

ORANGE POLSKA, #4664281
ORANGE POLSKA, FULL YEAR 2013 RESULTS
February 12th, 2014, 11:00 AM CET
Chairperson: Jacek Kunicki (Mgmt.)

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Orange Polska Full Year 2013 Results Conference Call on the 12th of February 2014. Throughout today's recorded presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation, please press the star, followed by the zero on your telephone, for Operator assistance.

I will now hand the conference over to Jacek Kunicki, Head of IR. Please go ahead, sir.

Jacek Kunicki: Good morning, everyone. Welcome to our Full Year Results Conference for 2013, for Orange Polska. My name is Jacek Kunicki; I am the Head of Investor Relations. Today, we're joined by Orange Polska Management Board starting with Bruno Duthoit, as Chief Executive Officer; Jacques de Galzain, Chief Financial Officer; Mariusz Gaca, who is in charge of the Business Segment; Vincent Lobry in charge of Value Management and Convergence; Piotr Muszyński, Chief Operations Officer; and Jacek Kowalski, who is Head of HR

Please note that our results have been published this morning and they are available on the IR website at www.orange-ir.pl. Before we begin, for those of you who have joined us live, I would like to ask if we can switch off the telephones not to disturb the presentation. I will hand the floor over to Bruno Duthoit, to begin the presentation. Thank you.

Bruno Duthoit: Good morning, ladies and gentlemen. The agenda for today is as follows: I will be dealing with the highlights for 2013, I will then ask Mariusz Gaca to review our main commercial achievement, Jacques de Galzain will follow with a financial review. Finally, I will conclude the presentation with a few takeaways for 2014.

You remember that 2013 was full of challenges for Orange Polska especially resulting from fierce competition in mobile. In this context, I'm happy that we delivered on our promise of cash generation. We have generated 1.1 billion zloty of organic cash flow reaching the commitment of at least 1 billion zloty of OCF. We achieved this without compromising our investment plan. Capex amounted to 1.9 billion zloty; so in-line with the outlook of below 2 billion zloty.

Let's now review the main highlights of 2013. We promised to focus on strategy execution and put business development as a priority. Our results demonstrate that this was the right way forward. Our commercial

momentum is improving; it is visible in the growth of Orange Open, faster expansion of our mobile customer base, and limited churn in fixed. On the other hand, broadband is still an area of concern which we must tackle in 2014.

Our financial performance is under control. We brought the costs down by almost 5% and defended EBITDA margin at 31.6%. The new Social Plan has been agreed and signed; the sale of Wirtualna Polska will benefit us in the future. We are driving operational progress to boost our performance, going forward. The merger of TPSA and PTK has been completed, and this will further facilitate convergence. We have launched 4G services. We have also extended our coverage, both in 3G and 4G.

Let's now review our key commercial progress. I would like to ask Mariusz to present this part.

Mariusz Gaca:

Thank you, Bruno. Good morning everyone. As you can see by the end of 2013, we had 286,000 customers of Orange Open. This is a solid growth consistent with our plans; roughly 165,000 of these customers bought additional services while entering Open. This demonstrates a great opportunity for upsell that is presented by convergence. In consequence, 4% of our mobile post-paid customers are now in Open. Roughly 80% of them have bought a triple-play offer or higher. Multi-product bundles are key to customer loyalty as their churn-rate is much lower than among single product users.

Let's now review our commercial progress in other key areas.

Our commercial momentum in the two key lines of business is visibly improving. In mobile, we focused on regaining growth in post-paid, as this segment creates most of the value. We're happy to report 169,000 post-paid net adds in Q4 and this is a level that is unseen since 2009. As a result, we have visibly improved the overall Mobile customer base dynamics.

Simultaneously, we continued to limit churn of our fixed voice customers. We have lost 345,000 of them in 2013 versus 590,000 in 2012. As you can see, churn was also sequentially limited throughout 2013. This is a good sign for 2014 and our ambition is to continue with the trend.

Let's now turn to review our Nju Mobile brand.

Our second mobile brand, Nju Mobile, is an effective, competitive weapon. Within eight months since its launch, it positively contributed to our performance. We gained over 350,000 customers including 75,000 in post-paid. Almost 70% of these customers are either new or taken away from our competitors. The awareness of Nju Mobile brands on the Polish

market is growing dynamically, this is positive, as we want to continue to use Nju to gain price sensitive customers.

Thank you very much. This sums up our commercial highlights and I will give the floor back to Bruno.

Bruno Duthoit:

Thank you, Mariusz. As you know, we signed a new Social Plan with our trade unions. We came to a mutual agreement that we must adapt to market realities by reducing the workforce. In order to do this responsibly, we agreed to help those employees who cannot stay with us, through a voluntary leaves program. Up to 2,950 employees can take advantage of the program, which will last until the end of 2015. Our cost base will start benefiting from the program as early as in H2 2014; we expect to reach full savings run-rate of 200 million zloty per annum, once the program is completed.

