TP Group FY2010 Results Conference Call

Date of conference : 23 February 2011

CONFERENCE DETAILS

Conference Date:	23 February 2011
Conference Time:	11:00 CET
Conference Duration:	Approximately 59 minutes
Chairperson:	Jacek Kunicki

KEY:	
words in bold	Unsure if words heard correctly - please check
??	Words could not be distinguished
(Inaudible - ….)	Words that are entirely inaudible for the specified reason

Jacek Kunicki

Good morning everyone. Welcome to TP Group's Results presentation for 2010. My name is Jacek Kunicki, I am the Head of Investor Relations. Today we are joined by TP Group's managing board so starting with the CEO, Maciej Witucki; CFO, Jacques de Galzain; Chief Marketing Officer, Vincent Lobry; Chief Commercial Officer, Mariusz Gaca, Chief Operational Officer, Piotr Muszynski and Jacek Kowalski, who is Head of HR.

One quick note before we begin that our results have been published this morning and they are available on www.tp-ir.pl. Now having said that without any further delay I will hand the floor to Maciej Witucki to begin the presentation.

Maciej Witucki

Thank you very much Jacek, ladies and gentlemen. So we will not wait for our Chief Operating Officer to appear. And we go immediately to the presentation. Hopefully Piotr will come for Q&A if any about his area of responsibility. For the agenda of today I will start with the summary of the achievement for 2010 virtually. But I want to take at first the opportunity to thank Roland Dubois and to introduce Jacques de Galzain who succeeded Roland at the position of TP Group CFO. So welcome Jacques. And I would like the same occasion to thank Roland for his great work during the last three years when he was steering TP finances through tough times and over the financial crisis in a way that has seen us come out even stronger. So Roland will stay in the TP Group until the end of March ensuring a smooth transition to his successor Jacques de Galzain.

Jacques has worked for France Telecom since 2006. He has joined TP Group in 2009. So he really knows the company perfectly for more than one year as a CFO of our mobile entity and I am sure that most of you will have the opportunity to meet with Jacques often in person and very soon. Jacques, after my introduction, will walk us through the financial results. Finally, I will then conclude with the presentation by sharing our views for 2011. As always our presentation will be followed by the Q&A session for both audience here and people being on phone.

Before I begin I would like to mention, as usual, that we will not answer any questions with regards to claims and litigation due to their sensitive nature. Our position in a dispute especially with respect to DPTG has been clearly made public and as I mentioned before we don't agree clearly with the unjust award of the Arbitration Tribunal and we will resist against it. All of the claims and litigation which may impact TP have been adequately described in the notes to the financial - sorry, all the claims and litigation have been described in the notes to financial statement so excuse me that we will not go into those subjects in the Q&A.

Lets us now begin with the presentation and the review of the achievements of 2010 on slide number five.

So, in the nutshell, 2010 has been a year of good progress. We continued to implement our medium-term action plan as presented in February and it brought first concrete results. We have been able to report meaningful progress in each quarter of the year and each area of our activity.

On the regulatory front, we have the real breakthrough, as the change of bitstream pricing model to cost-plus has brought us back to the market pricing and competition. I remind you at the very beginning of October. This stable and more predictable regulatory environment has also allowed us to focus on the core business.

Our commercial performance has been satisfactory as we have regained momentum in mobile and increased our customer base driving mobile revenue to visible growth in quarter four. We have also worked hard on revamping broadband and quarter four results are the first signs of the turnaround which we have been from the very beginning planning for 2011.

The evolution of the top line has improved in every quarter of the year driven by commercial successes and easing of the MTR impact on the comparison. We started the year with a 10% decline in quarter one and we have been able to limit that to just to 1% by the quarter four.

Our cost savings have been delivering almost PLN0.5 billion bringing the cost base down by almost 4%. It defended the EBITDA well, with underlying margin exceeding 36% for the full year. In turn this allowed us to deliver on our guidance and report net free cash flow of over PLN2.4 billion versus our initial expectation at least PLN2 billion.

Finally, we have used 2010 to launch a number of projects that are key to our future such as a cooperation with TVN Group, network sharing with Era or sponsoring of Euro 2012. I will talk more about that in the final part of our presentation as their results are more correlated with the future of the Group.

With this let’s turn to the next slide to review the progress made in implementing of our strategy starting with slide number six.

So, the new regulatory environment provides the market with more stability and predictability for the future conditions. This is beneficial for all market players and it allows to plan ahead. In 2010 ,TP wholesale pricing has finally been detached from our retail broadband offer. For us, it means that since quarter four, we are back in the market pricing and competition. At the same time consumers are benefiting from lower prices. Finally, predictability of new regulatory environment is the best stimulus for investments. In this field we have delivered on our commitments of the regulatory arrangement from 2009 by investing into over 400,000 lines in 2010, bringing the total to over 450,000 since the signature of the memorandum in 2009.

