TPSA Q3 2010 Results Conference Call

Conference
Transcription

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CONFERENCE DETAILS

Conference Date:	27 October 2010
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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

(*Abrupt starting*) TP Group's Results Presentation for the third quarter of 2010. My name is Jacek Kunicki, I am the Head of Investor Relations. Today we are joined by the management board of TP, so starting with our CEO, Mr Maciej Witucki; the CFO, Mr Roland Dubois; Chief Marketing Officer, Mr Vincent Lobry; Chief Commercial Officer, Mr Mariusz Gaca and Chief Operation Officer, Mr Piotr Muszynski.

A quick note before we begin that the results have been published this morning and they available on the IR website at www.tp-ir.pl. Now without any further delay I will hand it over to Mr Maciej Witucki to begin the presentation.

Maciej Witucki

Good morning ladies and gentlemen. The short agenda for today is as follows: I will start with our quarter three achievement and a quick look at the market evolution; then Roland, our CFO, will share with us the analysis of the TP Group's financial performance; finally, I will conclude the presentation with an overview of this quarter strategy development. As always, our presentation will be followed by Q&A session.

It is a point that I would like to mention that we will not be answering any questions with regard to dispute with DPTG due to the sensitive nature of this proceeding. Our position has clearly been made public and today's current report and notes of our financial statements clearly describe the accounting revision of the risk provision and the reasoning that is behind. Let us now begin the presentation with a brief review of quarter **two** achievements on the slide number five.

In a nutshell, quarter three is another period of gradual improvement in implementation of our medium-term action plan which we announced in February. While we continue to improve our results both operational and financial, the strategic development of this quarter are an important component of our future. Our action started in H1 ?? and we can see that within the underlying financial performance of the quarter three is following this trend.

Our revenue trends have continued to improve in quarter three as the year-on-year **contraction** is now less than 12% primarily fuelled by the mobile segment development. The underlying EBITDA supported by the cost transformation of more than PLN380 million has grown by 2% since quarter two with a strong margin of 38.5% of revenues. Our net income excluding the risk provision has grown by almost 14% since quarter two.

Reported EBITDA and the net results which is negative in quarter three have been affected by the accounting provision of the provision for DPTG dispute which we had presently decided to increase by PLN1.1 billion. However, I would like to underline two elements. First of all, this does not change our position regarding the proceedings. We view this award as unfair and unjust and we will resist against it. Second of all, this will have no impact either on our dividend policy or on our medium-term plan execution.

Commercial results are as well very positive. Our offers in mobile have proved to be a success as we continue to grow the customer base now exceeding 14.1 million customers. In turn this maintains our leadership volume and according to our estimates also in value for the second quarter in a row. Finally, we have been able to defend our broadband customer base against fierce competition. The small growth of our customer base after stabilisation in quarter two shows the very gradual progress being made in the retail sales of our business. Given the level of pricing and fierce competition I consider it a success of our sales and marketing teams.

When we present our first half earnings we spoke about our action plan for H2 design to restore the growth in broadband. Later on in the presentation I will be quite happy to speak about two developments of strategic importance for our broadband development; a) the final repricing of our broadband allowing us to be competitive against the competition and the long-term partnership with TVN Group which will significantly strengthen our multi-play broadband and TV offers.

With this let us quickly turn to slide six for the market evolution. Slide six, the recovery of the Polish telecom market seems to be slightly slower than we had originally anticipated. Nevertheless our estimates show it is now very close to the breakeven point with the year-on-year **contraction** of less than 1% in quarter three. The recovery is driven by mobile market which is back to growth in quarter three as the MTR cuts no longer impacts the year-on-year comparison.

Usage and customer based growth continues to be healthy on the market offsetting the competitive price pressure. Improvement in the fixed segment is much more gradual. This will improve over the time but only where the ADSL providers will once again drive broadband growth and take market share away from the cable television operators.

Let us now go to slide number seven for our key financials. Very briefly, so on the financial before I hand the floor to Roland, I have already mentioned the gradual progress in the top line trend. The EBITDA is strongly supported by our cost optimisation programme which brought the year-to-date cost base down by 4% to 8% in comparison to the last year, delivering savings as I said at over PLN380 million. Furthermore, taking into account the good level of the net additions in mobile, Q3 restated EBITDA margin of 38.5% is quite a success.

We have begun to catch up in CapEx which is very visible in quarter three results as our investment programme roll out is taking place. And accumulation of the output is expected in quarter four as we already said at the end of H1. This in turn will also impact the cash generation which has been extremely strong to date delivering over PLN2 billion at the end of quarter three.

Ladies and gentlemen, thank you very much for your time for the introduction. I will now hand the floor over to Roland for a more detailed review of our financial performance and come back to you for the conclusion. Roland?