Now, let's look at our workforce evolution over the past few years.

As you can see, we have a long history of adapting our workforce to the market conditions. We have always tried to limit the stress of organizational change among staff. We are confident that the new Social Plan will run smoothly and will not hurt staff motivation. Considering the Social Plan, and the 400 employees of Wirtualna Polska that will soon leave us, we are on-track for headcount of roughly 16.5 thousand employees by the end of 2015. Workforce optimisation is not easy, yet it is necessary to stay competitive. I congratulate Jacek Kowalski and our Social partners for reaching this agreement in the spirit of mutual understanding.

Let's now summarise the progress made so far in executing our strategy.

Following 2013, we are on-track in most areas of strategy execution. Convergence has been a success in Poland, ICT revenues are growing as planned; we are reducing costs and improving efficiency. We have kept a sound balance sheet while realising the planned network investments. We need to improve customer centricity as we could be more focused and better organised.

We are not happy with the broadband results so far and this is hampering our market leadership ambitions. It is our priority to address this issue in 2014.

Ladies and gentlemen, this concludes our review of 2013 and I will now hand over to Jacques for the financial review.

Jacques de Galzain:

Thank you, Bruno. Good morning everyone. Let's begin the financial review.

Our main financial results are in-line with the objectives. Revenue is still affected by MTR cuts, but good commercial progress will help to

gradually recover our performance. This is reflected in the commercial costs in Q4.

In the full-year, we have reduced our cost base down by almost 5%. Finally, we have delivered on our commitment regarding capital expenditure and especially organic cash flow generation.

Let's now review our results in more detail starting from revenue.

Regulatory apart, revenue went down by 3.8% year-over-year, so slightly faster than in Q3. This was due to less sale of ICT equipment, as large orders realised in Q4 2012 were not repeated in 2013.

Mobile revenue evolved similarly in Q3, down by 33 million zloty, while the evolution of fixed service revenue improved once again. In Q4, they decreased by 64 million zloty year-on-year, versus minus 74 million in Q3.

Let's review this in more detail starting with Mobile.

Excluding regulatory impact, mobile revenues went down by 1.9% year-on-year, slightly less than in Q3. It was helped by good growth of the customer base:

The total number of our mobile customers went up by almost 200,000. More importantly the customer base in post-paid went up by 169,000 this quarter.

Mobile ARPU contracted by 7% year-on-year, as we continued to absorb the price pressure from time plans with unlimited voice calls.

Let's now turn to broadband.

Broadband revenue amounted to 423 million zloty in Q4, up by 3.7% year-on-year. The growth was driven by ARPU which expanded by 5.4% year-on-year. Broadband customer base stayed almost flat since Q3, but VDSL is starting to grow; its customer base stands at 64,000, of which 15,000 were added in Q4.

Let's go on to review the revenue from fixed voice.

In Q4, fixed voice revenue decreased by 100 million zloty year-on-year, as compared to 146 million a year-ago. The improving trend is driven by sequentially lower loss of fixed voice customers. Their number went down by minus 62,000 in Q4, versus minus 78,000 in Q3 or minus 90,000 a year ago. The Q4 ARPU from fixed voice services went down 5.5% year-on-year due to migration of traffic to mobile and price pressure.

This concludes a review of the top-line. Let's turn to the EBITDA.

The restated EBITDA decreased by 143 million year-on-year, so slower than in the previous quarters. The EBITDA margin was at 27.4%, this is 1.5 percentage point less than a year ago, albeit this is a marked improvement versus its evolution in the past quarters. We were successful in our Christmas campaign for Mobile, therefore we incurred 71 million zloty more commercial cost than last year. Finally, the EBITDA was helped by 66 million zloty coming from a cost optimisation program.

Let's turn to the EBITDA for the full-year.

Full-year restated EBITDA amounted to 4.1 billion zloty, a decrease by roughly 770 million versus 2012. There was a 280 million zloty rise in direct cost, as Interconnect was up due to more traffic from unlimited tariff plan. ICT cost increased in-line with the revenue and commercial costs grew to due higher activity in Q4, as I mentioned a minute ago. Finally, this was partially offset by 220 million zloty stemming from a cost optimisation program. In effect, we defended the EBITDA margin at 31.6% in 2013.

Let's now review how this translated into net income.

Q4 net results including the impact of the restructuring provision amounted to to minus 102 million zloty. This brought the total for the year to 294 million, down from 560 million in 2012. The decrease results mostly from the EBITDA, including the restructuring costs. This was partly mitigated by lower depreciation charge:160 million down year-on-year; 78 million less financial costs, and 147 million lower tax

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

Excluding spectrum capex amounting to 1.9 billion zloty in 2013. This represents 14.8% of revenues, versus 16.5% in 2012. 57% of this capex is related to network including mobile network modernisation, and the fibre to the home pilot

Let's now review cash generation.

