sound of agreement]…Thank you.

Vincent Lobry

But it will not work only the segment of the sim only and web only customers…

Maciej Witucki

The question was about the *current* offers, but I want to say that the offers when you look at the effective prices are not this much different. [Line distortion] Orange to Orange, the Orange to Play, the Orange to T-mobile or Polkomtel – you have some differentiations in that, some specific segments, but the permanent [inaudible] as well as I see them today, in average we're not that much different, just a bit advantage. But I wouldn't say that necessarily for one player permanently, it really depends on the, the segment of the offer and really depends on the market which is there. So we don't still don't having like a big gap on the price side, and the idea of nju, again, it's to get out of this movement of adapting the whole offer to the niche, to the very specific niche of customers.

Dalibor Vavruska

Ok, thank you.

Operator

Thank you.

The next question comes from Vera Sutedja from Erste Bank. Please go ahead.

Vera Sutedja – Erste Bank

Yes, good afternoon.

I have some questions regarding today's news of on cut employment to 15 and 16,000 by 2016. Is this already agreed? When should we expect the restructuring provision for it, and maybe you can give a more elaborate details on this?

The second topic will be, maybe you can update us regarding the sale of Wirtualana Polska, how it is proceeding? Whether there has been enough interest and when do you expect this sale to be completed?

Then the last question, just following up the last conference call form a few months back regarding the option to outsource your fixed line network. What's the update of this study?

Thank you.

Maciej Witucki

OK, so despite the presence of my valuable HR manager, I will take this question because for me it's less of the HR, more of the IR if you allow me. So, I do repeat that this information about the targeted reductions in the range of up to 5,000 people for the next three years i.e. 2014, 15, 16, is something which went out to the media after the meeting I've got with the representatives of the social organisations of my company. Effectively this is something I discuss with them, it wasn't an official communication definitely of the management to the market. This is the range, I believe it's necessary of the organisation to adapt to the conditions of the very tough Polish market but this is nothing today which is under a kind of signed document, it's nothing which is by the way in a kind of full proof of negotiations. The negotiations when you see the history of our company is rather something which happens between the quarter 2, quarter 3 and the end of the year. So today it's simply a result of the information which went out after the meeting I've got with the social partners. And just to be precise, it was about 5,000 people leaving and not 15,000 leaving. So let's be clear this is a targeted level – I believe we with the number of customers, with the efficiencies we have on the processes, by the end of 2016, you will see we should be capable to manage the number of customers with the range of 15 to 16,000 employees. Very formal on this one.

Now second element of the Wirtualana Polska, this is a process which is on-going. So we don't communicate, sorry for that.

Third question, outsource of the fixed line. Again, we do some studies, not necessarily about the outsource fixed line, it's about sharing the resources with the other players, sharing the resources on the maintenance, on the management of the network – a bit as what we, like what we do on the mobile network, very successfully with T-mobile. So when we have been looking for different initiatives of the cost optimisation, we said, we have to study internally for the company the different scenarios how much we could gain efficiency on the management of the fixed network. And when you speak about the cost of the fixed network today, to maintain it, without going in to too many details, the total invoice per year is in thousands of millions of euros – the total cost of maintenance of this network. So this is something whereby for instance putting together with other players, with the regional networks which are in construction today in Poland, we could gain efficiencies, and big efficiencies if we put it somehow together. There is nothing of precise, internal studies of the management. If we have any options which we push forward, obviously we will communication them to the external world.

Vera Sutedja

Thank you. If I may ask one more question regarding the EU fine – is there any update on that?

Maciej Witucki

No, nothing new. As we said, there will be potentially some next moves and look at H2 of this year and the beginning of next year. Nothing substantial as of today.

Vera Sutedja

OK, thank you.

Operator

Thank you.

The next question comes from Tanya Kormiltseva from Renaissance Capital. Please go ahead.