Let us now have a look at how picture on broadband has changed in 2010 as shown at slide number seven.

2010 was a critical year to revamp our broadband offering. We took the advantage of the cost plus regulation and reduced our pricing back to the market levels at the very end of the year. We reduced prices for the top speeds much more than for 2 megabytes and slower options, thus stimulating upward migration, increasing customer satisfaction and protecting the ARPU. This means that after three years of uncompetitive pricing TP’s broadband offering is back on the market in every speed option. It has already started to bear the first fruits.

In quarter four we had the moderate growth of the broadband base first time after four quarters of decline. It is still not up to our ambitions but shows that we are on the road to recovery as planned for 2011. If you compare the picture a year ago TP took significantly more market growth versus competition. On top of this, our pricing structure now favours top speed options. It is already visible in the sales structure comparison to the last year as we will follow this up in 2011.

In 2010 we have fixed the fundamentals for broadband. In 2011 we plan to launch a number of initiatives aimed at returning to sustainable and visible growth in this area. This will include (a) the launching of the offer based on the cooperation with TVN Group, I remind you this the frame contract which had been signed is planning to finish the retail development for end of quarter one this year, providing our customers with the best bundle in Poland from the content and functionalities perspective; (b) we will add the new speed option based on the VDSL of at least 40 megabytes per second. We already have over 6,000 VDSL ready cabinets and will launch the service in H1 this year.

Finally, we are determined to improve our sale and customer care processes to outperform our rivals in our agility and customer friendliness. It is a part of a bigger company wide project on customer excellence that I will describe by the end of today's presentation. With competitive pricing, premium quality television offering, high speed options and improving customer relationship we do believe that 2011 will be and must be a year of growth for broadband.

Let's now turn to the next slide for review of the achievement in mobile.

Our mobile segment has undergone a real change this year as we have taken initiative on the market with a new approach. Segmentation based on usage was introduced both to our prepaid and postpaid offerings and proved successful in both segments. We have gained over 600,000 customers during the year with over 50% of new adds coming from the postpaid. This allowed us to become the market leader and to outpace main rivals in customer growth paving the way for a very clear leadership in 2011. And I remind you again in the mid-term plan that 2011 is a year when we said that we will achieve the visible market leadership.

The "animals" tariffs have been a success. Not only have they attracted new customers but they also led to an increase in customer commitment. This will protect us against the price volatility in the future. This explains part of the rebound in mobile revenue in quarter four growing by 6.4% compared to the 14.5% decline in quarter four last year, of course it is partly because the MTR had huge impact on it as well.

With regards to our plan for 2011 they re strongly focussed on growing the retail ARPU especially in data part. We see the reasonable cost android-based smartphones as the gateway to data ARPU growth and clearly within something which we repeated for again last 12 months. This is coming to Poland. We have begun their promotion mainly through the "Pantera" tarffis. The first results are encouraging as 22% of postpaid sales and retention in quarter four included already smartphones. While their number within our customer base is still small, we are sure that this is the next growth engine in mobile and we will continue to develop further smartphone growth in 2011.

Looking back let's not forget that 2010 was not just about revenue. As we said when presenting our medium-term plan we wanted to rebalance our operating model by an intensive cost-cutting program.

Let's turn to the next slide for an update where we stand on these cost-cutting initiatives.

Our cost transformation program has four main directions. First, classical cost cutting. It was started in 2009 and results continued to be visible in 2010. For an incumbent such a TP classical initiatives can bring tangible savings, although the scope for additional simple cuts is decreasing. Second direction is focussed on process simplification, including migration towards electronic customer care, e-invoice and online sales. Third direction is consolidation which includes the integration of all customer care in one subsidiary. We expect more efficiencies as the project is fully rolled out. Finally strategic cooperation as the ultimate way to save costs with inter-sector cooperation considered to be the next lever of efficiency rise. I believe that our projects with TVN and Era will be successful and will deliver substantial efficiencies to all parties in the years to come.

Finally, let's turn to slide ten to sum up our 2010 performance versus targets.

Quickly on the financial targets before I hand over to Jacques. First, revenue evolution was in line with the low end of our outlook. Second, EBITDA margin, restated obviously from the DPTG provision was a solid 36.7%. This has also met our expectations. Third the Capex to sales ratio was exactly in the middle of our outlook. And finally, we generated over PLN2.4 billion of the net free cash flow, thus meeting both the original and the restated guidance.