Roland Dubois

Thank you, Maciej. Good morning, everybody. Let's begin the financial with you on starting by slide nine. Throughout 2010, we have continued to progress with a gradual turnaround in the revenue trends. In quarter three, the contraction of the top line was limited to under 4% and we are on track to meet the full year outlook of **providing** single digit decline but smaller than 8.8% of 2009. It is exactly what we disclose, we said during our discussion of February 2010. We are on track at that level.

Looking at the Group's revenue evolution, there were two main drivers of the improvement. First, the timing of the MTR cuts in March and July 2009. This means that it did not affect the quarter three comparison to last year as in effect the total regulatory impact was limited to minus PLN40 million in Q3 as compared to PLN160 million in Q2. As a fixed to mobile cut was made in November 2009, we can expect the regulatory impact to be even smaller in quarter four of this year. The second driver is the gradual improvement in the pre-regulatory revenue evolution of our two segments, with the mobile segment back to growth and with the fixed segment contraction gradually limited.

Let's start with mobile segment now on slide ten. As mentioned before, the mobile segment's top line is back on track with an almost 2% growth which is visible in quarter three. The year-on-year increase is predominantly driven by success of our offers both in prepaid and in postpaid. It resulted in strong dynamics of the total number of Orange subscribers up by over 400,000 in comparison to Q3 of last year. We have also worked hard to stimulate the usage which is at double digit growth versus last year and which has partially offset the price pressure on top line. As a consequence, we estimate that for the second quarter in a row we have been able to achieve the number one position on the mobile market both in term of volume but more importantly even in value.

Next slide 11, the mobile customer base has grown significantly. It has increased by over 400,000 since the beginning of the year as we have been able to systematically generate positive net adds in every quarter. Quarter three has contributed well with over 100,000 net adds and we are quite happy with the overall growth of the base of almost 3% year-on-year. So far, postpaid has done well in 2010 growing by almost 5% on a year-on-year basis. Our Animal tariffs has strengthened our offering and we already see their contribution through growing usage. We expect this trend to accelerate further once the smartphone penetration is Poland will rise. And that's a trend that we intend to actively stimulate through the marketing **offers**.

Our prepaid offer has again brought results driven by the new offerings, 75,000 net additions in Q3 bring the total growth for the three quarters to over 200,000. Our prepaid customer base is now up by over 1% year-on-year. The next logical step for the prepaid is to gradually move these customers into mixed tariffs with an ultimate growth to stimulate their migration to postpaid.

Slide 12, the fixed segment trend has continued to improve as predicted after the infliction point in Q2 was reached. We envisage further improvement in this trend that will be for Q4 as obviously the impact of the fixed to mobile price cuts will not affect the year-on-year comparison anymore. Broadband revenue was flat versus Q2 with the slight growth of the customer base in Q3. This is exactly what we had expected considering the still adverse pricing comparison in Q3. However, the trigger for broadband trend improvement, the new prices based on cost based formula was implemented on 1 October. This is a very important step and it will significantly help for the future. Maciej will comment more on this topic later on in the presentation. Finally, why the fixed voice revenue remain within the trend range we had observed an increase in the wholesale and other revenues contributing over PLN45 million year-on-year.

Let's now go to slide 13 for a quick look at **subscriber**. With regards to broadband, after the customer base stabilisation in Q2 we can see a slight growth of the retail base in quarter three. It should be considered a positive result taking into account adverse pricing conditions and fierce competition in Q3. However, we are now able to focus on our main Neostrada offer as we have lowered the pricing as of once more 1 October. Simultaneously, we are improving our delivery and customer care processes to ensure that the new offers met with ??.

The TV offering has done really well in Q3 with the customer base increasing to almost half a million. TV penetration within our broadband base is now at around 22% and with the new arrangement for the TV segment that we have signed with TVN it is bound to grow even faster in the coming quarters. Lastly, the fixed line evolution was as expected impacted by the catch up in churn coming from Q2 with an average rate of the decrease which is maintained below 3% per quarter. This concludes my review of the top line.

Let's go to slide 14 for EBITDA. The restated EBITDA is strong up by roughly 2% since Q2. It is now at 38.5% of the revenue so we see an improvement for the third quarter in a row. The EBITDA margin of the mobile business has gone slightly below 30% due to an early increase in our sales activity leading to higher set costs. Nevertheless, we have to get it slightly above the margin achieved in Q3 of last year.

In comparison to quarter three of 2009 the restated EBITDA has declined by roughly PLN100 million. It was mainly pushed down by three negative factors. First, pre-regulatory decline of our top line amounting to PLN120 million; second, the net regulatory impact on EBITDA although limited to PLN25 million; and third, the growing usage and the expanding customer base driving the interconnect cost and commercial expenses up by roughly additional PLN100 million in total.