Organic cash flow amounted to 272 million zloty in Q4, bringing the total for 2013 to 1.1 billion zloty. We delivered the guidance.

In comparison to 2012, cash generation went down by 488 million zloty; the decrease was mainly due to lower cash from operating activities -1.1 billion zloty. This was partly offset by 540 million zloty less cash outflow to capex vendors.

Let's now analyse how this translated into net debt.

We have reduced our net debt by about 500 million zloty in 2013. In consequence, the net debt stands at 1.1 times EBITDA, and our net

gearing is limited to 26%. Our financial structure remains sound, we have the necessary financial flexibility as we enter 2014.

Thank you, ladies and gentlemen, this concludes the financial review. I turn the floor back to Bruno, for the conclusion.

Bruno Duthoit:

Thank you, Jacques. Ladies and gentlemen, let me now share with you our plan for 2014.

There are three main areas of our focus for 2014. First, we must improve customer experience. To do so, we improve our distribution and make delivery process smoother and more predictable. The customer excellence program continues to have a very high priority.

Second, we'll fight to grow our market shares. We'll compete using the existing products, but also through new services including LTE. We absolutely need to recover our performance in broadband.

Third, we need to save costs. We must focus on saving that are sustainable. This is absolutely necessary in order to recover the EBITDA margin and grow our cash generation in the future.

Let's now look at the key trends anticipated for 2014.

We do not have the full influence on revenue evolution. However, we anticipate the slower pace of its decline in 2014, than in 2013. In particular we expect the decline to slow down significantly in H2. It could be limited to low single-digit in Q3, and Q4. We will reduce the costs further down, below the level of 2013, fighting to protect the sustainable EBITDA margin. We plan to limit capital expenses to below 1.8 billion zloty, excluding costs linked with spectrum.

Let's now turn the page to review our guidance for cash generation.

Last year, we generated 1.1 billion zloty of organic cash flow. Having examined our commercial and financial plans, we expect the underlying cash generation in 2014 to be at least stable versus 2013. This guidance excludes some important one-offs such as 340 million zloty payment for the renewal of our GSM license, up to 127 million Euro for the European Commission fine, and purchase of LTE spectrum, with the auction expected in the coming months.

Guiding excluding these items helps us to understand underlying cash generation. However, we have to include these items when preparing the dividend proposal.

Let's now turn to this topic.

When analysing options for the dividend, we must acknowledge two areas of uncertainty. First, the one-offs mentioned a minute ago with an

unknown financial impact. Second, the execution of our plan. We are now better equipped for competition and more in control of our results, but 2014 will be a critical year. We plan to stabilise our results and initiate their recovery, but we still need to execute this. Despite these uncertainties, we commit to maintain a cash dividend of 0.5 zloty per share, to be paid in 2014.

We will not cut it if we have to spend more cash, for example to buy the spectrum. We will not increase it; should the spectrum cost less or we generate more cash. We will reassess the dividend position in 12 months' time.

Ladies and gentlemen, this concludes the presentation. Thank you for attention, we are now open to your questions.

Jacek Kunicki: I suggest we first start with the questions from the floor.

Paweł Puchalski: One question; you are referring to EBITDA margin, defending, protecting, and I found also, recover the EBITDA margin. Can we assume you are aiming at flat EBITDA margin in 2014 or year-on-year or it will be only goal for 2015?

Bruno Duthoit : Jacques?

Jacques de Galzain: Yes. So, we delivered 31.6% this year. I think globally, taking into account all the circumstances and the market competition, this is not a bad performance, and I do think that it is a kind of level that we should keep for the future and even increase when we have rebound in revenue. Therefore, we work on a lot of the cost base and we will continue to do that.

Leszek Iwaszko: I'm a little bit concerned about the evolution of the retail ARPU in Q4 which accelerated and the year-on-year decline was 7%, versus 5% in Q3. Which I think versus what you were saying that you were expecting some kind of flattening of that negative dynamics. Is it a sign that the market is, again, getting more competitive because I thought that was some kind of—'we're closer to stabilisation'. Are we again, further from stabilisation; if you could like comment on the dynamics of the competitive dynamics of the Mobile market?

Bruno Duthoit : Vincent?

Vincent Lobry: So, we saw in 2013, a slowdown in competition level. 2012 was a very, very strong year with a lot of bad things happening and especially very low unlimited offers. These unlimited offers were launched in mid-2012 so we have still the end of this impact still in, let's say, the end of 2013 and beginning of this year. So, there was really in 2013 no increase in the pressure of the competition.

I think for the future, it's quite difficult to know, on the SMS and the voice; I think the pressure now is down, but we have to be very careful on what will be the trend on the data monetization, especially because, I think that it will drive the ARPU in the following years. So that's really what you have to look at. On the voice and SMS, I don't see new war in terms of the tariffs.