To sum up 2010, for me was year of progressive and sustainable upturn in the Group. No revolution but rather planned step-by-step execution of the carefully crafted strategy which we announced to you at the beginning of 2010. After one year from announcing the action plan I am satisfied and the team is satisfied with the first year of its execution.

Let me now hand over to Jacques for the financial review of the quarter four and year. Jacques, the floor is yours. Thank you.

Jacques de Galzain

Thank you, Maciej. Good morning everyone. I hope to have the opportunity to meet you in person in the near future but for the meantime let me walk you through the financials for 2010.

Let's begin with the market evolution on slide 12. The value of the total Polish telecom market has finally reached a break even point with year-on-year growth estimated at 1.4% in Q4. I think it is worth recalling that Q1 was down by almost 7% versus Q1 2009. The recovery is driven by the mobile market which showed a second consecutive quarter of growth with a 5% increase in Q4. Growth of the mobile market was possible in the absence of MTR impacts on the market evolution in H2 and thanks to a strong growth of the global customer base. Improvement in fixed is very gradual with Q4 decreasing by almost 3% year-on-year compared to a 5% decline in Q1. This should improve but only once robust growth in broadband is restored at the expense of cable.

In this context let us now see how TP revenue has evolved on slide 13.

Throughout the year we have got a gradual upturn in the revenue trend. The evolution of the top line has again improved in Q4 with only a very moderate decline year-on-year. The improvement in trend in quarter four came mostly from the mobile segment with over 6% revenue growth but finally 200,000 net adds and a stable ARPU. The evolution of the fixed segment has also improved throughout 2010 although at a much slower pace. More dynamic upturn will be possible when broadband revenue will return to healthy growth levels. Let's now review the mobile segment evolution on slide 14.

Mobile segment revenue is back on the visible growth path with over 6% revenue increase reported for the fourth quarter. This can be predominantly attributed to four consecutive quarters of growth in the number of Orange customers. Sales of handsets, tablets and netbooks have also proved to be a success, visibly contributing to growth in Q4 and building a good base for further traffic increase in the future. Finally, growth in usage offset price pressure and ARPU remained almost flat. All of the above has allowed Orange to maintain its 31% value market share since quarter three, which is a major success when you are seeing that we are competing on the 4-player market with a large MTR asymmetry.

Let's have a glance at mobile KPIs, next slide please.

Our mobile base has grown in every quarter of 2010. The 200,000 increase in quarter four brought the total for the year to 600,000 net adds. It means that Orange has been able to outpace its main rivals in 2010 as Play grew mainly at the expense of Era and Plus. The postpaid has done particularly well growing by 5% year-on-year. The "animals" tariff have been successful in growing of customer base and usage which is up by 16% since 2009. It has helped to offset price pressure and as a consequence the retail ARPU is almost flat. The prepaid segment has also made progress, eversince rebounding in the second quarter. In Q4 the customer base was up by 4% since last year. Our strategy is to gradually migrate the acquired prepaid customers into mix solutions and finally to the full postpaid offer.

Let's now turn to slide 16 for fixed segment revenue analysis.

Fixed segment revenue has continued to improve throughout the year. The improvement in market trend in quarter four was mainly the result of the more comparable fixed to mobile pricing after regulated price cuts we have made in November 2009. Further improvements should be possible in 2011 as revenue from broadband will start to grow again. In Q4 broadband revenue was comparable to Q3 as growth of the customer base helped offset an initial decline in ARPU. This should improve over time as continued migration towards higher speeds will mitigate lower pricing. Finally as in Q3 fixed line revenue evolution was helped by over PLN40 million year-on-year increase in wholesale and other sales including equipment sales. Next slide please.

Subscriber trends show a rebound in broadband base. After declining for most of the year it reached an inflection point and grew by 17,000 in Q4. We continue to focus on marketing activities on broadband and forecast further growth in this product coupled with migration to higher speed options. These trends are supported by the dynamic growth of our TV base. It has grown considerably this year exceeding 540,000 subscribers. The demand for TV and broadband bundle is further supported by the development of our pay-TV client base. Consisting of premium TV packages, it has reached 120,000 subscribers making TP a visible player in the TV arena. The fixed line base has declined by over 200,000 in Q4, bringing the total decline to 10% in the year. We will continue to work towards limiting the decline by growing of broadband base which is a natural loyalty tool, by stimulating the take up of the defined duration contracts for the fixed, and by developing a dedicated action plan focused on revamping the fixed voice offers.