On the other hand, they were partially offset by three positive factors. The most important one is our cost saving programme. It has once again delivered solid results impacting the cost of quarter three by over PLN100 million. The total benefits of this programme year-to-date amount to over PLN380 million. Q3 EBITDA was also helped by two smaller effects, first the positive ForEx impact as well as also smaller other OpEx altogether amounting roughly PLN40 million.

Let's now turn to the next slide and look at our cost initiatives. As already mentioned, our cost transformation programme has generated over PLN380 million savings year-to-date helping us to decrease the cost base by further 8% versus last year. That naturally is excluding the risk provision. The savings generated in the first three quarters of 2010 are composed of a variety of actions. Firstly, the classical savings. They were mostly launched in Q3 of 2009 and include car fleet reduction by roughly 1,000 vehicles or reallocation of employees from half empty buildings in order to save on maintenance.

Secondly more efficient relation with key suppliers including initiatives such as consolidation of IT vendors which is now just to a number of seven or increase in the share of refurbished set top box versus new purchases. These initiatives were mostly started last year and completed in H1 of 2010 and have brought concrete benefits. Thirdly the initiatives linked with internal processes improvement. These include consolidation of our mass printing centres for example or increasing the share of e-invoice versus the paper cost.

Throughout Q3 we continue to work on execution of existing initiatives and on the launch of new savings programme. They include the following: we have launched the Orange Customer Service placing over 5,000 employees and 2,000 part-time workers in a separate subsidiary. It will give us economic benefits of roughly PLN150 million over the next five years and it will result in an improvement in improved customer care. We have entered a co-operation with Poland's leading media group TVN. While this is most clear about providing our customers with the best in class multi-play offer it will also bring considerable savings through economies of scale optimisation of transponder costs and also technical cooperation. EBITDA benefits are expected at **PLN100** million over the next five years.

Further optimisation of the customer service costs as we are ready to start replacing paper orders by telephone call recording. It will save costs and will be convenient for our customers as well. Finally, we continue to cut cost of IT. Considering the size of our infrastructure seemingly minor changes like modification of server room temperature and humidity can bring millions of savings. These new initiatives we require more efforts often implying a change in the way we work. Nevertheless we have seen similar examples in other telco businesses and we are confident that we can achieve our goals. In effect they will benefit TP both in terms of cost reduction and also by improving the quality of our processes. These types of initiatives are the most valuable in the long run.

Let's now go to the next slide for the analysis of our cash flow. The year-to-date net free cash flow generation was strong especially in the third quarter. The cumulative net free cash flow of PLN2 billion is roughly at the level of the comparable period for 2009. This was driven by the following factors. First, lower cash flow from operating activities which is mostly due to the EBITDA variance and secondly the lower cash outflows for CapEx coupled with working capital requirement which was lower than last year. Looking at our net free cash flow guidance looks completely secured despite the significant CapEx catch up that we are expecting in the last quarter of this year.

Before I complete the financial review let's have a look at our balance sheet which is presented on the slide 17. Our balance sheet continues to be very strong. Despite the dividend payment we have been able to decrease the net debt since the beginning of the year which is now just over PLN2 billion. As a consequence, the net gearing has been kept at roughly 21% with net debt to EBITDA at the same yield of 7%. Our credit rating of A3 and BBB+ with stable outlook has been confirmed by all three main rating agencies. As you see we have a large liquidity position which provide us with the security in case of unfavourable legal development and also with the necessary flexibility to implement our medium-term action plan.

This concludes my presentation. Ladies and gentlemen, thank you for your attention and I will now hand over the floor back to Maciej Witucki.

Maciej Witucki

Thank you very much, Roland. Ladies and gentlemen, before we wrap up let's have a brief look at the two recent developments which in my mind will have a significant positive impact on our activities going forward. I will start with the re-pricing of Neostrada which is our main broadband product. In 1 October we have completed the broadband re-pricing which was started with the price decrease for top speeds made in April. The latest price modifications have decreased the broadband fees by an average of 25%. What is important to remember is that it was done in the cost plus formula so advantage from that was passed on to our competitors.

Considering reductions made over October and April this year the price for 2 megabytes was cut by 25% whereas the price of a 20 megabyte option was reduced by 56%. The flattening of our price curve is in line with the market. It will further stimulate customer immigration to the higher speed option. Effectively it means that after three years of uncompetitive pricing TP is back in the market for broadband. I can share with you that we are beginning to see first effect of this re-pricing already.

We have seen an uptake in the overall sales as well as in the speed structure and this is very important to defend the ARPU long-term. With the share of the 6 megabytes and higher offers jumping from roughly 20% of sales even up to 40% of sales in October. However, we will not stop at this point. As you may remember, I have always alluded to the cable TV operators as the main broadband competitors.