Leszek Iwaszko: Even though the decline on voice, ARPU in pospaid I think was much greater than it was in Q3, it was more than—around 22% voice in Q4. So, you know, it's not—you don't see it as a sign of any more higher price pressures than they were, let's say before Q4?

Vincent Lobry: Not really.

Leszek Iwaszko: Not really, okay. A quick question to Bruno. You mentioned the target for employees for end of 2015, I missed that. If you could repeat, please that figure?

Bruno Duthoit: Sixteen point five (thousand).

Leszek Iwaszko: Sixteen point five (thousand).

Bruno Duthoit: Without Wirtualna Polska

Leszek Iwaszko: Yes, thank you.

Jacek Kunicki: Do we have any other questions? If not, then I suggest we switch to the tele-audience.

Paweł Szpigile: Could you please comment on the recent decision of Polish regulator to cancel a tender for 800 spectrum?

Bruno Duthoit: It's very fresh, this decision because it happened yesterday evening, quite late. Just to comment on our side, we are all ready to participate to action, but you know, due to certain uncertainty, legal uncertainty, which are generated by some late in the delivery of answer to participants last Friday, the regulator took the decision to cancel and to re-launch very soon, I suppose this could be by the end of this week the auction and for us it appears to be a reasonable decision, to be sure that the auction will not be criticised later.

Jacek Kunicki: I suggest that we now switch to the tele-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. Your questions were polled in the order they're received.

The first question comes from Alex Kazbegi from Renaissance Capital. Please go ahead.

Alexander Kazbegi: Yes, good afternoon. Two questions, please. One, on the capital expenditure. I was just wondering, again, after the decline in 2014, given let's say you get the LTE frequency and licenses, what kind of magnitude of increase of the capex you might be looking at in 2015, if at all? I mean, maybe, you will guide us that this is a sustainable level generally to stay, but I would assume there will be probably a hike; so question again, is what kind of magnitude could you probably tell us?

The second question is I think you were pretty firm that there won't be any discussion about the dividends until next 12 months. So, presumably no possibility for the interim dividend; just to confirm that.

And then lastly, also, do you have a target net debt to EBITDA which you would like to, sort of say, stick to? Thank you very much.

Bruno Duthoit: Concerning maybe I will start by the second question. You know that we are absolutely committed to remunerate shareholders at a sustainable level and that's why despite certain uncertainties that we have on the market, as we explained, and we believe that we can face these uncertainties thanks our cost saving plan and thanks our current better commercial momentum, we commit to deliver, this year the 0.5 zloty per share as a dividend but we intend to re-evaluate the situation only in 12 months, based on three major elements. The first is the output of the one-offs; we have still auction LTE in front of us and some other important potential one-off which are unknown. Second is, we'll assess the execution of our plan where we will be in term of cash generation. And the third...

Alexander Kazbegi: Sorry, sorry to interrupt. Maybe my line is bad, but some of the—I can't hear very well, maybe something with the microphone?

Bruno Duthoit: Okay. Is it better now?

Alexander Kazbegi: Lot better I'm sorry. Thank you.

Bruno Duthoit: I'm just saying we will reassess lets say the dividend within 12 months, only based on oneoff output, based on our execution of strategy, particularly cash generation and based as well on the market situation, our market position at this time. That is the answer, I have no intention to increase dividend during the year, whatever will be the situation. Concerning the first question about capex, what I can say even is what we expect, we get 800 mega frequency blocks it will not generate tremendous amount of capex to be spent next year because we anticipate that. You know that we have a common network shared with T- Mobile in a common joint venture and for almost all the roll out of LTE we will reuse existing base station. Those part of the infrastructure already exist. Additionally capex is not negligible, but not very important. Another a

point we're working on, the level of investment in fixed network for the future years. It's still a point which is not fully defined. Maybe Jacques, you want to add some point.

Jacques de Galzain: Clearly, we—at the beginning of this year, we know that we will reduce the capex to reach the standard of this industry. So towards, 13% capex to sales ratio. We reiterate this figure, you see that next year we will be below 1.8 billion, and the commitment for 2015 and '16, this is to continue towards 13% capex to sales ratio.

Bruno Duthoit: Jacques you were saying 1.8 billion this year? 2014

Alexander Kazbegi: Okay and the target on net debt EBITDA, anything there or you're happy where you are now?

Jacques de Galzain: The net debt to EBITDA, you see that we are at 1.1, in fact we are decreased our net debt by 500 million zloty, but unfortunately the EBITDA is down, therefore, the ratio increased. We have a self-imposed target of 1.5 times in the long term, and this is clearly our target, and now I do not exclude that we breach this 1.5 if we have a series of big one-offs and especially if we need to pay the spectrum, a bit expensive.