This concludes my review of the top line. Let's now turn to slide 18 for the analysis of the EBITDA.

Ladies and gentlemen, one important comment before we review our profitability. We have based the analysis of EBITDA and net income on the restated figures excluding the PLN1.1 billion increase in provision for the litigation with DPTG made in Q3 this year. Our EBITDA was strong in Q4 despite high sale season. Excluding risk provision it would have been up by 1% Q4 last year. The reported EBITDA margin including the PLN100 million risk provision booking Q4 was at 34.9% versus 36.5% a year ago.

Apart from risk provision Q4 EBITDA has increased versus last year, driven by the following factors. First the pre-regulatory decline of the revenue by roughly PLN35 million. Second, the interconnect and also commercial costs have risen, driven by an increase in our customer base and usage. They impacted the EBITDA by roughly minus PLN100 million in total. These negative factors were partially offset by positive forex amounting to PLN26 million and PLN39 million savings in other costs. Finally the cost optimisation program has once again delivered solid results helping the Q4 EBITDA by PLN100 million.

Let's go to the next slide to analyse the EBITDA evolution for the whole year, next slide please.

Full year restated EBITDA margin was at 36.7% so just 1.2 percentage point below last year. The EBITDA was mainly driven down by a PLN400 million pre-regulatory decline of the top line, although as you have seen this trend is slowing down. The regulatory impact pushed EBITDA down by an additional PLN120 million mostly in H1. Growing customer base and usage in mobile have pushed commercial cost and interconnect up by PLN390 million in total. Other cost have risen by roughly PLN170 million, mostly due to risk provision, higher energy prices and health care provision reversal we have made in 2009. These were offset by foreign exchange gains.

Finally our cost optimisation program as a result almost PLN0.5 billion of savings. This brought a total cost base down by roughly 4% since 2009. As the evolution of our headcount is a significant factor behind the improvement in our cost base I would like to spend a minute on this topic shown on slide 20.

Our headcounts has been declining for a number of years with 2010 being no exception. Benefiting from process simplification we have been able to decrease the headcount by a net amount of roughly 2,000 FTEs. In turn, this has allowed the Group to reduce labour expenses by approximately 5.7% since 2009. We continue a constructive dialogue with our social partner to plan the employment in the future.

Let's now go to the following slide for overview of our net income.

As explained a moment ago full year restated EBITDA was down by roughly PLN500 million. This variance was offset by depreciation which was down by PLN360 million. Net financial costs were down by PLN40 million since 2009 mostly due to forex. In effect it brought the restated net income to over PLN1.2 billion, roughly at the same level as in 2009.

This concludes my review for P&L. Let's turn to the next slide on analysis of our capex.

Capital expenditure amounted to PLN2.7 billion and was at 17.3% of revenue. 44% of our investment were dedicated to broadband as this is a key area for our future growth. As part of this investment we have achieved our commitment towards the regulator even with a slight safety buffer. 30% was invested in IT, both software and hardware, in order to manage the network and our process in sales, customer care and service delivery. The remaining 30% of TP capex was spread across mobile capacity upgrades, 1st phase of HSPA2+ implementation and core network investments.

Let's now turn to the next slide to analyse our cash flows. Our cash generation has been strong this year with a net free cash flow exceeding PLN2.4 billion, above our expectation. The decrease versus last year can be explained by lower EBITDA and by the ramp up in capex as announced in our mid-term action plan. Excluding provision, EBITDA decreased by roughly PLN400 million. It was correlated with PLN170 million negative difference of hedging against ForEx. This was relative to the weakening of the zloty in 2009 and its stabilisation in 2010. Its impact amounted to minus PLN50 million in 2010 versus a positive impact of PLN125 million in 2009.

As mentioned before capex amounted to PLN2.7 billion so it was PLN500 million above the 2009 level. Finally the accumulated effect of working capital requirement and CapEx payables, impacted our cash flow by roughly +PLN400 million. This robust cash generation once again helped us to decrease the net debt. Next slide please.

At the end of 2010 net debt amounted to PLN3.8 billion, implying PLN0.5 billion reduction since the end of 2009. This was possible as our net free cash flow generation exceeded the dividend payment. As a result our balance sheet has been further strengthen, with net gearing at 21% and net debt to EBITDA at 0.7%, like in 2009. Available liquidity is still high, providing security for our operation and our credit ratings remain at solid A3 and BBB plus. A strong balance sheet gives us a the flexibility needed for our operation and for our dividend policy.

Lets go to the next slide to look at the dividend policy.