Now, after fixing the pricing we will step up our competitive positioning with additional developments. Number one, the launch of VDSL2 offering broadband speeds of 40 megabytes and above. We are already in a stage of friendly user **test** and I am confident that we will be ready for the commercial launch soon. And the second will be top quality content of the TV offered together with end platform in a competitively priced broadband and TV bundle. Those two additional elements, the real high speeds and the interesting competitive contents, those are two additional competitive elements we will adverse in to our broadband offer.

Then on the next slide, second development we is linked with one of those two big elements. Two weeks ago TP Group and TVN has signed a long-term cooperation agreement which will significantly increase our competitive position. Based on the agreement TVN will be our main content supplier with exclusivity for the satellite and a non-exclusive co-operation for the IPTV. This step guarantees us top quality content.

The main focus of the cooperation is on the multi-play bundle including TP broadband sourced with the basic TV and with a full Pay-TV package **offer**. We are aware that our customer want bundles. They do buy bundles from cable operators, our main enemies on the broadband term. Therefore we have joined forces with TVN to create the best TV and broadband bundle in Poland, combining TVN contents and satellite experience with TP Group's coverage, network and broadband service. We will also cooperate for greater efficiency in our sales and marketing activities. This will bring us benefits in terms of revenue sharing on cross-sold and pay-TV packages available as well on standalone basis in our shop.

Finally, the operational and technological cooperation will enable us to create economies of scale for both companies on content purchasing and to optimise transmission cost while we also work towards efficiencies on the CPEs or on the set-top box equipment **area**. While this agreement should give us an extra EBITDA benefit of at least PLN100 million over the next five years, what is really important for us is that we will finally create an offer that will be fully competitive, really fully competitive with the top speed of VDSL and with this content including the HD, fully competitive with the cable TV operators but without their narrow geographical coverage.

Let us now go to slide number 21 which will be a wrap up of my presentation, of our presentation. In summary, this presentation has four major takeaways. Number one, the first one, is our financial performance. It has been improving quarter after quarter with quarter three showing strong trends both in terms of revenue improvements and of underlying profitability. Revenue is in line with our projection. We have cost very well under control. We maintain our outlook for H2 with a reminder that quarter four will bring the seasonally higher commercial costs as well as the expected increase in CapEx.

Second of all, as you know the DPTG case have developed during the course of this quarter. Here, I simply want to underline that while we will resist the award this dispute is not expected to affect either our dividend policy or the execution of our mid-term plan.

Third, our financial turnaround is supported by the improving commercial trend in all of the business. We have done well in mobile which should be fuelled by the recent launch of the HSPA2+ which will be available on 700 bps already before the end of this year. We have also done well in expanding the broadband base and now is the time to improve, to start to improve our performance and we do it exactly as we predicted at the mid-term plan meeting saying that 2010 will be still a difficult year, we should see the new conditions arriving in the quarter four and this is exactly what is happening, according to our plans from the last **February**. In order to facilitate this we have re-priced the product, flattened the price curve and decided to leverage on the cooperation with TVN.

Finally, after one year from signing the arrangement with the regulators it is clear that this is beneficial to the whole market and to the consumer. TP has obtained the more predictable investment friendly environment. This has decreased our risk profile. We have also framed an acceptable pricing model for Bitstream allowing us to be price competitive on the retail side. Alternative operators have benefited as well through higher investments and through additional guarantees of equal treatment. Last but not least, all of this is to the benefit of the consumers who will get faster broadband connection at better price largely **enabling**.

Ladies and gentlemen, thank you very much. This concludes my presentation and now we are ready to take your questions. Jacek you will –

Jacek Kunicki

I suggest as we start with the questions from the floor and I will just ask you to speak to the microphone for the benefit of the **all**.

Leszek Iwaszko, KBC Securities

(*Inaudible – technical difficulties*) questions is on mobile. There is really uptake in the number of customers in consecutive quarter, also usage is being pushed. However, this as I see is a bit result from price pressures, also if we look at the interconnect cost and ARPU. Can you confirm there is more price pressure on the market especially in the postpaid side? When I look interconnect cost they were up 8% year-on-year versus revenue growth of less than 2% and the relation of interconnect cost to sales was the highest in many quarters in the third quarter.

Roland Dubois

Thank you for the question. I would may be start with the overall market situation. I would say and I would maintain what we have been saying since the beginning of this year that we will see definitely more civilised market in 2010. Yes, you have pressure and those pressures are somehow linked with the seasonality. We have the back to school revolutions, the modifications every single year, so you see in September, October some aggressive offers but I wouldn't in any case compare it with the 2009 development.