Alexander Kazbegi: Okay, understood. Thank you very much.

Operator: Thank you. The next question comes from Herve Druet from HSBC. Please go ahead.

Herve Druet: Yes, good morning. Two questions on my side, the first one is with the postponement by the regulator of some of the, some of the spectrum for LTE. Do you know if the conditions are going to be changed or do you think they'll just say, you know, a postponement of the timing, for my first question.

The second question; can you give us an update on these European commission fines in terms of timing? When do you think you may find more visibility when that may bring some cash outflow? And, finally, maybe just on the performance on broadband; you're saying you're quite keen in addressing the performance on broadband. Can you give more detail on how you think you have some leverage to address that in this competitive environment? Thank you.

Bruno Duthoit: For the first question, you know the, most part of the auction will be launched within a few days, maybe this week and we understand that it will postpone the process of, a bit less than three months. We can expect that the auction will start in May and probably will finish in June. Concerning the condition, we don't know, there was several remarks made by different operators to the current or previous condition, including from

Orange Polska. We don't know if the regulator will take that into account but we will know very quickly. The second question, I think I will give to Jacques.

Jacques de Galzain: Yes, regarding European commission fine. The written proceedings are over, we are waiting for a calendar for the hearings and for the court proceeding. We can expect this to happen Q2/Q3 and the cash outflow during the summer, I think, this is the calendar that we have in mind right now.

Bruno Duthoit: From Global Plan Vincent and Mariusz, what we intend to do this year?

Vincent Lobry: So, the different points, one which is short-term, very short-term and which is a direct consequence of the merger of PTK and TP, that now we allowed to use only one customer base and to make upsell on a proactive base on both type of customer mobile only and your broadband only so we'll use your mobile customer to upsell with broadband which, was not allowed except for the customer who get the opt in before, so its something which is concrete and today available. We're also working a lot because the situation is very different on a geographical basis, for example in the less dense area we continue to grow, but in cities, big cities, we have difficulties to compete with the cable TV companies who have more than 40%, some of them, of the market share when we have less than 20%, but we are the one regulated not them, so we are fighting on the regulation to have either some regulations especially to the access to the cabling of the cable TV first, second, to have more flexibility in the big cities in our tariffs and not to be regulated in completely homogeneous way in Poland, but to have more flexibility. So, that's something which is of course more difficult because you have to discuss and to have regulation, but I think we are quite—we hope to have some good news at the end of H1, on this area. And, of course, we continue to develop some new things; we have pilot of optical fiber FTTH in Warsaw, we continue to upsell from ADSL to VDSL. But those are the two main things we are working on. Maybe you want to complete on B2B

Herve Druet: Thank you.

Mariusz Gaca: Just to underline what Vincent said, the convergence is the key to compete mainly with cable operators and just to add on top of that we are now reworking the delivery process that we believe can also can bring some tangible results in the course of the year.

Herve Druet: Thank you.

Operator: Thank you. The next question comes from San Dhillon from Barclay's. Please go ahead.

San Dhillon: Hi, guys, just a couple of questions on mobile. In the absence of the spectrum auction this year, assuming it didn't happen. How much 4G

population coverage could you get just with using the 1800 megahertz you're leasing from T-Mobile?

And on subsidies; do you think there's any room to step away from subsidized tariffs within the Orange Brand and move to SIM on your handset leasing type of tariffs to help the EBITDA margin? Thank you.

Bruno Duthoit: I will give the floor to Piotr for the first question.

Piotr Muszyński : Maybe I misunderstood, but I heard twice from Mr. Duthoit, that we believe that the auction will happen this year, so, quite probably we will be participating in the auction this year. Maximum population covered by LTE 1800 to be achieved this year is 60%.

Bruno Duthoit: Of population.

Piotr Muszyński: Population, yes, population.

Bruno Duthoit:: Thank you. Vincent, for the second question.

Vincent Lobry: So, on Sim-only its not first to have a new offer which is a pure SIM-only offer and it works for people who really are very sensitive to price. Who are digital, working only online and want simple 'without engagement' solution. So, we have a SIM-only offer which is very competitive and successful which is nju. On the Orange Brand we have to make balance between subsidies and the ARPU of the customer because SIM-only is quite good in term of subsidies, but not very good in terms of ARPU and if you looking the, let's say customer value, sim-only is not the way to increase the customer value, on the contrary. So, we are not pushing for sim-only of course, we are looking very carefully to the evolution of the market to be able to react to have competitive offers in SIM-only on instruments, but, I think there is not one solution, that SIM-only will completely be 100% of the market. What you have to do is to adapt the level of subsidy to the value of the customer, so SIM-only is not the only way to do it.

San Dhillon: Okay. Thank you very much, guys.

Operator: Thank you. The next question comes from Igor Semenov from Deutsche Bank. Please go ahead.