For 2010 we are pleased once again offer our shareholders an attractive remuneration. A proposal, which is subject to approval by the AGM, is an ordinary cash dividend of PLN1.50

per share, amounting to PLN2 billion cash payout. Taking into consideration yesterday's share price it implies the dividend yield of about 9% placing us in the upper range of European telcos. Let me also take this opportunity to reaffirm, that as of today we see no reason to change the dividend level communicated in our mid-term action plan.

Ladies and gentlemen, this concludes my financial review and I hand over the floor to Maciej to outlook and conclusions. Maciej, the floor is yours.

Maciej Witucki

Thank you, Jacques. Ladies and gentlemen, let's quickly go through our expectations for 2011 shown at slide 27. First the market value evolution as this is closely correlated with our revenues. It will be affected by the MTR cuts currently discussed with the regulator. The SMS MTR has already been cut from 15 groszy to 8 and another cut is probable, with glidepath to be determined by the regulator. We anticipate for this to affect market value but not the EBITDA.

Voice MTR is likely to be cut from 16.7 groszy gross to 15 as proposed by the regulator. On the other hand we expect to see further growth of market volumes in mobile and the return to growth in broadband. All in all, the market value is likely to decline further in 2011 however at a slower pace than the minus 2.6% in 2010. Taking the market assumptions and the still uncertain MTR situation into consideration I anticipate TP Group revenue to decline moderately with an improving trend versus 2010. We will continue our efforts to bring the cost base further down. In effect we anticipate the 2011 EBITDA margin between 36% or 37% of the revenue.

CapEx as mentioned in the medium term action plan is anticipated in the range of 17% to 19% of revenue, including VDSL and the HSPA2+ deployment as well as increase in the 3G coverage. As a consequence of taking this year experience into consideration, we expect the net free cash flow generation of at least PLN2.4 billion. Of course these objectives exclude items regarded as exceptional, such as the potential impact of claims and litigations, frequency purchase, change in consolidation scope or unpredictable regulatory impact.

Let's now turn to the next slide with the conclusion of this presentation.

In summary 2010 was a successful year in implementing our action plan presented in February, bringing us closer to the turnaround. Thanks to our commercial efforts, we regained momentum in mobile. TP is back to market pricing in broadband. Finally PLN0.5 billion cost savings stabilized our profitability and we delivered on our cash flow objectives.

In 2011 we expect to further strengthen our leadership in mobile and visible return to growth in broadband. In order to boost our commercial progress we have launched a company wide program to significantly improve the way TP Group does business. Called Misja Klient it is focusing the entire company around customer excellence. In order to be truly successful TP needs to develop best in class customer experience. This should be visible not only in products and network quality but also in the way we sell and deliver our products and in the customer service which follows.

I am convinced that within the next 18 months customer relations will be our differentiating factor. It will also bring us closer in our journey towards adopting Orange brands for broadband and new services.

Of course on commercial progress will not come at zero cost. Growing demand for smartphones will put pressure on our costs. Improvement in customer relations will too require investment. This is exactly what we anticipated in the medium term action plan. Therefore, as excepted we will continue to optimise our cost base ensuring that we will deliver sustainable levels of profitability and cash generation. Finally, throughout 2011 we will work to implement the vital projects launched in 2010.

First, the cooperation with TVN, in line with the framework agreement. We will now make it fully operational and start drawing benefits from this project. Second, after hopefully receiving the "go ahead" from the competition office, UOKiK, we will work together with Era to agree details and launch our network sharing project. It won't benefit us in 2011, but its impact could be substantial from 2012 onwards. Finally, Orange Global has become the main sponsor for the Euro 2012 Games with TP involved as the main technical partner. This will give us an important boost not only in the revenue from services during the games but also from an image and branding perspective complimenting the customer excellence program.

Thank you ladies and gentlemen. This concludes my presentation, our presentation, and we are now ready for your questions.

Jacek Kunicki

I suggest that we first take the questions from the floor, here in Warsaw.

Waldemar Stachowiak, Ipopema Securities

First of all the Neostrada sales, the Neostrada customer base shrank by another 10,000 customers in the fourth quarter in spite of price decreases. When do you expect this trend to reverse? Second question: the fixed line customer base erosion accelerated again. Again, when do you expect this trend to reverse? And the third question is, could you break down this guidance of top line decrease of 2% to 4.5% into regulatory and the competitive pressure? Thank you.

Maciej Witucki

So, concerning the – I will take the first two questions. Third one will be very quick answer to Jacques. So first, Neostrada customer base. So, Neostrada, remember that Neostrada was for the last four years with a different range, but always two-digit number percentage more expensive than the competition. So this was a product, which from one side, has a very positive image as a product, but from the other hand, it was a product which in the three quarters of 2010 was up to 30% more expensive due to the regulatory constraints than the competition. So we changed the pricing only in October. We change the pricing in the moment where we have the highest number of customers to be retained because of the number of contracts being signed. So the October/November is always also the month of highest churn.

