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Orange Polska (TPSA) Q2 2013 Results Conference Call
24th July 2013

Jacek Kunicki – Head of Investor Relations

Good Afternoon, everyone. Welcome to our conference for the results of the second quarter 2013.

My name is Jacek Kunicki, I am Head of Investor Relations.
Today we are joined by Maciej Witucki, Chief Executive Officer; Jacques de Galzain, the CFO; Vincent Lobry, Chief Marketing Officer; Piotr Muszyñski, Chief Operational Officer; and Mariusz Gaca who is responsible for sales and customer care.

Before we begin, please note that all the results have been published this morning and they are available on our website www.orange.pl/ir .

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. Good afternoon, everyone, ladies and gentlemen.

So the agenda of this presentation will be as usual:
- So I will start with the highlights of the results of the key actions of the quarter 2 and H1 in general for 2013
- Then Jacques will then driver you through some financial details and operational details of the performance
- And I will finish with the conclusion by the end of the presentation.

So let's start with overall performance of Orange Polska in quarter 2.

Following quarter 2, it is evident that our strategy is beginning to bring the first results. It is providing us with the new tools which are already operational, to fight in challenging Polish telecommunication market.

This is especially visible in the commercial performance of the Group.

Orange Open, which is our core convergent product is flourishing. So we have acquired already more than 125,000 customers of Orange Open within two and a half quarters of its activity on the market. The popularity of this convergence has been helping us to reduce churn in fixed, as the clients become more loyal. But broadband, on the stand alone level, it still remains the element of concern, but while we are taking actions to address it, different actions, including as well the trials of the FTTH technology – and I will speak about it.

Nju mobile, our new brand, b-brand, which is dedicated to the price sensitive customers is also performing very well. We gained more than 80,000 customers of nju since April 26 this year. This helped us to grow the overall base in the mobile customer base by 190,000 year-on-year.

Finally, and is the very important element, we see the signs of improvement on the data monetisation, as data ARPU is growing both in fixed and mobile business.

Our financial results brought no surprises in quarter 2. Excluding regulatory impact, the top-line contracted by 5.5%. This is faster than in quarter 1, due to the higher comparable base – as quarter 2 last year was fuelled by ICT sales mainly coming from the UEFA 2012 event.

The cost savings programme helped us to keep the EBITDA margin above 30%, all be it we are not happy with this result because obviously we have been speaking about the cost cutting, we have been compensating part of the losses on the top line but obviously the EBITDA only about the 30% level is not the reason for the full satisfaction. Finally, organic cash flow – which is the yardstick of our performance – is at the level of 400 million zloty after Q2, in line with our full year guidance which I remind you is at a level of 800 million zloty.

Let's not have a look on the Orange Open in some details.

So the dynamic rise in the number of customer Orange Open it is confirming the demand for the convergence. The demand which we have been predicting in our strategy, 3 years plan, is appearing.

Furthermore, the pace of the growth is accelerating from quarter to quarter, as we acquired over 50,000 customers of Orange Open in quarter 2.

They constitute today roughly 1.8% of the total post-paid subscribers' base which is still far below our long term – which I remind you that in the strategy we want to achieve a target of 50% of this post-paid base. But we are absolutely satisfied that we are absolutely in line with our strategy plan so we are absolutely confident about our ability to achieve this plan.

Furthermore, the customer mix of the Orange Open is encouraging as over 85% of the base of Orange Open is subscribing to the triple-play offer or higher. This implies that a majority of sales included an upsell of our products of the Orange Group.

Not only does a high number of services purchased by customers increase loyalty, but it also fosters the growth of the ARPU. This is proved by the initial estimate of Orange Open ARPU, at over 150 zloty per month.

Orange Open is clearly the centrepiece of our commercial strategy, but we are also fighting on the other areas. One of these areas is the price sensitive clients. That why now I want to give you some details about our nju mobile offer.

So this is only 2 months since we launched nju mobile – I remind you, the SIM-only mobile for the price sensitive segment of clients. Its initial results of the nju mobile are very promising.

Within this short spell, we have acquired 80,000 customers, including 24,000 in the post-paid area.

Almost 70% of the new customer of post-paid are new to Orange, so they acquired either from the competition either from the new transition from the pre-paid to post-paid world. This proportion is even higher in pre-paid, but the comparison is more difficult as the validity of the SIMs is playing the role so the measurement is less reliable. But what is really important is 80,000, 24,000 post-paid, 70% of the post-paid being new to Orange.