Leszek Iwaszko, KBC Securities

Is it something more than let's say was in the spring season and you expect this pressure to continue for the quarter four?

Roland Dubois

I think we are much more normalised market so we definitely see the seasonality that this back to school, we will have Christmas time. We will have I would say pressure not only through the pricing, clearly as we announced on the EBITDA level they will the Christmas time or the Christmas gift with the Christmas **terminal**, so the smartphone, so the EBITDA will be suffering. But this is a trend which we see every single year. (*Inaudible – technical difficulties*) to add something.

Maciej Witucki

Yes, I would like to add also that Q3 is quite special because you have the vocational effect and you have the positive effect on the ARPU of prepaid because you have more people buying prepaid cards. You have some point of making prepaid (*Inaudible – technical difficulties*). And certainly you have a negative effect on Q3 on the postpaid mainly on the B2B market because there are less activity and less usage. This is a blended but very different trend which are in fact the same every year between prepaid and postpaid.

Leszek Iwaszko, KBC Securities

Thank you. Continue on mobile, my question relates to personnel cost in the mobile which were down 10% quarter-on-quarter and 15% year-on-year. Was there any one-off or what can you say about it?

Roland Dubois

I would say that on the overall personnel we continue at the pace for the Group because it's quite difficult with the current organisation, the Group is really separated between the mobile and the fixed. If you have such movement, I would rather attribute them to creation of provisions for holidays or this kind of rather accounting movements, nothing exceptional. I really do treat and we do treat as management team those costs at the Group level, not at the given restated and personnel and fixed line business.

Leszek Iwaszko, KBC Securities

OK, two more questions quickly. Do you still expect MTRs on SMS to be introduced in Q4 as I see there is the long discussions with the regulator or that will be introduced in 2011?

Roland Dubois

It's pretty difficult to state the name of the regulator but what I have read in the media and what I understood is that the MTR SMS should not be cut in quarter four. They should be cut at the beginning of 2011. And there is another discussion which is on top which is again obviously a discussion about the copy paste of the TP arrangement with the regulator which then should be used on the mobile market, so an arrangement mobile operators investing into development of the coverage should be then granted with lower decline or the smoother decline of the MTR for the voice. But this is at the stage of the proposals from the regulator. We obviously answer positively to this one, so as Orange we send a positive feedback to the regulator. And I believe that within the next two months we should have a intense discussion with UKE on the formula which is a very positive one because this follow the philosophy of investment against normalised or stabilised regulatory frame.

Leszek Iwaszko, KBC Securities

The last question is about broadband. Do you offer those price **decrease at** Neostrada do you still reiterate which you have been saying earlier that you expect these drop in prices could be of offset by migration for higher speed and overall ARPU is not likely to suffer?

Roland Dubois

Definitely that's the target of this operation. As I told you we have a very strong uptake of the higher speed and if you compare it you see that basically with the prices of the 10, 20 mega bit options at the level at the past level of the 1 and 2 mega bits option. And if you add on the top of this, so you might have a short-term impact because to defend the return we allow even existing contract customers to move to the better prices. But what is important you have new sales coming and you have a new speed coming. This is the fully fledge process with the 40 plus mega bits solutions bring us additional ARPU for this very high speed broadband. Altogether blended even at the mid-term I would say long-term I don't expect it to be ARPU destructive.

Leszek Iwaszko, KBC Securities

Thank you.

Jacek Kunicki

Anymore questions from the floor, if not then I suggest that we move to the conference call questions.

ACT Operator

Thank you, sir. The first audio question comes from Frederic Boulan from Morgan Stanley. Please go ahead.

Frederic Boulan – Morgan Stanley

Hi, good morning. I have two questions. First of all, if you could look a little bit at 2011 where do you expect to see top line in EBITDA trends considering the current delivery. In Q3 we saw around 2 point on margin compression year-on-year, do you think this is will continue with increased commercial efforts or cost cutting will start to offset the valuation in margin?

Secondly, I would like to come back to the previous question on the mobile market. We saw **caller** pressure on retail ARPU offsetting most of the benefits from MTR, so I understand the comment on the seasonality in the B2B segment but that's we see something you had as well as in Q3 2009. Can you comment on the dynamics in terms of retail pricing and your expectations as well for the coming quarter? Thank you very much.

Maciej Witucki

OK, I will take the question number one and I will then pass to the question regarding the ARPU. 2011 first of all give me some points I would be able present in February 2011 announcing the outlook of the year. But generally we do maintain and this is only comment I can give, we do maintain what we have presented in February. It means that definitely we are today fully equipped to defend the EBITDA margin. We are ready to offset even the flat or slightly still declining market in next year.

