



Orange Polska (TPSA) Q3 2013 Results Conference Call
22nd October 2013

Jacek Kunicki, Head of Investor Relations:

Good morning, everyone. My name is Jacek Kunicki. I'm the head of the Investor Relations at Orange Polska. Please welcome to our Q3 2013 Results Conference. We are joined today by the management board with Bruno Duthoit, Chief Executive Officer; Jacques de Galzain, Chief Financial Officer; Mariusz Gaca, Chief Commercial Officer; Vincent Lobry, Chief Marketing Officer; Piotr Muszynski, Chief Operation Officer, and Jacek Kowalski who is the head of HR.

Please note before we begin that our results have been published this morning and they're available on the IR website www.orange-ir.pl.

Now without any further delay, I will hand the floor over to Bruno Duthoit to begin the presentation.

Bruno Duthoit, Chief Executive Officer:

Thank you, Jacek. Ladies and gentlemen, my name is Bruno Duthoit. I'm very privileged to be the new CEO of Orange Polska since a few weeks. I am happy to welcome you for this session about our Q3 results. I hope you will find the presentation useful and interesting.

The agenda for today is as follows. I will begin with highlights of Q3 and I will then ask Mariusz Gaca to review our commercial achievements; followed by Piotr Muszynski who will explain the detail of the upcoming spectrum auction.

Jacques de Galzain will then follow with the financial review. Finally, I will conclude the presentation with a few takeaways. Let's start with introduction as shown in slide five.

It has been only a few weeks since I've come back to Poland, but I would like to share with you my initial thoughts on our agenda going forward. Poland is a very important asset for Orange Group. It is true that we operate in a very competitive market, but we have the resource needed to recover; this includes our customers, full round of services, good networks as well as skilled and motivated staff.

Our strategy, agreed with the Group, was communicated in February. It is centered around convergence and this content is the right way forward, as it leverages on our key strengths and allows us differentiate from the competition. Business development is priority as bolder and stronger actions are needed to improve the revenue dynamics.

Convergence is the center of our strategy, but we will also launch new products to address various customer segments. We must be more agile, faster to the market and smoother in delivery to loyalize clients and create value.

We realize the urgency to recover our performance; we must defend our profitability and cash generation, in spite of the challenging market. In order to do so, we are absolutely determined to find new efficiency gains. This inevitably includes workforce optimization, but it reaches far beyond and we are reviewing every possibility to save cost and reduce our capital expenses.

Today it is too early to speak about concrete figures, but we are determined to achieve the cash generation needed to support our investments and shareholder remuneration. Let's now review the actions taken so far before we review Q3.



Since the beginning of the year we have launched numerous actions to face the competition. Orange Open and nju.mobile are the most visible ones, but other actions are ongoing as well, ICT development, FTTH offer and new features added to convergence. That will be further described by Mariusz in a minute.

Simultaneously we are improving our technical capabilities and reducing costs through the technical cooperation with T-Mobile. This project is progressing in an exemplary fashion. We have reached almost 70% of the overall objectives, placing 6,600 base stations in the commonly-used networks. This helps our cost as we have decommissioned almost 600 sites. At the same time, it is improving our 3G coverage as it has grown from 62% of population at the beginning of the project, to 76% today.

We have extended this cooperation to include spectrum. We are able to use T-Mobile's spectrum on the 1800 MHz frequency band for 14.5 years, securing the possibility to render 4G services.

Finally, we are initiating the project to formally merge TPSA and PKT Centertel in order to simplify the management, achieve cost savings and importantly to facilitate convergence.

Q3 has also been fruitful in developments. Let's now take a look at the quarter highlights.

Our results in quarter three show a moderate improvement in major trends over commercial activity, coupled with an upturn in cash generation. The convergent offer was appreciated by customers. This is evidenced by 211,000 customers who signed up for Orange Open offer. That helped us as well to gain 179,000 mobile customers in Q3 and limit the loss of fixed voice customers to 78,000.

We have continued to exploit the potential of the price-sensitive segment, using nju.mobile brand. High growth rate was achieved in Q3 and we have over 200,000 nju.mobile customers. It is proving to be an effective weapon allowing us to exploit the price sensitive segment without affecting the mainstream offer.

Our financial results show initial signs of stabilization; the revenue trends have recovered since Q2. Excluding regulatory impact, top line decreased by 2.5% year on year in comparison to minus 5.5% in Q2.

The EBITDA margin amounted to 36.5% in Q3, helped by seasonal effect and PLN 64 million cost savings.

In effect, cash generation has grown since Q2 and we report organic cash flow of PLN 833 million year to date. This allows us to achieve initial cash guidance and keep our debt down ahead of the spectrum auction.

Ladies and gentlemen, having gone through the Q3 highlights, I will now hand over to Mariusz to present our key commercial activities.