Since the offer was launched only 2 months ago, we decided not disclose the APRU of the nju mobile. The only estimates I can give to you that we are confident that they show that customer value is protected within this. After, obviously with growing numbers, we are going to come back to you with more details.

Let us also remember that nju mobile is generating much lower cost to the company as this is Sim-only offer as well as bought and served through the internet, online channels.

So far, the offer has not been fully matched by the competitors, which limited itself to lower prices of unlimited, or which have been reacting via b-brands but never with exact copy of this product. This does not mean that the competition is easing, but we do not currently observe symptoms of the on-going price war in the price market.

Now let's go to the progress of the mobile network sharing programme.

So the co-operation with T-Mobile on the mobile network sharing is exemplary. The network sharing project is progressing absolutely as planned. We do not even exclude the possibility to extend it, to include the common use of spectrum.

We already have over 4,600 stations which are working in the co-used network, an additional, I remind you, an additional 5,400 stations are to be co-used by July 2014. What is very important is it's not only impacting, and it will impact even more the cost base of the company but it is as well visibly increasing the quality of service we are delivering to our customers. Two numbers:

- 3G coverage of the population is at 74% today, to be compared to the starting point of 62%, and we want to go above 80%
- And, indoor coverage is as well growing in the areas where we have been swapping / merging the networks. It is up by over 7% and is on the way to increase even further.

Simultaneously we increase the coverage, so we decommission as well the towers. So today we have the de-commission which is done for over 420 stations. We plan to deactivate further 680 base stations in the future. So this is already generating savings and will bring us more optimisation in the future.

Now a few words about the FTTH trials we are running this year.

We have initiated the trials of the FTTH technology in Warsaw. The main goal of this action is to test the demand for the service in the large cities base on the Warsaw experience, as well as our capabilities to effectively market, sell and deliver the services to our customers.

We plan to make the FTTH available to roughly 12,500 of the households by the end of the year, with an impressive product package. It will consist of:

- Broadband offer, with a guaranteed speed of 200 megabits per second, coupled with fixed telephony, and television; and
- Mobile telephony and mobile data – as the service will be sold in the spirit of convergence, which I said really is very successful.

If successful, the FTTH will not only enable us to effectively compete with the cable, but also deliver cost savings modifying areas in some of the all-IP zones.

Now speaking of savings, let's have a look at our progress in the cost saving programme.

So our cost optimisation is progressing full steam ahead, as we continue to evolve towards a leaner and more agile organisation.

It is especially visible in the evolution of our headcount. So at the end of Q2, we have 8% less full-time equivalents than a year ago. We will continue to size down the employment of the Group in the same spirit – and additionally 560 more employees will leave the Group before the year-end.

Simultaneously, we will move most of Warsaw based employees to the new headquarters. This change will occur in quarter 3 and only this change will bring our yearly cost base of the Group down by 19 million zloty.

We are also continuing to optimise costs of sales and customer case, sizing down the physical network and pushing more and more customer towards the online sales and service.

Finally, the disposal of our subsidiary – ORE – is another step to an asset light organisation, whilst Orange Group financing will optimise the funding cost of our activity in the future.

Going forward, existing measures will be continued and accelerated, while new initiatives – like IT transformation, disposal of Wirtualna Polska and the TPSA/PTK merger – will soon reach their critical phases with promised additional savings as the result.

Ladies and gentlemen, after commenting on the highlights of the quarter 2, I now hand the floor to Jacques for the financial review and some operational KPIs.
Jacques the floor is yours.

Jacques de Galzain – Chief Financial Officer

Thank you, Maciej. Good Afternoon, everyone. Let's begin the financial review with the analysis of our top-line.

Similarly to previous quarters, we are facing a steep decline of revenue, driven down by the MTR reductions. Regulatory impact amounted to -164 million zloty in Q2, affecting revenue evolution by -4.5%. This was more detrimental than in Q1, due to reduction of the fixed-to-mobile tariff on May 1st. Regulatory impact apart, Q2 top-line fell by 5.5% year-on-year.

The steeper fall since Q1 is due to higher basis of comparison – as Q2 2012 included ICT service revenues from the UEFA EURO 2012. This can be observed in fixed services, as in Q2 they fell by 172 million zloty year-on-year, versus -107 million in Q1; Revenues from mobile services decreased by -51million zloty year-on-year; Finally, other revenues grew by 23million zloty, due to ICT equipment resale – also this caused an increase in costs.