So in 2010 we couldn't expect to have an immediate impact of this long-term expensive products image. And second of all, the last days of the retention while the customer decisions on staying or not with the product are rather taken some time before the end of the contract. So this is, I would say this is normal cost. Of course we would love to have this base growing from 1 October. But clearly this is something which will change in 2011 as we have the positive image, we have excellent marketing campaigns based on the "Serce & Rozum" and as we have now the image of the product which is changing with the new perception of the price. So this is for the Neostrada so change of the trend: 2011.

Second, fixed line customer base, this is something we spoke about it and that we want to reduce the absolute value of decline. There was a decline over fixed line- unfortunately a trend on the market. We have been, remember, up to 17% year-on-year decline, where this year we go down to 10%. We've got an exceptional quarter two, and we spoke about it in quarter two, that it was a really exceptionally low level. And then we came to the quarter three and four, which are –well, when you see the real differences there- a few thousands of lines. So there is not a sudden worrying trend. What we said by the way in the medium term plan we spoke about the reduction from the 17%, if I remember well, to the 12%, roughly the 12%. We are 10% in 2010; that does not mean that we are extremely happy to lose 700,000 customers. We will work out to lose less of them to retain more customers through broadband, through the plans that Jacques spoke about. But I believe that, when you would compare year-to-year, the trend is already reversing, and we will keep from the product perspective including the VoIP offers, all of which is postponed to diminish this trend.

Vincent Lobry

Just an element, if you take the loyalty contracts, share of the loyalty contracts in our fixed customers, one year ago it was minor than 10%, end of year we were up to more than 25%, which is also a way to loyalise the customers and to have less churn.

Jacques de Galzain

About the revenue decline, this range is between 2% and 4.5% takes into account the uncertainty in term of regulation. And the further cut to come as well as on MTR and on SMS interconnect. And also for sure the some tax aspects - as you know that VAT has increased by 1% this year. So this is the level of uncertainty which is included in this guidance.

Waldemar Stachowiak, Ipopema

In terms of PLN millions what is the expected impact of the SMS MTR cut and voice MTR cut?

Maciej Witucki

So we do not break it down in the guidance but be open, and because we already spoke about it- SMS MTR impact is in the range of PLN20 million revenue per month. We do not go further in details on this question.

Paweł Puchalski, Dom Maklerski BZWBK

To be precise when do you expect MTR cuts to take place? You have to have some expectation because you are suggesting at least a 2% decline.

Maciej Witucki

Well, I think this is really a question which, to have a precise answer, you must ask a mile from here, at the regulatory office. That is number one. But clearly the decisions on the voice and SMS MTRs as I understand will come within the next weeks. Piotr and Mariusz are meeting with UKE quite regularly. So for me this is something, which will be confirmed within - in my opinion (Piotr, I will speak under your control)- will be confirmed within March.

Paweł Puchalski, BZWBK

I understand, you don't know what will happen but you to have some ideas about MTR trends, so please guide me what is in your expectations, assuming at least 2% decline? Are you expecting these MTR cuts to come in June, in September?

Maciej Witucki

I think that I will keep it with the President of UKE. Of course we have some ideas and our expectations, but really, I don’t want to speculate on this one. I believe that the final answer will come within March from the regulator, that’s the point.

Paweł Puchalski, BZWBK

Have you included potential Deutsche Telekom offensive into your forecast?

Maciej Witucki

We are not particularly focussing on Deutsche Telekom in our forecast. But, yes, we obviously take into account all the elements including the aggressively of the players being now on sale or the aggressively of the players announcing that they will rebrand. So clearly those projections are including what we expect to be happening on the market in 2011.

Paweł Puchalski, BZWBK

Some time ago I remember CEO saying that 2011 might come flat at the top line. Please explain what has changed.

Maciej Witucki

MTRs. Clearly, just to give the full answer: we have been in our mid-term plan going with the projection of 2011 being next to zero, if you remember well. We didn't precise which side next to zero, and having an option for the beginning of flat and/or growth in 2012. Clearly with the impact of the sole SMS MTRs which has been planned at that time, we are 250 million (if you multiply to 20)- let's say- 200 million additional downturn in 2011. So this is bringing us, effectively, from the top line perspective only, that's clear. From this expectation beginning 2010 to be next to zero in 2011, rather than the expectation to be next to zero in 2012 for the top line only. Concerning the EBITDA, concerning the net free cash flow, we do keep all the plans as presented at the beginning of 2010.