Mariusz Gaca, Chief Commercial Officer:

Thank you, Bruno. Good morning, ladies and gentlemen. As you can see, Orange Open is widely appreciated by all our customers. In Q4, 2012 we have added 27,000 customers. Then in Q1 it was 39,000 customers, 53,000 customers in Q2, and over 86,000 customers in Q3 this year.



Right now over 3% over our postpaid base is benefitting from convergence. And out of 211,000 customers, over 82% of them took triple-pay offer or higher which is just reconfirming to us the great opportunity of upsell that is brought with convergence.

Convergence is also a key to customer loyalty. As our research has indicated, the churn level among those customers that are having more products is five times less than among those customers that are having just a single product.

As already mentioned by Bruno, in order to loyalize our customers, and attract them to Open, we need to constantly enrich our offer with new additional features. Within Q3, we have launched four major features that will let our customers enjoy the benefits of convergence to an even greater extent and let me share these with you on the next slide.

Let's begin with FTTH. In H1 this year, we've been testing the technology in Warsaw, building the FTTH network that will potentially connect 12,500 households by the end of the year. Now we have turned this into a commercial offer that is available in Warsaw. It offers the speed of 300 megabits per second that is coupled with Voice over IP and content at an attractive price of PLN 199 per month.

The second new feature is called Orange FunSpots. Within this service, we have enabled over 360,000 of our fixed broadband modems to deliver the free Wi-Fi to any entitled Orange customer, meaning he should also be a customer of our fixed broadband services. And we will progressively open up more FunSpots in the country. This gives our customers better and more stable network and last not least, it enables us to offload data.

Orange Free Net is another example of a new service. It allows our customers to use their data packages on all the devices that are linked to the service, so it should become more popular among those users that are multi-device oriented and for families.

Finally, our customers can now use our Cloud services. We are the only operator in Poland to offer 5 gigabytes of free storage space and free transfer to and from the Cloud. The basic 5 gigabytes is meant to make our services more attractive, while additional storage space is additionally paid for, of course.

These offers already enrich our convergent package, giving the customer unmatched possibilities. We will continue to develop new product features, changing the main actions of competition from price to product and quality.

Let's now switch to the next slide to analyze how Orange Open contributes to our performance. Bundling and convergence is our main tool to loyalize customers and to maximize their share of spending with Orange. We are still at early stages; however, it is already positively impacting our performance.

First, we observed growing demand from customers for mobile data. Mobile data ARPU in postpaid is growing at an annual rate of 32% and its dynamics are sequentially increasing.

Second, fixed broadband ARPU is also developing positively as we offer our customers faster speed and bundle fixed broadband with television and Voice over IP. ARPU is growing by 7% on an annual basis.



And third, we see an improvement in the evolution of our fixed voice customer base, driven by bundling and increased attractiveness of our PSTN offering. It is still in a quarterly decline; however, we see a visible slowdown. In Q3, this year it fell by 78,000 versus 132,000 a year ago and 160,000 two years ago.

Let's now review the performance of our Mobile B brand, nju.mobile. Following the launch of nju.mobile we have the possibility to fight for the price-sensitive customers without directly affecting the pricing of our mainstream offers.

Within five months since its launch, nju.mobile has attracted over 200,000 customers and the pace of customer acquisition in Q3 is a success, especially considering that this is low sales season due to holidays.

The structure of acquired customers is also satisfactory for us, as roughly one fourth of clients are in postpaid and over two thirds of acquired customers are new to Orange, coming either from the market growth or from the competition.

Ladies and gentlemen, thank you very much for your attention. I will now hand over to Piotr who will explain you details of upcoming spectrum auction.

Piotr Muszynski, Chief Operation Officer:

Good morning, everyone. Today I will share with you the conditions which are proposed by the regulator for the spectrum auction. Please note that operators submitted their remarks, so modifications cannot be ruled out.

The current proposal concerns five blocks of 5 megahertz each in 800 MHz, and seven blocks of 10 MHz each in 2600 MHz spectrum.

UKE (National Polish Regulator) wants to sell it, through as transparent electronic price auction. It has also set up limits to how much spectrum can be purchased by a single capital group, striving to avoid excessive concentration.

We support this idea. An auction rather than a tender is more likely to ensure fair allocation of spectrum among operators who have the funds to buy it and rollout 4G in the country, which is a requirement from UKE.

The price per block starts at PLN 50 million in 2600 megahertz and PLN 250 million in 800 megahertz. However, the final price will depend on determination of the bidders as well as on their funding possibilities.

The regulator has proposed for the process to be conducted in three stages. First, when bidders reveal their demand followed by a mock auction; second, the electronic auction which could last for three days; and third, with spectrum reservation and the payment.

We anticipate the process to begin this year, stage two to be conducted early in 2014 while the reservation and payments are anticipated in H1 2014. This might not answer to all your questions. However, you will appreciate that at this early stage, this is all the information that we can give you.

I hope it was helpful and I hand over the floor to Jacques for the financial review. Thank you.