Let's now analyse revenue evolution from mobile services.

The evolution of mobile services revenue was predominantly driven by regulatory impact. Turnover from mobile services fell by 10.4% year-on-year, out of which 7.6% was due to the MTR cut.

Regulatory impact apart, the top-line fell by51 million zloty:
- It was driven up by 23 million zloty due to growth of our customer base, and +5 million in equipment sales;
- However, there was a steep fall of the retail ARPU, which continues to absorb the effect of the price war from 2012, and especially from the unlimited tariffs for B2B. This drove revenue down by 79 million zloty.

Nevertheless, we have been able to keep our value market share, while the evolution of our KPIs bodes well for the future – let's now analyse the mobile KPIs.

The number of mobile customers of the Group has grown by 61,000 in Q2, helped by the success of nju mobile. In effect, it brought the year-on-year increase to 190,000 or 1.3%.

Within this base, we have observed a continued increase of users with smartphones – the number grew by 37% year-on-year, reaching 3.5million.

As data attachment rate has finally begun to pick up, we see first signs of data monetisation – with post-paid data ARPU increasing by 29% year-over-year to reach 8.4 zloty in Q2.

The overall retail ARPU still reflects the impact of the price war from Q2 2012. In Q2, it decreased by 6.9% year-on-year, however we think that most of this impact has been absorbed in to ARPU and starting from Q3 its year-on-year evolution should be more favourable.

Let's not switch to revenue evolution from fixed services.

Revenues from our fixed services decreased by 11.5% in Q2, following a 7.3% decline in Q1.

As I explained a minute ago, the steeper fall is due to base of comparison. This can be seen in enterprise solutions, as this stable revenue stream fell in Q2 by 70 million zloty year-on-year.

Other factors influencing our revenue included regulatory impact, which was fuelled by the decrease of the fixed-to-mobile tariffs. It affected the fixed revenue evolution by -1.5%.

Revenue from fixed voice have again declined less than in the past, in line with the improving subscriber trend. In Q2, they fell by 110 million zloty year-on-year, compared to -121million zloty in Q1 or the average of -140 million per quarter last year.

Finally, turnover from broadband, TV and VoIP increased by 26 million year-on-year, fuelled by the development of the ARPU.
Let's now analyse fixed KPIs.

The strategy of bundling and convergence is consistently improving the evolution of our fixed KPIs. By the end of Q2, over 314,000 customers had our triple-play offer. The effect of this is visible in two areas:

- It helped to limit the loss of fixed voice subscribers, as voice over IP is included in the 3P bundle. The number of fixed voice subscribers decreased by 96,000 in Q2, versus 109,000 in Q1 and 159,000 a year ago.
- In addition, the ARPU from broadband, TV and VoIP continued to increase. In Q2, it grew by 7.5% year-on-year, surpassing the 60 zloty crossbar.

On the other hand, the broadband customer base remains an area of underperformance. It decreased by 16,000 since Q1, mostly due to Orange Freedom – an offer historically sold by our mobile business.

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

Our EBITDA amounted to 1 billion zloty in Q2 and was 294 million zloty below last year. It was predominantly driven down by the 200 million zloty decline in revenue, excluding regulatory impact.

Regulatory decisions also affected EBITDA by -11 million zloty, due to the reduction in fixed-to-mobile pricing. Simultaneously, the direct costs were under pressure: rising popularity of mobile tariffs with unlimited voice inflated interconnect costs in 2013 by 43 million zloty, due to higher traffic; costs of ICT equipment resold to clients increased by 25 million zloty year-on-year. The counterpart of revenue I mentioned a minute ago.

I'd like to remind you that 2012 EBITDA was boosted by +15 million zloty due to reimbursement of rebranding costs, while EBITDA in 2013 included 13 million more brand fees, as we now use the Orange brand for fixed products.

In addition, EBITDA comparison was affected by -25 million zloty, due to change in the value of provisions made both in 2012 and 2013. Finally, the on-going cost optimisation programme delivered 50 million zloty savings year-on-year, helping to maintain the EBITDA margin above 30%.

Let's now turn to net income.

Net income amounted to 76 million zloty in Q2, versus 255 million zloty the year before. The 179 million zloty decline stems mostly from the evolution of EBITDA, as it went down by 294 million zloty. This was partly offset by:

- A 51 million zloty decrease in the depreciation charge
- 19 million zloty less financial costs
- And 42 million zloty lower tax

This concludes the review of our income statement – let's now turn to capital expenditure.