But on the top line as you know we are very much dependant on the regulatory, so I think the February rendezvous it's a perfect day because then we have an outlook for SMS MTRs, we will have the visibility of the MTR against investment policy or arrangement possible with the regulator. What's important for me is that we do defend our evolution towards the market trend. Depending if the market will be already growing, will be slightly declining, what's important to me is to benchmark towards the overall market. This is number one, so we will see in February there is the visibility of 2011.

But whatever will be the market out of catastrophes but would not expect there will be another 50% cut of MTRs. We are today equipped and confident about our capacity to manage the EBITDA margin, to defend the EBITDA margin as we announced in the mid-term plan, we maintain this one. Further comments on the margin ARPU on mobile.

Frederic Boulan – Morgan Stanley

Just to stay on this question. In Q3 where there was no MTR drag at all, the margins were down around 2 percentage points. Is this what you were talking about when you were saying we will defend the margin or you think that actually next year you could start to really stabilise margin at flat margins?

Maciej Witucki

That's what we have been announcing that we will have the decline on the margin in 2010 and then we should have a **path to** get back to the margin of 2009. We do maintain outlook we've announced in February.

Frederic Boulan – Morgan Stanley

OK. Thank you.

ACT Operator

Your next question comes from Alexei Gogolev from JP Morgan. Please go ahead sir.

Alexei Gogolev – JP Morgan

Hello, apologies if these question have been asked my line was disconnected for a while. Could you please provide some indication on revenue growth and in particular can you specifically can return to more meaningful growth in the mobile thanks to the data and smartphones uptake. And what is the current uptake in smartphones?

Maciej Witucki

First of all I have the impression that we are broadcasting to the February 2011 conference of the outlook of the year. I think we will may be not go too much into foreseeing the future. Clearly and we have I will just quickly confirm that the growth of the mobile is about the mobile Internet. What I call mobile Internet it's smartphone, so many of you know my position about dongles. To have substantial improvement of the revenue but at the same time of the stability smartphones are the key elements. We seeing substantial growth of sales after introducing our new tariffs for this smartphone segment, so panther animal tariff which is prepared for the smartphones.

Still those sales are small compared to the Western European and American standards. I would say its even more a positive sign of (*Inaudible – technical difficulties*) with strong sales of postpaid, strong sales of the high-tech equipments, so yes we are generally we are confident about the growth of the mobile market and based on the increased usage of the mobile Internet. May be **Vincent** there have been put previous question from the previous person about the ARPU evolution on the mobile, so may be if you comment on this one.

Vincent Lobry

In fact I can comment on the two questions altogether because they are more or less the same questions. In terms of ARPU, what on the B2C market we are fighting with the animals offer which was launched in late May and it's still quite a small part of our customer base because we don't change any customer base in two or three months. But it's now closely between 10% and 15% of the customer base and increasing the 4% per month which is quite high. And in this offer we see that we have a commitment in terms of compared to the previous offer which is 10% higher in an ARPU which is 5% higher for the moment which is a good trend. This offer is really good in terms of increase of ARPU for our customer.

What we have to increase as you mention is in this offer the percentage of multimedia offer which are called **panther** and which is related completed with the smartphone availability. To give you another dimension it is still very low in terms of percentage of smartphones compared to Western countries. But we doubled between the period of fourth month of May to August, we went compared to first month of the year from 7% to 15% of smartphones. We doubled in four months the percentage of smartphone in the handset we distribute which is quite high.

When we speak of smartphone we have to be clear that we have two different type of smartphones, we have the smart phone of **B2B** market which are the let's say low cost smart phone even if they are still quite expensive. And you have for the B2B market much more well-known smart phone iPhone, Blackberry or HTC type of smartphone which is higher. And of course the percentage of sales of smartphone in B2B is much higher than in the B2C. And last point also the option B2B, you have to keep in mind that one part of the growth in SIM card in B2B is made on the M2M, machine to machine market which is lower ARPU than the normal voice.

ACT Operator

Thank you, sir. Your next question comes from Mr Alex Wright from UBS. Please go ahead.

Alex Wright – UBS

Yes, thank you. There are two areas I wanted to ask about please. One is just a follow-up on the broadband side and then the other is on your TV business.

On the broadband side, I think you mentioned that the new prices will be offered to existing customers in contract. Can you just confirm please whether you will be actively promoting those packages to all of your existing contracted subscribers or you will just be offering them on a selective basis as people approach the end of their contract just so we can understand a little bit more about the short-term revenue impact of the pricing reductions?

Then perhaps I will follow-up on the TV question afterwards. Thank you.

Maciej Witucki

Obviously, you will not be see billboards pushing all 2.5 billion customers to change the price. It's done. It's open to the existing customers because the changes are very big. This is about somehow the **furnish** to the customers to prevent even the future churn, to prevent the filtration of customers with such a big movement of cost is not something which we will actively promote proactively propose to the customers. By the way we don't observe today a strong movement into the reduction of the prices of the existing contract customers. It's refers to the customers. It's what we believed that is the part of long-term policy but as of the – I don't see any signs which would led us to short-term dramatic drop of the revenue from the broadband.