Jacques de Galzain, Chief Financial Officer:

Good morning, ladies and gentlemen. Let's begin the financial review by the analysis of the top line.

Group's revenue trend was affected in Q3 by an additional cut of the MTR, as it was reduced to 4 grosz or roughly 1 eurocent.

This brought the total impact of regulation to minus PLN 190 million this quarter or minus 5.5%.

Regulatory impact apart, there is an improvement in group's revenue trend. It decreased by 2.5% in Q3 versus minus 5.5% in Q2 and minus 3.1% in Q1.

The improving trend stems both from better trends in mobile revenues which fell by PLN 36 million year on year, versus minus PLN 51 million a quarter ago; as well as from a meaningful improvement of sales from fixed services which fell by PLN 74 million year on year, versus minus 172 million in Q2.

Let's start with the mobile revenue first. Q3 revenues for mobile services fell mostly due to the cut of the MTR which caused 8.8% out of the 10.9% decline year on year. Excluding the regulatory impact, mobile revenue's evolution improved slightly since Q2 due to two factors.

Robust growth of the customer base which has increased significantly thanks to convergence and nju.mobile. The smaller adverse impact on revenue evolution is the effect of the price war from 2012 is progressively absorbed in the customer base. It affected revenue evolution by minus PLN 65 million in Q3, versus minus PLN 79 in Q2. In effect this allowed us defend of market share at almost 28%.

Let's now look at the mobile KPIs.

The growth rate of the number of Orange customers has significantly accelerated in Q3 as we added over 179,000 customers in the quarter. In effect, this increased the annual growth rate to 368,000, or 2.5% as compared to plus 1.3% in Q2.

Growth has accelerated both in prepaid, but more importantly also in postpaid with a net additions amounting to 82,000. Positive customer base dynamics helped us to partly offset the impact of decreasing ARPU.

Retail ARPU fell at the yearly rate of 5.2% in Q3, versus minus 6.9% in Q2 and minus 5.9% in Q1. These are at the lowest pace of decline for over one year and we expect dynamics to improve further in the consecutive quarters.

It is also helped by good growth of the data APRU in post-paid, as in Q3 it rose by 32% year on year, versus plus 29% in Q2 and plus 15% in Q1.

Let's now analyze fixed services' revenue evolution.

Quarter 3 brought a visible slowdown in the decline of fixed service revenue. Apart of regulatory impact which now includes a full impact of fixed to mobile rate adjustment; Q3 fixed service revenue declined by minus 4.6% year on year as compared to a minus 10% decline in Q2 and minus 6.4% in Q1.



The underlying improvement stems from fixed voice as we slow down the loss of the customers. This is coupled with stabilization in revenues from enterprise solution, helped by ICT, as well as, by a moderate growth in broadband revenues.

Let's analyze this more in detail starting with broadband.

Broadband revenues amounted to PLN 422 million in Q3 and were PLN 24 million or roughly 6% up since Q3 of last year. It was driven up by a 7% annual growth of the ARPU, achieved through a combination of higher throughput speed and upsell of TV and Voice over IP as part of our bundling strategy.

The customer base is still an area of concern, as it decreased by 12,000 in Q3. This is predominantly caused by churn from older offers based on CDMA and Bitstream access. On the other hand, the evolution of Neostrada is more favorable and our VDSL base has grown by 13,000 in Q3.

Let's now look at fixed voice.

The evolution of our fixed service revenue is progressively improving. Despite the fixed to mobile tariff cut; we observe a systematic slowdown of the revenue decline. In Q3 fixed revenue declined by PLN 106 million year on year, as compared to almost PLN 120 million in Q2 and over PLN 145 million in Q3 of last year.

The number of our fixed voice customers decreased by 78,000 this quarter; that's just minus 96,000 in Q2 and over 109,000 in Q1.

This concludes the review of our top line. Let's now switch to profitability, starting with the cost optimization program.

As mentioned earlier by Bruno, cost optimization is a must in order to defend the EBITDA. Inevitably, this involves headcount. We have decreased the number of employees by 2,200 year on year, bringing their number to just over 20,000.

Further 370 more employees will leave the group in Q4 and we will negotiate a new social plan for the future. The move to the new headquarters is now complete, as you see. This did cause some additional expense in Q3 but from now on, we will lower our annual cost base by almost PLN 20 million.

We continue to push more sales and customer care online. This enables us to achieve efficiencies the size of our sales network as well as to save on the cost of call centers or paper invoicing. Most of our firm now contains a big discount if the customer opts for an e-invoice.

So far the program has brought almost PLN 160 million of savings this year, helping to bring the total cost base down by 3.6% year on year. We'll continue to launch new initiatives to defend profitability. Let's now take a look at its evolution starting by EBITDA.

Our EBITDA amounted to PLN 1.165 million in Q3, decreased by PLN 160 million year on year, so much slower than in the previous quarters. The EBITDA margin has recovered to 36.5% of sales in Q3.