Q2 capex amounted to 452 million zloty, versus 471 million spent a year ago.

It brought the total capex for H1 to 852 million, which is in line with our full-year outlook of less than 2 billion zloty. Moreover, this 855 million zloty is 43% of the amount in the outlook.

Throughout H1, 56% of capex was allocated to network investments, including:

- Mobile network, modernised and prepared for the co-use with T-Mobile
- Fixed access network and selective investments in fibre optics
- And core network, which is being prepared for the expected boom in traffic.

Let's now review how all of this transited in to cash generation.

The organic cash flow amounted to 189 million zloty in Q2, versus 486 million a year ago.

The 297 million zloty shortfall was mostly driven by lower cash from operating activities. This decreased by 370 million zloty year-on-year, a combination of lower EBITDA and gains on derivatives in 2012.

Working capital requirement grew faster by 17 million zloty than in Q2 last year. In the meantime, we paid 61 million zloty less for capital expenses. And finally, we received 34 million zloty in tax relief for new technologies.

Let's now review net debt.

As of June 30, our net debt was below 4.4 billion zloty. It was reduced by roughly 650 million zloty since the end of 2012 – on one hand due to cash generation, and on the other hand due to gains on derivatives used to hedge our liabilities.

We have therefore kept the net debt at 1 EBITDA, while the net gearing remained at a safe 26%. Let us however remember that early in July, we paid out 656 million zloty in cash dividend – an equivalent of 50 grosz per share.

Our financial structure remains sound and we have preserved adequate resource for capital requirement in the future – including spectrum acquisition.

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

Maciej Witucki

Thank you very much.

Ladies and gentlemen, before I conclude this presentation, let me give you a short update on the H2 expectations.

So in terms of revenues evolution, we expect for the market to remain very challenging, with no easing from the competition. Additionally, the top-line will be under even more regulatory pressure in H2, as the MTR was cut to 4 Polish grosz from July and we will see the full impact of the fixed-to-mobile price cut.

We will retain our rigorous stance towards expenses and expect to decrease the cost base further down in H2.

Similarly, capex is under full control and we do not expect to surpass the 2 billion zloty target.

Finally, following H1 we feel more comfortable with the cash flow guidance of more than 800 million zloty by the end of the year and we even see upside potential in this respect. Let's now turn to the last slide, to conclude the presentation.

Ladies and gentlemen, since the beginning of the year, we have launched new strategy. This new strategy is bringing first fruits. We see the convergence Orange Open; we see the positive results of the network sharing; we see the impact of these on the fixed line churn which is slowing down very strongly; we see internally in the company – well, we don't report this one but – we continue the efforts towards the customer excellence in the company; and we see the company in the healthy and safe financial situation as reported by Jacques.

I recognise that the future success of the company, the continuation of the success of the company, demands a 3 year full engagement, next 3 years of the full engagement of the CEO to change the beginning of the successful 3 years strategy and 3 year transformation.

As I have served already nearly 7 years in November, so I think this is the best moment after launching the new strategy to pass the floor and to change the position. That's why, in the full alignment with the majority shareholder, we decided about the change as is communicated in the press release today. So I will step down in a few months from CEO position of Orange Polska. I will be replaced after the transition period by Bruno Duthoit. Bruno Duthoit is a person who is a very good candidate, as he knows the country. He was serving TPSA for five difficult years at the beginning of the 2000s. So he know the country, he knows the Company, and he knows the market from both mobile and both the incumbent point of view. So I really believe this is a very good successor.

At the same time and in the same spirit of smooth transition I spoke at the very beginning, I have been proposed by the majority shareholder to join the Supervisory Board of Orange Polska in the position of the Chairman. So all of this within the next months and all of this obviously subject to the proper governance decision.

I believe that this is the best solution for Orange Polska to find a long term engagement for the coming years and in the same time to keep the continuity as we have the positive results coming out of the new strategy as this team have been working together for in the last almost 12 months – because we started this strategic exercise in H2 last year. So we will have a necessary commitment of the new CEO for 3 years and in the same time we will have the continuation as I will remain within the company to provide the company with advice, the knowledge of the market and with the knowledge of the details of the strategy we have been elaborating together while clearly, again, having the separation between executive and non-executive roles.