Igor Semenov: Yes, hi, a couple of questions. First, maybe I didn't hear properly, but sorry if you already answered this. Previously you said you're expecting your payments for the spectrum would be between 1 to 2 billion zloty; is it still the case? Do you still expect to pay that much?

The second question is do you have a formal dividend policy? Are there any ratios that you stick to in terms of the free cash flow or you said that EBITDA, you know, one and a half would be good, you might go over it? But do you have like a formal policy? Thank you.

Bruno Duthoit: On the first question, we are not giving any figure concerning our intention for the auction. We will base our participation to the auction on business case and a valuation of the frequency which we have done, re-assess and we cannot naturally discuss figures

On the second point, I think, I would give the floor to Jacques.

Jacques de Galzain: Yes. So, we have no formal dividend policy. We decide the dividend on a yearly basis. We take in to account the situation in the market, the competition, our balance sheet, so the level of net debt, the cash generation for the year to come, the cash generation for the past year. So, this is a mix of several criteria that we use to fix the dividend, once again, a yearly basis.

What we said a few minutes ago is that when we decided to commit to 50 grosz this year and we will review our position in 12 months' time. If the conditions are quite favourable, which means there is not too much competition, the cash flow generation in 2014 is at the level expected, we have a good prospective for 2015, we did not pay too much for the spectrum and the European Commission fine and if our ratio are good, we do consider that the 50 grosz per share is something sustainable.

Igor Semenov: All right, great. Thank you very much, very helpful.

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

Ivan Kim: Yes, good afternoon. Two questions, please. One on the longer term competition with Polkomtel Cyfrowy a new kind of integrated operator. So, where do you see against them, what do you think your strengths are and probably your weaknesses against them?

Then, secondly, could you please comment on the cash flow capex for 2014 because you said that the capex would be below 1.8 billion, but then there are usually some capex payables coming through, et cetera. So it would be a great help on some of that. Thank you.

Bruno Duthoit: Concerning the first question. You know, it is true the Polkomtel and Polsat announced their merger end of last year and the start of first of this year, but it will not change our strategy which as you know presented more than one year ago. We have a lot, let's say, of advantage but the main differentiator of Orange Polska on the market is the fact that we are both fixed on mobile. We have connectivity all over the territory and access to all technology and it is our main advantage and we are building our current success and future success on convergence. There are pressure for Polkomtel to bit different but I will give the floor to Vincent to comment about that, on the marketing point of view.

Vincent Lobry: Yes. So, Cyfrowy Polsat and the press are going also to convergent offer but they are not doing the same way. There is for example an offer which is mobile LTE mobile broadband plus satellite which is a clever offer, but when you compare mobile broadband, you may have good throughput, good speed, you may have quite interesting price, but it's never unlimited and when you look at the usage for, example of average ADSL customers in Poland, which are quite heavy users, especially heavy users of video, the consumption is very high and when you multiply the average consumption by the price of LTE which is not unlimited, you see that at the end, the bill is much higher than on ADSL.

So, we have to compare also things together and see what are the differences, explain it to the customer. But, of course, we have also LTE, so we are also capable to make some in some areas, for some customers, some bundle of it, so we have, I would say more choice in the way we bundle our offer and our convergence and we are able to compete end to end or to do some different solutions which are a little bit more interesting for the customers.

Speaker : Jacques for the second

Jacques de Galzain: Yes. Regarding capex and the cash out on capex in 2014; you know that in fact we can have a big gap between both that's true and it depends very much how much is the peak at the end of the previous year. When you look at the evolution of capex in 2013, this is rather smoothed; the peak at the end of the year is much lower than it was in the years before. Therefore, in 2014, to help you on that topic you can consider the below 1.8 billion of capex will be in term of capex cash out on capex a bit more than that, you can take 100 million you will not be far from the reality.

Ivan Kim: Okay, great. Thank you very much.

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

Dalibor Vavruska: Oh, hello, good morning. I have two questions. I think I'm encouraged by the fact that you're focusing on market share in mobile and broadband, I just wanted to see, I mean you discussed a little bit the regulatory aspect of the fixed line broadband. I just want to see what exactly you are going to do to boost this market share in fixed line broadband because, you know, in the past we often heard this and it very rarely resulted in an actually increase in subscribers.

In mobile, I'm just wondering is it, the market is still competitive, I'm wondering is it just Play or are you seeing some more aggression from some of the other operators? And, again, I mean you showed good numbers, but Play still seems to be showing much higher net additions. What do you think is going to boost your competitiveness in this year in mobile? Also, finally, I noticed that you stopped reporting the revenue

market share numbers, I'm just wondering what is the specific reason?
Thank you.