Revenue decline is the main factor influencing EBITDA evolution. Excluding regulation, revenue declined by PLN 86 million in Q3, versus minus PLN 200 million in Q2 and minus PLN 108 million in Q1.

Regulatory decisions impacted the Q3 EBITDA by minus PLN 28 million, mostly due to the fixed to mobile price cut. Simultaneously, direct costs were under further pressure. Higher traffic caused by tariff plans with unlimited voice calls, inflated interconnect cost by PLN 30 million.

In addition, more smartphones pushed commercial expense up by PLN 22 million; while direct cost of our ICT rose by PLN 40 million, in line with the revenue evolution.

Other OpEx was impacted by non-recurring items, but it rose by PLN 18 million. This was offset by PLN 64 million savings stemming from the cost optimization program analysed a minute ago.

Let's now turn to net income.

Looking at the chart, we can clearly see a large upswing of the net income, as it reached PLN 239 million in Q3, versus PLN 76 million in Q2. Nevertheless, the net income was down by PLN 68 million year on year due to lower EBITDA. This was mitigated by lower depreciation charge, PLN 26 million below last year; PLN 28 million less financial costs; and PLN 37 million less tax.

This concludes the analysis of our P&L. Let's now turn to CapEx.

Excluding expenses linked to spectrum, our CapEx amounted to PLN 438 million in Q3. It brought the year-to-date total to almost PLN 1.3 billion and we are confident to keep the full-year figure under PLN 2 billion.

57% of CapEx to-date was spent on our network, mobile as well as fixed asset network, including the FTTH pilot in Warsaw. Other meaningful CapEx directions included our IT system with CapEx needed to launch new products as well as the customer premises equipment, linked directly to revenue.

You will have observed that we have recognized an intangible asset of over PLN 250 million in our Q3 accounts. Most of this relates to the agreement signed with T-Mobile to use their 1800 MHz spectrum. This agreement is payable over 14.5 years, so it will not affect our funding ability in front of the 800 megahertz spectrum auction.

Let's now analyze our cash generation.

Organic cash amounted to PLN 434 million in Q3. It brought the year-to-date total to PLN 833 million, allowing us to deliver the floor cash flow guidance for 2013 in advance.

Q3 cash generation has grown year on year by PLN 113 million. This was possible despite the decrease of EBITDA as working capital requirement amounted to minus PLN 72 million in Q3 2013 versus minus PLN 125 million a year ago and cash CapEx was some PLN 220 million lower than in Q3 of 2012.

Thank you very much for your attention. This concludes the financial review and I hand the floor back to Bruno for his conclusion.



Bruno Duthoit:

Thank you, Jacques. Ladies and gentlemen, as you have seen our convergent strategy is beginning to deliver good results. This is evidenced by better commercial momentum in Q3. We have increased cash generation and this enabled us to already deliver the guidance for organic cash flow.

Consequently, we are raising our full-year guidance and expect at least PLN 1 billion of organic cash flow in 2013. Naturally, excluding any purchase of spectrum or result of claims and litigations. We are encouraged by progress made in Q3. Still we continue to observe a very challenging, competitive environment.

As we enter the high sales period of Q4, we will incur higher commercial costs and therefore profitability and cash generation will be seasonally affected. Looking ahead, we believe that we have adequate resources to recover our performance in the medium term, and we will work together with the management team a lot to execute the strategy and we are determined to deliver long-term sustainable cash generation in order both to support investments and naturally shareholder remuneration. Thank you very much for your attention. That concludes the presentation and we are now open to your questions. Thank you.

Jacek Kunicki:

As always, I suggest that we start with the questions coming from the floor which will then be followed by questions from the teleconference.

Pawel Puchalski, BZWBK:

Hello, this is Pawel Puchalski, BZWBK; question one - do you see a chance for 2014 EBITDA coming flat year on year? Question two; you gave a range of PLN 1 billion to PLN 2 billion payment for mobile spectrum. I saw yesterday the results of spectrum tender in Austria; the most expensive tender in Europe; would you expect potentially--- well, would you consider paying more than PLN 2 billion, because the range is a range and we could be on either side. So would you consider paying more than PLN 2 billion? And question three; do you see realistic an increase in dividends, in remuneration, stable remuneration from PLN 0,5 to potentially PLN 1 anytime soon?

Bruno Duthoit:

Thank you for the question. Before giving the floor to Jacques, I will just say that concerning profitability EBITDA; I can tell you that we'll really fight all, together with the team let's say to recover our performance, but Jacques will give a bit more detail.

Concerning dividends I think the right place to discuss and to disclose will be February. It will be too soon to disclose about future guidance policy but Jacques will continue.

Jacques de Galzain:

Okay, so regarding revenue and EBITDA, you know that this year we don't provide any figure. I do not intend to provide in advance for 2014 and beyond. Right now we're looking at our forecast for next year; but let's be patient and you will know a bit more at the beginning of next year.