So obviously during the phase of the incoming weeks, or months, I still remain – and fully remain – in charge of the company, so as a team we continue the deployment of the strategy, we continue the actions. Nothing is being changed in the strategy and hopefully we will have, again, the good progresses to report to you with the quarter 3.

So ladies and gentlemen, this is concluding my presentation of our presentation and now we are ready to take the questions. Thank you very much. Jacek – you manage the… [Clapping drowns out end of sentence].

Jacek Kunicki

Yes, I suggest we first with the questions from the floor and this will be followed by the telephone conference.

Leszek Iwaszko – Societe Generale

Leszek Iwaszko – Societe Generale.

Three questions from me. First on commercial costs – they were down in second quarter versus first quarter which is a bit unusual, looking at the history. If you could comment on that and also tell us what the outlook on commercial costs for second half of the year versus first half of this year? So second half versus first half of commercial costs, that's question number one.

Question number two: we have another cut in MTR, in voice MTR since July – do you expect any additional price pressures on the market coming from that fact? Obviously we are in July so it's not really the season to launch new promotions but what are you expectations in that respect?

And the third question on the next steps as to fixed to mobile cuts because we have another cut in voice MTR – well, when will another cut in fixed to mobile follow?

Thank you.

Vincent Lobry - Chief Marketing Officer

On the first point – the main effect of the decrease of the commercial cost is coming from increasing the number of SIM only sales. The number of sales has been quite high in Q2 – even more than in Q1. So we did not decrease the number of sales, but we decreased the percentage of sales with subsidies. So increase not only from nju – because nju is SIM only – but also on the Orange brand we increase the percentage of SIM only on the market. For H2, as usual, Q3 should be quite normal level and Q4 will be as every year the higher level of commercial because of Christmas. So we don't see any special events in Q3 – we continue on the trend with SIM only and Q4 we will have higher commercial costs

Leszek Iwaszko

20% of revenue – that's the kind of outlook for commercial costs, on an annual basis?

Vincent Lobry

It's quite difficult to give you percentage point precise, but it's, there will be no big change.

In terms of question 3, maybe I will go and I will let the question… on the mobile, fixed to mobile cuts: it will be this month as it is the decrease of MTR. So in the first half of the year we did it in May, this time we do it in July.

Maciej Witucki

As for the commercial pressure and the question of how the MTRs could translate – I just remind to everybody that those cuts are substantial in percentages but very small in polish zlotys, so they are accruing less and less room for any big moves in the market. So obviously we will see at the back to school period, but again 50% cut doesn't mean a big deal when you're going from the very low, dramatically low level to the even more dramatically low level. So I don't think it is creating this much room for manoeuvre.

Leszek Iwaszko
Just to follow on, this fixed to mobile cuts. So actually from July, you're trying to have another, you cut in May and then another – what was the rough magnitude of the cut in July?

Vincent Lobry

Sorry, it's the same because MTR was decreasing by roughly 4 grosz…

Leszek Iwaszko

So in fact in Q3, on a year-on-year basis will be much more significant than in Q4? Thank you very much, that's all.

Pawel Puchalski - BZWBK

Hello? Pawel Puchalski – BZWBK.

One question: well, surprisingly that was pretty strong EBITDA over first half and still you had very, well in my opinion, very discouraging organic free cash flow. And my question is are you sacrificing capex to reach, well, any low but still positive level of organic cash flow? Because in second half you're going to have probably weaker EBITDA and you still have got lots and load of capex to be spent. So what is the outlook for organic cash flow when we are looking at second half only?

Jacques de Galzain

The organic cash flow generation is at 400 million at the end of H1 and we are very comfortable to deliver the 800 million zloty that we announced with the 3 year plan. So, and even there is potential for an upside.

In term of capex, we said that we would spend less than 2 billion. You see that at the end of H1 we did already 850 million which is 43% of this amount. So I mean there is a more even phasing of capex than in the past and 2 billion is very reasonable to face *all* our investments. I remind you that this is one of the big advantages for radio access network sharing with T-Mobile, to be able to provide a better coverage and a better quality of signal to all of our customers – both for 3G and being ready for 4G deployment – spending less capex. That's the reason why we are able, maintaining the same ambition, to reduce the level of our capex.

Maciej Witucki

And small detail – in the H1, we are as well paying the invoices of the quarter 4 of the previous year. So this impacts the H1 as well.

Jacek Kunicki

Do we have any other questions from the floor?

Then I guess, let's switch to the telephone audience.