Tanya Kormiltseva – Renaissance Capital

Yes, hello, thank you for your presentation. I have two questions.

My first question will be regarding the shareholder remuneration. At the last conference call, after full year 12 results, you mentioned that upon your cash generation you will decide whether you will be able to pay interim dividends. So my question is if there are still any discussions or decisions on this will be taken later? And if later, when will it be announced to the street?

And my second question – you mentioned about energy sales or reselling. Could you please elaborate on this business – what is the revenue target you expect, whether this business generates very low margin or not?

Maciej Witucki

Could you repeat the second question, please?

Tanya Kormiltseva

[Line distortion] My second question, do you hear me?

Maciej Witucki

Yes

Tanya Kormiltseva

You mentioned about electricity reselling?

Maciej Witucki

OK

Tanya Kormiltseva

Yes, and just about this business. Could you give us any targets on the amount of revenue, how fast it's going to grow, and on profitability of this business. Is it very very marginal, or are you going to be just a whole sale or are you going to have response of sales or is it just billing? What is it about?

Maciej Witucki

Yes, so the question 2, simply – today, contracts, we have the largest Polish energy distributor about the cross selling. So we don't go today's contract is not about wholesale at all. It is purely a kind of cross sell and usage special offers of our, to our B2B, by the way, customers by the Polish energy group, *PGE*, and potentially special offers by us to the customers of PGE. So this is a kind of agent, cross selling agent, and cross databases utilisation, a contract that is based on the provisioning system. So I will not speak any farther normally – kind of interesting on the margin perspective.

The first question is shareholder remuneration, so I will be very pretentious to review my visions basically two months after the last conference. So we said that we will review our remuneration regularly but two months is too short. So effectively, if any examinations of our positions is, I would expect rather with the H1 results best, not today – too early – we just started the year.

Tanya Kormiltseva

[Sound of agreement] OK, thank you very much.

Operator

Thank you.

There appear to be no further questions, please continue.

Jacek Kunicki

OK, so do we have any further questions from the floor? Yes.

Pawel Puchalski - BZWBK

Pawel Puchalski, again.

I'm comparing your full year 2012 presentation and today's presentation and I see one thing missing. Well, a quarter ago you were presenting TV customer base evolution. Now it disappeared. I'm not surprised because your TV client base fell in first quarter 2013.

Well the question: what is the trend? Is it a one off or replaced by Orange Open? Please give me your views on this segment.

Maciej Witucki

Well, I… good question. And I am surprised by the fact that I'm not extremely unhappy about the drop of my TV base, and I will give you the 'why'.

The drop of the TV base today is basically the end of the promotional contracts with TV, they have income being paid on TV for 1, symbolic, zlotys. And those customers basically took the 3P bundle with this free TV just because it was offered to them. Now, the end of the first contract, they should pay for the television which was basically taken by them as a second screen, second television – I don't know, country house – solution. They are giving back the TV equipment. But for the very very very large majority, they do stay with the broadband and the fixed line if they have to have these elements. So you have a kind of paradox where we have less customers but better results because we are somehow this distillation of the customers of the very, well basically no revenues and the cost associated behind. So this is the major element of this drop, the disconnection of the promotional packages from two years ago.

The second element as well is the fact that we didn't get any specific promotions for the quarter 1 given that our partners from *NC*+ had been preparing this merger. And today, we just relaunched this offer. We have a very good offer from NC+. Hopefully we will enrich it in the coming weeks so I am absolutely confident of the capacity to upsell customers to the TV.

Today's point about the drop off of the TV customers, again is a paradox. I have less customers, I have better margin because I don't have costs of the kind of virtually inactive customers with equipment at home.

Jacek Kunicki

If we have no further questions, thank you very much for your attention and we will be reporting quarter 2 results by the end of July.

Thank you.

Operator

This concludes the Orange Polska Q1 2013 Results Conference Call. Thank you for participating. You may now disconnect.