An additional element, remember that the broadened revenue is still an opportunity somehow small element of my Group level. So at the Group level when you compare this with eventual customers moving immediately to the lower prices, when you compare it to the massive revenues of the mobile and massive revenue of fixed, I have no fears of impacting our revenue profitability by opening this option.

Alex Wright – UBS

OK, thank you. And just moving on to the TV side, I wanted to ask you about the agreement with TVN. Does this mean that you will be de-emphasising your own current satellite TV offering? Should we expect to see less subscriber growth on that side going forward?

Maciej Witucki

No. Hopefully we should see more subscriber growth. The structure of the offer remains the same. It means that we still offer to our customers the bundle of our Internet with the satellite or IP basic package. And then on top of this basic package, we do propose to the customer the **N** packages on the satellite. But those again, customers are still our customers and we should be – the basic package by the way should be as well enriched due to this agreement with the TVN Group. And then we hope to attract them with the packages, more customers even with the packages of **N**.

On the IP side, the situation is even more interesting because it's a non exclusive agreement. We still have the possibility to not only offer the broadband with the basic TV, again enriched after the TVN deal. We will offer end packages of the IP television but we can as well as the cable operator to add additional channels even from competitors on top of this, so becoming to some extent the supermarket of the TV offer on the IPTV platform.

Definitely it should strengthen the growth and definitely should strengthen this positive trend of 22% as of today of customers being secured with triple-play offers.

Alex Wright – UBS

Just to follow-up on that on page 20 of your presentation, the chart seems to suggest that the pay TV part of the multi-play bundle will be a contract with **N**. Does that – you said that the contract is fully with yourselves between the customer and yourself. Have I misunderstood something?

Maciej Witucki

Yes, so for the structure as of today what we have got, we will stop on the satellite our own pay TV packages because as of today on our satellite, to be very precise we have got the basic pay TV. So this one remains with us and we have got two packages which have been built from the content purchased by TP and by way broadcasted by TP through the transponders we have been owning. Today, those two packages will be replaced by the packages provided by **N** where we have a wholesale pricing and then margin sharing with them. This is the change but the effect from the content perspective, it will give a richer offer to the customers. And as we will optimise the transponders and equipments and the broadcasting capabilities, it normally should bring more profitability to the TP Group even.

Alex Wright – UBS

OK, thanks. Are you able to disclose the level of revenue or the ARPU that you have currently from your TV subscribers, both satellite and IPTV?

Maciej Witucki

No, we don't disclose.

Alex Wright – UBS

OK. Could you just remind me which revenue line those revenues are included in there, please?

Maciej Witucki

It's in the broadband.

Alex Wright – UBS

In the broadband, OK. And are you able to give any indication of whether the satellite TV business' EBITDA is break even or positive? Can you give any indication of the impact on profitability at this point?

Maciej Witucki

I really do merged it into the broadband clearly. If you compare the volumes of revenue and the volumes of profitability, there is an element that add on to the broadband revenues. It's a strong retention tool, those are additional revenues of course. It is something which we see TV is add-on on the broadband but clearly the reverse situation to the normal broadcasters. We don't go into the details of those. Only one information is that that we have as you know half a million customers of which is roughly three-quarters are on the satellite, one-quarter on the IPTV.

Alex Wright – UBS

OK. Thanks very much.

ACT Operator

Your next question comes from Istvan Matetoth from Credit Suisse. Please go ahead, sir.

Istvan Matetoth – Credit Suisse

Very good morning gentlemen. Looking at your free cash flow guidance and the first nine months results suggest automatically that you will end up spending less in CapEx for the full year. And I think your guidance has suggested will just confirm that this arithmetic is correct. Would you say that this is structurally the CapEx level which you would be expecting in the coming years?

Roland Dubois

We say that there will be a catch up to make in the Q4 and there will be a *(Inaudible – technical difficulties).*

Secondly we confirm our cash flow guidance which is **2.3 plus** that we are absolutely ??.

Istvan Matetoth – Credit Suisse

I fully understand but I think let's say you are guiding for about 16% and 18% CapEx as percentage of revenues. If we take what you have spent in the first nine months, try to get to that figure, then maybe the 2.3 may or may not – I think arithmetically it's not that easy to get to **2.3 billion** or –

Roland Dubois

We will reach this guidance of between 16% and 18% this year and the two following years also. We have the UKE arrangement which is underway. And so I say once more, we will have this level of CapEx this year and the following two years and we will be able to deliver to the **2.3 plus** cash flow this year.