Operator

Thank you. If any participant would like to ask a question, please press the '*' followed by the '1' on your telephone. If you wish to cancel this request, please press the '*' followed by the '2'. There will be a short pause whilst participants register for a question.

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

San Dhillon – Barclays
Hi guys, San Dhillon from Barclays. Two questions if I may.

Firstly on nju mobile – I know it's only been a few months since launch but where are you seeing the subscribers coming from? Is it from Orange or is it very much from your competitors? What level of churn are you seeing, have you seen? Are new subscribers coming over then subsequently not being too pleased and then coming back after? It would be interesting to know.

And on your cash flow, could you just give a bit of colour on how you see the working capital evolving in the second half of the year? I think in the first half we had a drag on the order… what's this now, a couple of hundred million, or a hundred million, so it would be interesting to know, I guess that gives us a better idea of how the organic free cash flow will kind of evolve out to 2013.

Thank you.

Maciej Witucki

So maybe I will start the comment on the first question – I will give the floor to Vincent – but clearly, as I said, 70% of the post-paid customers are coming out from the Orange world. So this is fine, this is something which attracts new customers and that second element that we do master the internal transition of customers. So we do not promote in any case nju as an alternative towards the Orange customers. We have been very careful to have this brand completely separated from Orange brand so it's not 'powered by Orange', it's a completely new communication line, it's a completely new promotional line to the customers. So we are, I would say, quite happy, if not very happy about the effect of avoiding the internal cannibalisation while acquiring the new customers. I don't know, Vincent, if you have any comments on this one?

Vincent Lobry

As mentioned by Maciej, so 30% are coming from the Orange. So 70 other per cent are half coming from number portability from competitors – I cannot give you details on which competitors – and 35 is coming from new customers, either who didn't have portability and coming from other either new in the market.

In terms of… so 30% let's say cannibalisation is very low compared to our provisions. So we are quite happy with this number.

On this churn rate, maybe just one thing. Today it's very low as frankly, after two months, they can churn after the first month but it would be a little bit special. So frankly today the churn number, it's much too early to have something we can analyse on it. Up to now it's very low but after 2 months, it doesn't mean anything.

Maciej Witucki

Yes, so just one additional element which was in the presentation when it was published that we maintain, and this is quite constant now since last year, the position of the less losing from the big three operators on the mobile number portability, and this is one of the elements confirming what Vincent just said – that on the churn level obviously we are still losing towards the fourth player but from the big three we lose the less.

Vincent Lobry

And maybe a last point that you saw that we also, even with the nju gaining some customers on the post-paid, we also gain customers on the Q2 on Orange. So we did a better performance in Q2 in Orange brand than in Q1. So there was no cannibalisation, 30% going from Orange to nju and at the same time we are capable to gain new customers also on Orange.

Jacques de Galzain

Regarding cash flow, the working capital you can consider that it will be more or less stable in H2. Capex vendors – you will have a difference during in 2013 because the peak at the end of 2013 will be below the peak of 2012, and so there will be defavourable effect on the capex vendors.

San Dhillon

Ok, thank you very much gentlemen. Thanks.

Operator

Thank you.

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

Tibor Bokor – Wood and Company

Hi. Question on three cost items.

First, subscriber acquisition costs. Big reduction in second quarter from sort of 8 times ARPU level. Now in France we can see 3 times ARPU of subscriber acquisition costs. Is there room in Poland to further decline this cost item and where would you like to see it?

Second question, would be interconnect costs. In second quarter went up – is this sustainable level, how we should look at this item?

And last one, other operating income was also up significantly in second quarter. Whether it is sustainable trend? Thank you.

Maciej Witucki

OK. Maybe just a short introduction of the two first questions. So the SACs, to compare them with France as a percentage of the ARPU is quite misleading when you see the difference in the ARPU. So I wouldn't compare the multipliers of acquisition to the ARPU one-to-one when you see the prices – I will leave Vincent to comment.

And the second one – interconnect is very much, the increase is very much due to the fact that we have more and more unlimited offers and this is obviously driving the usage.

Vincent – any comments on this one on top?