Bruno Duthoit: Concerning the first aspect, we all ready answer concerning the our broadband, let's say, approach. We are really focusing on execution, end-to-end delivery process, we are working a lot as Mariusz said. We are as well and it is absolutely key even more focusing this year on the convergence, we want to leverage our mobile customer base to get more fixed broadband customer base and we are as well improving offer making, very recently we improve our TV offer in January, which give or take more value to our same price broadband offer. Last but not least it was as well explained a few minutes ago, we expect, hopefully within some months, some flexibility for us in terms of regulation, at least in big towns.

For the second question which is related, the last point which is the mobile value share, I think we are not reporting for Q4 because we didn't yet know exactly the figure of the competitor. We need a bit time. There are not known at least not all known. Concerning competition on mobile market and the success of PlayI will give the floor to Vincent.

Vincent Lobry: So, I think the most interesting numbers to look in the mobile competition is mobile number portability. So when you look at this year, just numbers, we are much better than the two, let's say, old operators to T-Mobile and Plus and Play is much better than us, that's the numbers. When you look in Q4 portability, we are positive on the post-paid base, so we get more customers from the market than we gave to the market on the post-paid side which is very positive.

I think we were successful to—with a launch of nju and we will continue to push nju as a tool to get customer which are today in our competitors, to get portability from the market. Nju is really good tool to get customers from the competition. On Orange, of course, we are trying also to get customers, but we are more focusing on the convergence to keep a very good level of churn so to avoid our customer going to other operators. We have this two feet, one which is more on convergence, the other one which is more, let's say, a tool to win back from competitors. So, competition is still strong, Play was good in 2013, but we see that in 2013 even some categories of customer we were capable to win back from Play. So, I think we will have to continue and playing on the two sides of nju and Orange.

Dalibor Vavruska: Thank you.

Operator: Thank you. The next question comes from Jakub Dubaniewicz from New Street Research. Please go ahead.

I'm sorry, Jakub Dubaniewicz, your line is now open.

Jakub Dubaniewicz: Sorry, guys, I didn't realize my mute button was on. Can you hear me now? Hello?

Speaker: Yes.

Jakub Dubaniewicz: Okay, good. So, I wanted to ask a question about your VDSL coverage and take-up. I remember in Q2 report, you mentioned somewhere in the text, that you are able to deliver VDSL speed to something around, if I remember correctly, 50% of your footprint. What I was just wondering, how are you going to monetize it? I mean, what is actually stopping you from increasing your VDSL take-up which is at the moment, in low single-digits?

Bruno Duthoit: Piotr will confirm the reach and Vincent precise the offer.

Piotr Muszyński Our VDSL coverage is up to 3.2 million households, pretty sufficient having in mind the architecture solution, and the fact that we concentrated our VDSL investments in the cities.

Vincent Lorby: Yes, in terms of commercialisation now we have simplified the offer and we have one offer up to 80Mg/s. This offer we, the sales increased a little bit in Q4 and the trends are quite good this quarter. We are still not at rocketing numbers, so we are today around a little bit less than 70,000 customers. But, it's a higher ARPU compared to pure ADSL, so, it's something which increases the ARPU and for the moment churn is very low because of the length of the contract and it was launched less than two years ago. I think that main factor to push the VDSL is to have some flexibility, because VDSL is regulated as ADSL; it's exactly the same type of regulation, so, in Warsaw or in small village, we have to offer exactly the same price, o, for us, when we spoke about flexibility of regulation in big cities, it concerns, of course also VDSL which is a better offer in terms of speed but we don't have the flexibility on tariff yet So, flexibility is key to push it much more on the cities.

Jakub Dubaniewicz: I see, I understand. Thank you very much.

Operator: Thank you. The next question comes from Vera Sutedja from Erste Bank. Please go ahead.

Vera Sutedja: Yes, good morning. I have a question regarding the capex, actually. Didn't we have this network sharing agreement with T-Mobile and it's supposed to have some kind of capex savings. I think it's not mistaken; 500 million by 2015 and it start to flow this year, as well. Do you actually see—include that already in the capex guidance of this 1.8 billion for 2014? Having said that, and basically, we should expect for 2015 onwards of lower capex than 1.8?

Jacques de Galzain: Yes for sure when you look at the development that we need to do right now and especially the deployment of the LTE network, we would have to

increase the level of capex, if we would not have this JV with T-Mobile, so the fact that we are able to reduce the capex from year-to-year when developing the LT network, this is due to the JV and this is a whole benefit of this alliance with T-Mobile, so, definitely the 500 million zloty capex avoidance is there and in the future we will continue to benefit from this JV, therefore we will be able to reduce, once again, the capex to which as I said a few minutes ago, this capex to sellers ratio of 13%, which is a standout of the industry.