Regarding spectrum; Austria is very rich country so they are able to spend money. So you know the figure like I, so for 800 megahertz we cannot have more than 2 blocks and the floor price is PLN 250 million and for 2600 megahertz it's PLN 50 million.

So the minimum is PLN 600 million, this is an auction so we will see how it works and how much we have to pay for that, PLN 1 billion to PLN 2 billion is still valid; above PLN 2 billion would be a shame,



but if we have to go above - you know this spectrum is very important for the development of Poland and TPSA. And regarding dividends, as Bruno said, we will tell you in February With our annual announcement. We will have more insight about the market, the cost of spectrum and EC fine, so in three months' time we will know.

Pavel Puchalski:

Thank you very much.

Leszek Iwaszko, Societe Generale:

Leszek Iwaszko; on the potential cash generation in Q4; I was not surprised by you increasing your cash flow guidance. If we take the floor and then we subtract nine months then we are having like less than PLN 200 million potential cash generation in Q4; minimal, right? What can be evolution of CapEx payables in working capital, because obviously EBITDA will be seasonally lower and the CapEx seasonally higher, probably. If you can-- because I think this may be important for the cash generation.

Jacques de Galzain:

So we say that we will deliver above of PLN 1 billion this year; Q4 is always a bit less productive in terms of cash flow because we have to buy the handsets that we sell in the Christmas period and EBITDA is impacted by that. Regarding the evolution of CapEx vendor will grow a bit but you see that this year it was a quite smooth execution of this CapEx program so it will go through the sky and the other items of the working capital, you can take an assumption that it will be more or less stable.

Leszek Iwaszko:

The next question is related to competitive environment in Poland. Is it just an impression or I know we are just after the less seasonally active period, but we are entering the most challenging period of the year, can you give us some hint-- do you see more-- how is developed the competitive situation? Is it right to say that it's more stable now than it was maybe ahead of the auction that operators are more concentrated on like what's going to happen with the auction rather than looking at another price cut? So that's the second question.

The third question is related to one of the slides was saying about potential new cost initiatives. And my question is whether this is something like new substantial cost cuttings that we may be seeing in the-- new substantial cost initiatives that we may see next year-- on slide 20; we will negotiate further workforce optimization. This is what I'm referring to.

Bruno Duthoit:

Concerning market, I will give the floor to Vincent. But I can say that we hope naturally that the price war will not continue but we saw still the last few weeks, some important part of the market particularly on mobile and Vincent will elaborate a bit on that.

Vincent Lobry, Chief Marketing Officer:

Yes, so unfortunately people of the-- I see mobile companies; they can do both; look at their option and look at the commercial activities. So I think there is no-- commercial activity would be very strong in Q4 and we are ready for that. In terms of price war, I think what is important that now we have weapons which are available for us. On the one side, for the very sensitive customers, on price we have nju which is still the best offer which is much more flexible than other offers.

And at the other hand on the Orange side, we have Open which allows us to give more discounts to our customers when they buy more products and this allows us to have all of the range of customers, from the very sensitive to price to the other upper customers which are buying more services.



So we have the weapons ready. Of course, we are looking very carefully to all the movements of the competition and we have also to be very careful to the announcement of the market of very nice facial offers, but we have to look for in the offers what is really proposed to the customer and what is the final price that he will pay on his bill. So we are prepared with the good weapons. Now, if we need it we'll of course adapt to be sure that we take our market share and even more during the next quarter.

Bruno Duthoit:

Thank you, Vincent. Concerning your cost saving; I think it's a continuous movement concerning staff optimization; it's clear that will continue and the level of reduction for the next year will be decided and negotiated together with trade unions. We intend to enter a negotiation around the middle of November and we have to go in this direction. Considering the rest, there is already a lot of initiative going on. I was explaining a few minutes ago the first output of the joint venture with T-Mobile which definitely will bring net OpEx down, but there is--

Leszek Iwaszko:

Is this new? I was rather looking for any potential new significant-- from maybe like prompted by the changes in the management.

Bruno Duthoit:

What we believe is there is really room of optimization in commercial cost, globally for sure. It's also linked to the market; a market which is more SIM-only oriented. There is very definitely optimization possible and there is a lot like we are a big company let's say automation to be done in different domain to save cost and already a lot of initiatives are ongoing and I cannot disclose what we'll do next year, but we believe that we have a significant room of manouvers.

Leszek Iwaszko:

Okay. Thank you.

Jacek Kunicki:

Do we have any other questions from the floor? If not then I suggest that we move to the teleconference audience.

Operator:

Thank you. If any participant would like to ask a question, please press the star followed by the one on your telephone. If you wish to cancel this request, please press the star followed by the two.

Our first question comes from Sam Dhillon of Barclays. Please go ahead.

Sam Dhillon, Barclays:

Hi guys; just a couple of questions. Firstly, of the nju.mobile subscribers you're winning from competitors, which rival are you most taking subscribers from? Secondly, clearly one of the benefits of nju.mobile is the fact that there's no up-front handset cost. Are you exploring options to distribute handsets in a different way amongst your Orange subscriber base rather than just providing subsidies which impact EBITDA?