Vincent Lobry

So, on the SAC, we are acting in two different ways. First, as I mentioned there are more and more SIM only which has an effect also on the commitment and the ARPU. And on the other hand we have, we are also working on the offers – handsets – to push more for, let's say, smartphones at a lower level. So we are not pushing for the high level – above 200€ - type of smartphone, but we are more pushing smartphones with a lower price – let's say between 100 and 140€. So there is some room, of course, there is always room but the problem is really on what is doing the competition and if there is… I think in Q3 there will be some room; Q4 it is generally very sensitive quarter because of the sales it represents quite a lot of the sales of the year, and in the Q4 I think there will be still quite, as usual, a higher commercial cost because of this pressure of sales.

Jacques de Galzain

Other operating income and expenses is always an area where you have one off and this is true once again in Q1 and Q2 this year. The gap between Q1 and Q2 is explained by provision for risk and in Q1 we had a change to release provision and in Q2 we have provided provision for several little litigation and that's the reason why there was this gap.

Tibor Bokor

Thank you very much.

Operator

We have a follow up question from San Dhillon. Please go ahead.

San Dhillon – Barclays

Hi guys, yeah just a quick follow up.

On your mobile data subscribers, do you have any stats on how much of that data is used over Wi-Fi for instance and is that some where you can innovate relative to other operators – giving customers the ability to use free data over Wi-Fi. It's something we are seeing across Europe and has gained a lot of traction. I was wondering if that is something you were thinking of?

Vincent Lobry

On this item, I think I would… you will have the answer on the Q3 results because I cannot give too much information on what we plan in this area.

Maciej Witucki

But clearly – to be a bit less mysterious – we obviously own the big base of the fixed broadband customers who have the Wi-Fi routers in their place so can kind of combining access between the Wi-Fi at the base of the fixed network and the wireless access through the normal 3G or LTE. It's somewhere where the incumbents normally have the place to play a role, so this is kind of the solutions towards we are having and hopefully Vincent will give some more details before the end of the year. Thank you.

San Dhillon

OK, thanks guys. Cheers.

Operator

OK, thank you.

We will now take the question from Ivan Kim from VTB Capital. Please go ahead.

Ivan Kim – VTB Capital

Yes, good afternoon. I hope you hear me now.

Operator

Yes we can hear you.

Ivan Kim

I had one question on the mobile space. Can you estimate roughly what percentage of the total subscriber base on the market is on unlimited tariffs?

And kind of a related question is whether you see any pressure on the network because of the rise in traffic on the back of the unlimited tariffs?

And the second one is on the LTE tender – we haven't heard anything for a while, I guess. So what's your expectation on the timeline and probably if there was any developments there?

Thank you.

Maciej Witucki

So maybe on the second one. So the LTE tender, you didn't hear anything as we didn't hear anything neither of concrete. The 800, 2600 tender, it's still supposed to be, at least to begin by the end of the year. But speaking out of control of Piotr Muszyñski, I don't believe we have the consultation of the even tender rules being concluded so we can't give you more details. Again, the best estimates are this being planned to be, to start by the end of the year. Then, for the conclusion, will depend on the final conditions and to a large extent on the state budget, but knowing the political, the global political environment, but no news. So we cannot expect it on this one.

Now the unlimited tariffs, I hand the floor to Vincent. I just remind that we don't provide unlimited data tariffs. We do provide the unlimited voice tariffs obviously with a fair usage policy. But on the data side, this is very clear, it is always within the packages of good gigabytes. Vincent?

Vincent Lobry

So full unlimited, I would say, on net of net around 500,000 but in all the new plans we have now unlimited on net systematically. So it's, unlimited you know can be more or less limited. So full unlimited, all the network – SMS and voice – it's around 500,000 but you have a lot of other customers which we have either unlimited SMS, either unlimited voice on net.

And *no* unlimited data in our offers.

Ivan Kim

OK, thank you.

Jacek Kunicki

I see that we have no more questions in the queue for the telephone conference but we have one more question from the floor.

Pawel Puchalski - BZWBK

I'm sorry for interrupting. One more question from my side. I wanted to double, maybe triple check one of your statements because I am looking at change in working capital in quarter 2 and I am noticing that, well we are at quite unusual levels and last year when we saw those, well we woke up with dividend per share lower by 1 zloty per share. So please hint me on your second half of the year working capital – is there a threat of further deterioration here?

Jacques de Galzain

So you triple check and I answer for the third time the same thing. So I can tell you the working capital will be more or less stable in H2.

Jacek Kunicki

Thank you very much. That concludes our presentation for today. We will be reporting Q3 results by the end of October.

Thank you for your attention. Goodbye.

Operator

Thank you. This concludes the conference call. Thank you for participating. You may now disconnect.