Istvan Matetoth – Credit Suisse

OK. Thank you very much.

ACT Operator

Your next question comes from Dalibor Vavruska from ING. Please go ahead.

Dalibor Vavruska – ING

Hello, good morning. Just a few question, I mean may be I follow up on what Istvan was asking about CapEx. I think when you look at the numbers now obviously there is a positive impact of a number of things. Obviously on the cost side there is a very positive developments on the wholesale because of the MTRs is positive. When I look at the retail fixed line revenue the trend hasn't changed from the previous quarters. When I look at the mobile I think overall it hasn't changed too much either apart from the MTR impact. In fact the data, the messaging mobile is declining more than it was before. When you look at the data fixed line in all categories the trends has worsen a little bit in the third quarter. I am just wondering obviously there is a big change now upcoming, I am just wondering whether you can give us a bit more guidance which of this categories will start changing and when?

I think it also looks like the investment driven growth that we are talking about is simply not hasn't yet materialised. I am just wondering if you can give us the guidance a guidance how this is going to play out over the coming quarters because I think that also applies to mobile because it's simply the data market in mobile which seems to be growing in lots of other markets is not in Poland. What sort of timeframe do you see and which of these revenue categories you think where we are going to see the recovery let's say in the next six months space?

Maciej Witucki

Dalibor, thanks for the question. And please let me have something for February 2011. But very briefly just quarter-to-quarter remember that we have is that gradually improving basically all indicators and then we believe we restated impact of the DPTG all the indicators were improved from quarter-to-quarter and since the beginning of the year. And we have got a very strong quarter three to begin in next step. We never promised a skyrocketing and disruptive changes from quarter-to-quarter. We will improve the situation of this very group during the mid-term plan which is 2010-2012. Just let us realise this plan.

The growth elements we already announced them, so of course you will not see the immediate impact of the investment we did. We delivered 300,000 lines only in the last nine months roughly. This you cannot expect to have immediate impact of those lines to the revenues of the Group. But this is clearly a growing asset for one sales of new lines. Second because there is a lot of cap upgrades, sales of new speed or new services like television but this is long-term. This is something which we will see 2011, 2012 and further.

On mobile clearly I think this is bad and good news at the same time that we are late on the smartphones and we admit that this uptake is still in front of us because there are no reasons that Poles would love smartphones less than the other people around the planet. It's here, I think that on the mobile we should see some changes starting from at least on the sales volume starting from the quarter four this year and far in 2011. Hopefully the smartphone providers will be able to produce them because as you know it's a global problem of a strong pressure from the different market to get devices. And we somehow not being the biggest market of smartphones we are suffering from it as well, so we will really not be very aggressive to get them to Warsaw.

But this is something the growth of revenues mobile yes, mobile Internet, yes, starting quarter four yes, but this will be gradual process within 2011 and into 2012 to catch up to the standards of the Western countries, if I may say so. And no skyrocketing disruptive changes we improve quarter-to-quarter.

Dalibor Vavruska - ING

OK, sorry just to summarise, I mean basically what I am comparing is a year-on-year growth in the key retail revenue categories in fixed, mobile and data. Basically what you are saying is that there should be at least modest improvement in the year-on-year growth rates in the key revenue categories excluding wholesale, excluding the regulatory impact because so far there has been quite a little of it, so I am just wondering in the fourth quarter you are saying that you were already going to see something although not big but some positive impact in the retail revenue.

Vincent Lobry

(*Inaudible – technical difficulties*) I spoke about operational and base indictors in mobile to be precise (*Inaudible – technical difficulties*) sales in the customer were huge generator of revenue. And remember one element which is specific to the incumbent which is the fact that we are being always unfortunately offset by this drop of the fixed lines. And even if the drop of the fixed line trend is slowing down, so if you look on the average we are under 3% average decline in the number of fixed line. This is still a huge bulk of revenues which is cut, so remember that we **take** the growth in the mobile. Definitely we go there, we invested into the new devices and new services. We upgrade this speed, we upgrade the network. Broadband definitely as we take that we keep the television, we use the regulatory deal arrangement to improve the network to boost the revenues. Fixed line all the things we do it's to reduce the churn and we are quite good on this one but this a really big number and a big decline of revenues for the Group. No doubt about it.

Dalibor Vavruska – ING

OK. Thank you very much.

ACT Operator

Once again, if anybody on the phone lines would like to ask a question, please press *1 on your telephone.

Thank you, sir. There appear to be no further questions on the phone line, please continue.

Jacek Kunicki

Thank you very much everyone and then see you back here in February for the full year results.

ACT Operator

That concludes the TPSA Quarter Three Results conference call. Thank you for participating. You may now disconnect.

END OF CONFERENCE