And finally, broadly speaking, what percentage of line loss are subscribers just moving to VoIP?
Thanks a lot.



Bruno Duthoit:

Thank you. I will give the floor to Vincent.

Vincent Lobry:

So the first question; with nju, in fact the repartition we win-- we have new customers or customers coming from the competition represents around 70%. Only 30% are coming from Orange customers. So in the competition through mobile number portability, we win from all of the competitors but the one we win most today at the present is T-Mobile. But we win from the three competitors.

In terms of distribution of nju; today, we try to have nju not as only a low price offer, but low-cost offer; in order to protect the margins. That's why we keep a pure online both distribution and e-care. And we have no intent to have nju distributed at the point of sale of Orange. It's surely very important when you have a very low price offer to keep it low cost; if not, you will lose all the margin. So nju is a stand-alone brand, online only.

In terms of line losses evolution; so the trend of course to migrate our broadband customer mono-play, one play which are internet, to multi-play including TV and Voice over IP. So we have one part of the decrease of fixed lines which is going into migration in triple-play offer. And there can be some cannibalization of ARPU there, but the goal is to keep some part of the revenue from the fixed and not to lose all the revenue of fixed. So we have some migration of PSTN lines which are migrated voluntarily on the Voice over IP on the triple play in order to keep the customer and to have a global ARPU of the customer.

Bruno Duthoit:

Thank you, Vincent. Just to add in terms of nju.mobile we have no at this stage intention to add a device or handset to the offer.

Sam Dhillon:

And just one follow up on that if I may. I guess the question on the handset side for Orange was-- I mean are you going to stick with subsidy plan because I know generally in Poland consumers prefer larger up-front subsidies? Or are you thinking about kind of stepping away; thinking of more innovative ways of offering a handset; whether that be leasing or some credit financing, anything to preserve EBITDA?

Bruno Duthoit:

Vincent this one's for you.

Vincent Lobry:

I think all the operators are looking to different models in the mobile distribution so we have specific model with subsidies. We have the SIM only offers which are good in terms of subsidies but not so good in terms of ARPU and the commitment, and we are looking of course to introduce some payment through installments. But if we do that, it's not to have let's say- to take away to increase the ARPU in one year; it's really looking at the customer value and how we create value doing one of these things. So we are looking at the commitment, the duration of the commitment- two years or three years. We are looking also at the subsidies level and what we look is that the customer life value in order to make our choice.

So of course we have a lot of possibilities and we have to adapt to the market and to the evolution of the market, but keeping in mind the CLV, the customer life value.



Sam Dhillon:

Okay. Thank you very much.

Operator:

Thank you. The next question comes from Herve Drouet of HSBC. Please go ahead.

Herve Drouet, HSBC:

Yes, thank you. I've got few questions. The first one is on cost optimization program. I mean the PLN 64 million is lot you booked as a gain. Do you think that's sustainable and can even increase in the coming quarters?

The second question is regarding the mobile dynamics on your side. I mean on one side you're saying you are attracting new subscribers, but at the same time you've showed the part of Orange in the value market share are declining in the Polish mobile market. So I just wanted to see if you can give a bit of more light on that effect. Is it because of the impact of the new brand and you are attracting maybe lower-value customers on the revenue side? Or is because some of your convergent services you are shifting the value a bit out of mobile for your subscribers more into the fixed line business?

And finally the last question will be on the margins of your nju brand mobile; is margin there as good or even potentially better as your existing standard traditional mobile services? Thank you.

Bruno Duthoit:

Thank you. I will give the floor concerning cost saving to Jacques and then to Vincent for the question about nju and value share.

Jacques de Galzain:

In our of cost savings in Q3, you have more or less two thirds of the PLN 64 million which is due to headcount reduction and then you have a lot of actions that starting from real estate optimization. You have also optimization of our processes (INAUDIBLE).

So as we continue with the headcount optimization, we will continue to have cost savings Q4 and in the periods to come. On the other topic, this is also programs which are continued, I cannot tell you if we will so more, but it is clear that as we said, cost optimization is a must and so we will be as pushy as we were in the past to continue to save costs.

And last comment, you know that the networks or the radio access network sharing, we are still in the ramp-up phase and starting from 2014, we will have a full-speed shared network and it will also bring some savings.

Vincent Lobry:

So on the mobile dynamics; the ARPU of nju is a little bit below the ARPU of Orange, but not in a sensitive way; so it's not-- so the impact on the market value share is not due to nju.

In terms of convergence, we have some impact of the convergence because we have the discounts which are in the mobile part which decreases a little bit value of the market, but it's not sensitive.