- Vera Sutedja: Mm-hmm and I'm sorry, in the previews—minutes, I have really terrible hearing some of the comments. So, therefore, I couldn't really understand regarding the dividend. So, in a way basically, due to these uncertainties regarding the one-off on the spectrum and on the EC fine side, as well as the market situation, so, the 0.5 is basically to be sustained for the next 12 months, and if I'm not hear wrongly, but, if everything turn out much better than expected, it's still not going to be changed, but instead on the 2014 onwards. If that is correct?
- Bruno Duthoit: Yes and we believe as explained Jacques with different if based on the one-off execution on our market position that this level is sustainable next year.
- Vera Sutedja: Okay, understand. Thank you.
- Operator: Thank you. There appear to be no further questions. Please continue.
- Jacek Kunicki: Okay. Do we have any other questions from the floor?
- Leszek Iwaszko: If I may follow up on the fixed broadband and you give plans to be more aggressive, more pushy on the fixed broadband and you launched this new tariffs in January, lower tariffs. Is it then reasonable to expect, that your ARPU may be diluted because of this factors in 2014?
- Vincent Lobry: Not really, because we are—there is is more interesting for 2P and 3P, so it's not a direction factor.
- Leszek Iwaszko: Okay. Thank you.
- Jacek Kunicki: If we have no further questions?
- Paweł Puchalski: One more question, a follow-up on capex. While the market perception was that you lost 1.8—1,800 frequency and from your comment it looks like you're a big winner, you haven't spent one-of capex, you will be not spending capex on growing your network. Please explain because—please give me guidance on your growth to opex due to this well, agreement
- Bruno Duthoit: Okay, I think the question the way I understand is where we are accounting, let's say the 1800 I think I will give the floor to Jacques.

Jacques de Galzain: We have—share the spectrum with T-Mobile and this is recorded as a license in the capex and difference between acquiring directly the spectrum, and this alliance with T-Mobile that we have a contract with T-Mobile for 14.5 years, so the duration of the license and the way we pay this license on a monthly basis. So, this is it. So, the difference is in terms of cash out and not in term of capex, and it is in the balance sheet.

Paweł Puchalski: Okay, and one more issue on capex because when I'm comparing capex to sales in 2013 and capex to sales, well, that's my estimate, in 2014; it looks like you haven't made any progress in—in progress I meaning declining capex to sales ratio. And, my question is do you see any further decline in capex after 2014? Can you afford to spend less than the 1.8 billion in coming years?

Jacques de Galzain: So, this is quite simple. This year, we spent a bit more than 1.9 billion; next year we'll spend less than 1.8 billion. (2014 less than 1.8 billion), then I don't know what is the figure that you take into account for your ratio. I don't know yet what will be the revenue. So I will tell you at the end of 2014 what is the capex to sales ratio.

Paweł Puchalski: I'm not asking about the capex to sales ratio, that's my calculation. I'm asking about capex itself. Can you afford to spend less than 1.8 billion per annum?

Jacques de Galzain: This is less than 1.8 billion is our commitment for next year. For 2014, sorry, I have a difficulty between 2013 and 2014. So, this is our commitment for 2014, that's it.

Bruno Duthoit: We don't give guidance for next year at this stage. As I explained, you know, the (LTE frequency if we get blocks of frequency, will not generate huge capex, will generate a certain level of capex but not considerable. The rest is depending of our current market situation and what plan we will have in IT and fixed network

Paweł Puchalski: Thank you.

Nicole Gilliat: Hi, this Nicole Gilliat from Ion Asset Management. If I understood you correctly in the beginning of your talk, you said that the pricing pressure on voice and SMS has come off it, but it's unclear what the future of pricing pressure on data will be. Can you talk about how you'll defend data ARPU and what is going on in the competitive landscape that leads you to believe that it won't be as stable as voice and SMS? Thank you.

Vincent Lobry: Okay. So, data is growing, it's a fact in all the geographies. So, it's also growing quite quickly especially on the handsets in Poland and what we see that LTE, and it's true in other country, that is not really, let's say, a premium price for LTE. But what brings LTE; comfort, the speed brings that people are using more often and the usage is growing. And, people

are going to higher commitments than what they do in 3G. So, the main factor for monetizing data is usage on 4G and 3G today, which are, we have also a good network in 3G, don't forget it with speeds which can go up to 40 megabits and we see today in the growth of usage, in fact that we increase the speed in the 3G networks, give us much more usage, so, the 3G, what we call double-carrier HSPA plus the 4G will bring this usage which will be monetized. What is fundamental is the fact that we are capable to push the usage of smartphones for handsets and we have also, on the end the developments of tablets, and we have many new offers which for example, allows the customer to share their data package between their tablets and their handsets. So, the way to monetize data is to push for the usage, to increase the usage with better speeds, and also better plans in order not to have, let's say, incredible price for data, but affordable price, and very easy to use between your different handsets or tablets.

Jacek Kunicki: Do we have any other questions? If not, thank you very much for the questions. We will be reporting Q1 on April 25th. Thank you.

Operator: Thank you. This concludes the Orange Polska Full Year 2013 Results Conference Call. Thank you for participating. You may now disconnect.

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