Paweł Puchalski, BZWBK

Last, my question would be on claims and litigation. I know you don't comment on this, but since you made a provision, is it wise to estimate that you will be also provisioning interests potentially earned by DPTG?

Jacues de Galzain

No, clearly there is one line of P&L for DPTG and the additional PLN100 million provision in Q4 doesn't relate at all to DPTG.

Jacek Kunicki

If we don't have any more questions from the floor I suggest we now can take questions from the telephone audience.

ACT Operator

Next question comes from Frederick Boulan from Morgan Stanley. Please go ahead.

Frederick Boulan - Morgan Stanley

Hi, good morning. It's Fred Boulan from Morgan Stanley. A quick question on your fixed business. We saw a pretty nice rebound in margins in Q4, which contrasts quite sharply with the decline we had in the first nine months of the year. Can you come back on this and if you see this as a sustainable trend going into 2011?

Maciej Witucki

Could you please get it? Isn't is a question which we answered a few minutes ago about the difference between the quarter two exceptionally of the low churn in fixed business, and then comparison to the quarter three and four, which are somehow comparable - there's a difference of, if I'm not wrong, I shall find in the slide- a few thousands of line.

Frederick Boulan - Morgan Stanley

No, I am not talking about line loss. I am talking about EBITDA margins. So if I strip out your exceptionals, the fixed business is a business, which, historically has been under a lot of pressure. And in the first three quarters of these months, the margins in fixed were down quite significantly, but it's not something we've seen in Q4. If you strip out the one-off, margins were actually up. So I just would like to see if this is something sustainable, or if there is something specific for the quarter? Maybe I've missed an earlier answer.

Jacques de Galzain

Yes, in terms of EBITDA margin for the fixed segment, now it's time also to get benefit of the cost optimisation program and also the transformation initiative, that took place since 2009 and so there is now a stabilisation of these margins despite decline of the top line.

Frederick Boulan - Morgan Stanley

So what's the perspective for next year on this? Should we expect more or less stable margins in fixed or it's a bit early to call for this?

Maciej Witucki

We don't guide at this level of details.

Frederick Boulan - Morgan Stanley

OK, thank you.

ACT Operator

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

Herve Drouet - HSBC

Yes, good morning. Two questions on my side. The first one is as well on margins. You explained to us that your guidance for 2011 in terms of revenue decline are mostly coming from MTR and SMS interconnect cuts. That I understand. My question is, in fact, regarding the margins. As you said, those cuts should be EBITDA neutral for TPSA. So I will have expected in fact your margins in 2011 to some extent to slightly improve coming from that perspective, especially with your ongoing restructuring program, if you would answer, I was wondering what made you think, in 2011, your EBITDA margin will remain stable? And where do you see any, maybe, inflationary pressure building on some of your cost items at TPSA?

And my second question is more technical. Can you tell us more about the reason of what type of expenses you could not tax deducted in Q4? It looks like your effective tax rate was much higher than anticipated. Thank you.

Maciej Witucki

So I will take the first question and give the floor to Jacques. So clearly for the margins, yes, on the revenue side, it's about mobile as an exceptional element. But remember that, unfortunately, we are still losing a big number of fixed line with the very high EBITDA margin. This is something which is extremely difficult to be compensated fully by the cost cutting program and there is a big difference between when you see the EBITDA margin between mobile and the Group. Group is at almost 37%, mobile is at 30% so it explains why we run after the margin.

On the top of this, when we speak about the strong development – this is something which is extremely visible in Poland today – strong development of the smartphones and tablets. Well- on the smartphone side, almost fully subsidised market, this is driving the commercial expenses up. So again, we must continue to cut costs to neutralise those impacts but clearly the EBITDA is not purely about neutral to the EBITDA MTRs. It's about top line from fixed and high EBITDA disappearing from fixed lines and pressure from the cost of handsets, so this is first question.

Second question, expenses on tax deductibility, Jacques?

Jacques de Galzain

Yes, in Q4 the main part of the provisions which are booked are considered to be not deductible, and that's the reason why there was this tax rate.

Herve Drouet - HSBC

And can you give a bit more light about this provision? I mean you say it's not related to DPTG. What was it related to?

Jacques de Galzain

Sorry, but it is, once again, a sensitive issue. And we do not elaborate on provision.

Herve Drouet - HSBC

OK, thank you very much.