So in fact, the market share value; it's something which is very difficult first it is an estimation. We don't have-- we are the first to publish our results so it's a little bit in evolution we think on the market but we don't have the final number of our competitors and for example in the last quarter, in our evaluation, we were a little bit over evaluating the market, the value share of Play; but we don't know



what will be in Q3. And also we have some different revenue recognition, especially in the installments which give some, I would say, benefit in terms of the revenue to some operators which are using this on a very aggressive way.

So there are many things in the value market share to take into account. But there is no special erosion because of nju or because of convergence.

S

Herve Drouet:

Okay.

Vincent Lobry:

In terms of nju margins, what we try to achieve and for the moment it's the case is to maintain the level of margin which is the same on the nju because it, as I mentioned before, we are pushing to stay at the low cost; but unfortunately we don't have better margins than in the higher, other offers like traditional Orange. But we are a very similar margin.

Herve Drouet:

Right. Thank you, that's very clear. Thank you.

Operator:

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

Dalibor Vavruska, Citigroup:

Oh, hello; good morning. I'd like to follow up on the previous question, if I may, on the value market share in mobile. And I'd like to ask more strategically; I remember discussions with management in the third and fourth quarter last year and my impression was that value market share in mobile was very important. In fact, Play attacks were seen as very serious. And then the Company came with this new strategy with quite substantial costs was aimed, in my understanding at least, to stabilize its market share.

Now it seems that the market share is still declining. I'm just wondering; is there maybe some change in the priorities and you say now this value mobile market share is less important and let's focus more on EBITDA, because clearly there is quite significant room for EBITDA movements, depending how much you actually care about this market shares? So this is one question.

And the second question; excuse me if I missed the beginning of the call, but it's about the LTE auction and I heard that you mentioned that there are some restrictions in terms of how much each bidder can acquire. So I'm wondering who is actually going to decide the competitiveness of the bidder in the auction? Is it-- could the big players effectively bidding for more than two blocks; is that possible? Could they become aggressive or is all about the new players like Play or someone else who can actually effectively determine the price? Thank you.

Bruno Duthoit:

Thank you. Concerning value share in mobile, I will answer. As explained by Vincent one minute ago, it is a bit difficult let's say to estimate the real value share accurately because there is an impact of recognition of a payment by installment revenue; there is a question of discount linked to convergent and some other aspect.

But it is true that our value share, whatever the criteria, decreased at least a bit year on year. And as it was explained a few months ago, when the strategy was presented, the value market share in



mobile, like in fixed, is a top priority. So we intend and we'll fight to keep and why not to increase the value share during the next month and year. It is absolutely a priority for us.

Concerning the second question, I think I will give the floor to Piotr who will explain the current condition of the auction.

Piotr Muszynski:

We were making a short summary saying that yes, indeed there are some limits imposed by the regulator to the auction. There is a question of the limit of 800 MHz of course, which is a priority. No more than 10 MHz to be purchased by a single operator; that is related to some prerequisites like today possessed portfolio of the spectrum from the perspective of being or not being the capital group, so there are some definitions which are creating certain limit and then putting the operators in a given position, being more or less privileged in terms of bidding for the certain spectrum.

In the regulations of the auction, you are declaring for how much spectrum you would like to bid and then the regulator, in the first stages is giving the answer, if you can bid for five or ten.

Dalibor Vavruska:

Thank you.

Operator:

Thank you. The next question comes from Tibor Bokor of Wood & Company. Please go ahead.

Tibor Bokor, Wood & Company:

Hi. I would like to follow up with Piotr on the auction. Can you just clarify the maximum number of blocks that Orange can bid for the 800 megahertz? My understanding it's two blocks maximum and if I'm correct, could there be a situation where a Polkomtel group might not be able to bid any of the blocks because they already have a set of 40 megahertz and combined 800 to 900 megahertz? Can you comment on that?

Piotr Muszynski:

The first-- the answer for the first question; we can bid for two blocks on 800 megahertz. We cannot bid for more. And of course the consultation process is still going on, but from our own expert analyses, there will be no situation that Polkomtel will be excluded from the auction. It might not be allowed to bid for 10 megahertz, but it certainly won't be excluded from the auction.

Tibor Bokor:

Okay. That clarifies that. Thank you very much.

Operator:

Thank you. The next question comes from Ivan Kim of VTB Capital. Please go ahead.

Ivan Kim, VTB Capital:

Yes, good afternoon; two questions, please. One; basically on the off-net traffic patterns that you see, because of the unlimited tariffs in the market; it seems that you're doing quite well on basically interconnect cost reductions still despite those and do you think that there will be more of off-net traffic flowing or basically you will keep the interconnect costs low?

And then secondly on LTE auction; you made an agreement with T-Mobile to share 1800 MHz frequencies. Do you think that a similar agreement is possible for 800 megahertz and basically that can actually potentially keep the prices for the spectrum down? Thank you.



Bruno Duthoit:

I'll answer question concerning 800 megahertz frequency - definitely we intend to bid alone; we have no plans to share frequency. We intend to bid alone and to win.