ACT Operator

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

Maria Kahn – Bank of America Merrill Lynch

Hi, thanks for the opportunity. I have two questions from my side. First of all, can you please talk a little bit about your broadband strategy. I am looking at page seven of your presentation, and it looks like the price differentiation between 20 megabyte package and a 6 megabyte package is very, very small. And I know you don't offer 20 meg speeds. I am just wondering how you are going to compete with the aggressive cable offerings and what's your competitive advantage there? That's number one.

And second question in related to smartphones penetration. I was impressed to see that 22% of your subscribers are smartphones. Could you give us a little bit more colour of what percentage of the net smartphone sales are smartphones, and what sort of uplift they give to the ARPU? Thank you.

Maciej Witucki

So maybe I will give those two points to Vincent.

Vincent Lobry

Thank you. So to the broadband strategy, the goal is in 2011 to increase a net adds and to keep the ARPU. The ARPU have different things. First, we have to migrate people going from – in 2010 customer base was mainly on the 1 and 2 megs, and we are migrating quite quickly them on 6, 10, 20 megs which have bigger ARPU in order to keep the ARPU.

Another element which is important is TV part. TV part, we have more than 25% today of the customers, which have TV offer, and the TV offer is bringing the ARPU. And the more you increase the bandwidth, the more are you capable to add IPTV and to add VOD type of services which also increase the ARPU. So the ARPU is not coming only from the monthly fee, but it's also coming from the TV and from the usage of new TV offers and interactive TV offers. That's clearly the main advantage to go to more bandwidth is to be able to offer more services and higher ARPU.

Competing to the cable TV, I think we are working on all competitive offer with the cable TV. As mentioned by Maciej in H1, we have launched VDSL offer which will allow us to have a higher bandwidth from 40 to 80 megs, which will put us in par with cable. And also, we are working a lot in H1 on the quality of the TV offer and not only the content signs since that we have with "N" but also the interactive features on TV like catch-up TV, PVR and this type of offers. Well usage of IP give us some advantage compared to some cable solution.

On smartphone, in terms of percentage of sales of net add now, it depends on the market but if it takes business market, we are more than 50% of net add with smartphone and on the consumer, we are little bit below 50% now. And in effect of ARPU, what we can say is that if you take the people today, the smartphone compared to the normal average customer without smartphone the difference of ARPU is around 50%. But, of course the more you democratised the smartphones, the less this difference will be big. But we have clearly higher ARPU which is coming mainly from data usage and which compensate, in fact, which allow us to maintain, as mentioned by Jacques, the ARPU level. That's what we did last year because we have a decrease of voice due to the competitive pressure and MTR and at the same time, we keep the same ARPU due to the increasing data revenue.

Maria Kahn – Bank of America Merrill Lynch

That's great. Lots of details, thank you so much, I appreciate it.

ACT Operator

The next question comes from Jindrich Svatek from Raiffeisen Bank. Please go ahead.

Jindrich Svatek - Raiffeisen Bank

Hello, I have two questions. One question is regarding your Neostrada expectation for this year. If you could share, perhaps, maybe, your estimate how many Neostrada customers you expect to add this year?

And the second question is regarding the headcount reduction program and wages. I would like to know what is the average wage increase planned for this year? And perhaps if you could share, maybe, potential program for outsourcing where you already published that maybe 2,500 employees should be outsourced from the first quarter 2012. So what would be the cost saving if this program were realised? Thank you.

Maciej Witucki

So question number one, we don't guide on the exact number of customers so close. The clear point is and the clear guidance is: we must see those numbers visibly growing. And we must have you convinced in a year when we will present to you 2011 result, there is visible growing expression being delivered by TP. This is the guidance. Second, concerning the headcount reduction program, Jacek feel free to comment if you want. What we said till today is we have today announced to our social partners: two programs. One which is the voluntary leaves in 2011 at the level of 800 people, and we have announced the program of the outsourcing for the network management at the range of 2,500 people. So first I would like to underline that the FTE reduction is not an absolute target. The target is the cost reduction and effectiveness of the company. So depending on the year, and depending on the period, and depending on the need of the company and the service to the customers, we either cut FTEs, or outsource, or cut the cost elsewhere. Because clearly, you know my statement- the ones meeting me for four years, that if we would continue to lay off 2,000 people per year and in 12 years' time there would be no TP.

So somehow, this is really a balance between what we can afford and between what we must deliver for progress in EBITDA defence. So those are the two big projects as of today, they should keep us in the pace of the cost reduction and EBITDA defence global for the company as announced in the guidance.

ACT Operator

Thank you. There are no further questions.

Jacek Kunicki

Thank you very much then and goodbye until the Q1 result is presented in the end of April.

ACT Operator

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

END OF CONFERENCE