Concerning the first question, I will give the floor to Vincent.

Vincent Lobry:

So in fact we introduced abundant offer or unlimited offers; at the same time as we had the MTR reduction. So it actually we compensate the increase of traffic, natural increase of traffic due to elasticity we have on unlimited by decrease of unitary costs of terminating the traffic. So altogether we have the impact which you noticed and we don't see any different trend in the future.

Ivan Kim:

Yeah, but basically, so you have now the MTR reduction of course, but then if your off-net traffic keeps growing, let's say in 2014, then you potentially can see a more-- more an adverse effect on your margins, right? So do you expect anything like that or not really?

Vincent Lobry:

Not really; because when you look at the customers which have the most, I would say, natural users of unlimited offer; they already switched to the unlimited offer. So the newcomers to unlimited offer increase of traffic is much less; so we don't see really adverse effects on interconnect in the future.

Ivan Kim:

Thank you.

Operator:

Thank you. The last question comes from Vera Sutedja of Erste Bank. Please go ahead.

Vera Sutedja, Erste Bank:

Yes, good morning, everybody. I have a question regarding the merger between the fixed and the mobile. Can you tell us what would be your expectation on financial benefits from this merger?

The second question would be on Wirtualna Polska; when do you expect it to be completed and if you can give us, if possible, some kind of price range.

The last question will be on the EU fine; what do you expect in this and whether you still think that you would need to pay the EU fine or not and if yes, when would be the timing? Thank you.

Bruno Duthoit:

For the first question concerning merger, I will give the floor to Mariusz who is the CEO of PTK Centertel. And then Jacques will address the question about Wirtualna Polska and the EU fine.

Mariusz Gaca:

Good afternoon. So do not assume any significant cost reductions that are coming from the merger. This operation is primarily done in order to support convergence and to have one Company with one database instead of two companies with two separated databases. So of course there are some benefits, but these are not material from our perspective. This is only the business reason, or mainly the business reason for which we are merging those two companies; once again to support



convergence, that is written our strategy is one of the most important points mentioned many times also today.

Jacques de Galzain:

Regarding Wirtualna Polska; so you will be informed when we move forward but as you see, there is no signing yet, so the closing it will not happen before Q1 2014. So in terms of price range, what I can tell you is that Wirtualna Polska is has between PLN 170 million and PLN 175 million of revenue and they have a margin of lets say 25% so let's say a bit more than PLN40 million. So then I'll let you decide the multiple and you find the price.

Regarding the European Union fine; the return proceedings are closed but the schedule of the audience is not yet known, therefore I don't think that we will pay before Q2 next year or Q3 next year. We will have to pay something but actually we don't know how much discount we can have compared to the initial fine. It would be a miracle that we do not pay and I do not believe very much in miracles.

Vera Sutedja:

Okay, so if I understand correctly, Wirtualna Polska is basically not expected to take place before first quarter 2014 and the EU fine we will not hear before second and third quarter next year?

Jacques de Galzain:

Right.

Vera Sutedja:

Okay. Thank you.

Jacek Kunicki:

I see that we do not have any questions in the queue for the teleconference. Do we have any additional questions?

Leszek Iwaszko:

Leszek Iwaszko thank you. Just one quick follow up on labor costs. When I was analyzing year on year evolution of labor cost, the decline year on year was- in Q3 was larger than it was in Q1 or Q2. I wonder if it's a result of some provision reversal for vacation because that affects Q3 or it just represents a decline of what we can expect for instance in Q4?

Bruno Duthoit:

Jacques?

Jacques de Galzain:

So when you look at Q3 versus Q2, there is for sure an impact of the holiday pay provision we took about a bit less than PLN 50 million.

Leszek Iwaszko

It's less than it was a year ago?

Jacques de Galzain:

No, no this is comparable. Compared to one year ago; you have first the effect of heacount reduction, then, and this is around PLN 45 million; then you have the effect of salary increase which is PLN 25 million. And then you have the effect of pension provisions; so one year you win, one year you lose and this is more or less PLN 15 million this quarter.



Leszek Iwaszko:

15 1-5?

Jacques de Galzain:

Yes, 15 compared to last year.

Leszek Iwaszko:

Okay. So let's say; can we say that it's a kind of-- when we look at year on year, what we saw, is it representative for the year-on-year decline you would say going into future?

Jacques de Galzain:

It's clear that the effect of headcount reduction and salary increase can be translated till the end of the year.

Leszek Iwaszko:

Okay. Thank you.

Jacques de Galzain:

And you know that we said that in fact with 1,000 less employees; we save between PLN 60 million and PLN 70 million a year.

Jacek Kunicki:

Do have any additional questions? If no, then thank you very much. This concludes our presentation and we will be reporting Q4 in February 2014. Thank you very much.

Operator:

Thank you ladies and gentlemen. This concludes the Orange Polska Q3 2013 results. Thank you for participating. You may now disconnect.

END