

A close-up photograph of a man in a dark suit and a blue patterned tie, looking down at a smartphone he is holding with both hands. The background is slightly blurred, showing an outdoor setting with a blue sky and some architectural elements.

# Orange Polska 2Q'17 results

27 July 2017



## Forward looking statement

This presentation contains 'forward-looking statements' including, but not limited to, statements regarding anticipated future events and financial performance with respect to our operations. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words like 'believe', 'expect', 'anticipate', 'estimated', 'project', 'plan', 'pro forma', and 'intend' or future or conditional verbs such as 'will', 'would', or 'may'. Factors that could cause actual results to differ materially from expected results include, but are not limited to, those set forth in our Registration Statement, as filed with the Polish securities and exchange commission, the competitive environment in which we operate, changes in general economic conditions and changes in the Polish, American and/or global financial and/or capital markets. Forward-looking statements represent management's views as of the date they are made, and we assume no obligation to update any forward-looking statements for actual events occurring after that date. You are cautioned not to place undue reliance on our forward-looking statements.

## Adjustments to financial data

Disclosures on performance measures, including adjustments, are presented in the Note 2 to Condensed IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the 6 months ended 30 June 2017 (available at <http://orange-ir.pl/results-center/results/2017>)

<i>in PLNm</i>	2Q'16	2Q'17	1H'16	1H'17
EBITDA	824	812	1,692	1,560
-Employment termination expense	-	8	-	8
Adjusted EBITDA	824	820	1,692	1,568
Capital expenditures	480	437	4,025	822
-acquisition of telecommunications licences	-	-	-3,168	-
Adjusted capital expenditures	480	437	857	822
Organic cash flow	342	218	-2,862	-36
-LTE auction deposits / Acquisition of LTE spectrum	-	-	3,148	-
Adjusted organic cash flow	342	218	286	-36

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# Highlights

**Jean-François Fallacher**  
**Chief Executive Officer**

**Better 2Q  
EBITDA trend  
supported by  
convergence and  
more value  
oriented  
approach**

PLN 2.84bn  
revenue,  
-2.2% yoy

PLN 820m  
adjusted EBITDA\*,  
-0.5% yoy  
(FY guidance confirmed)

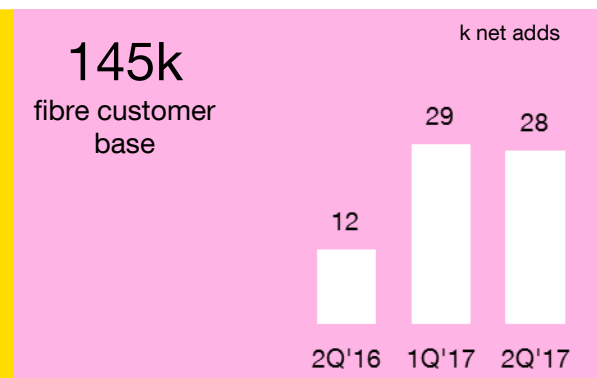
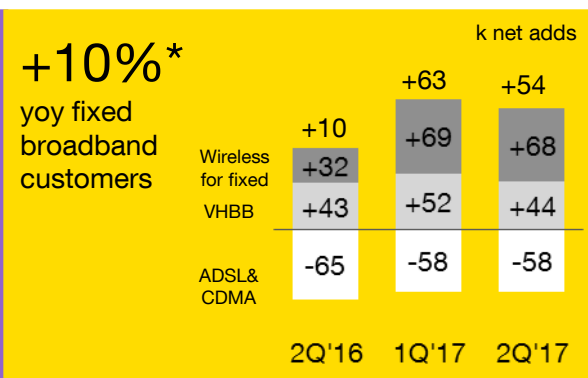
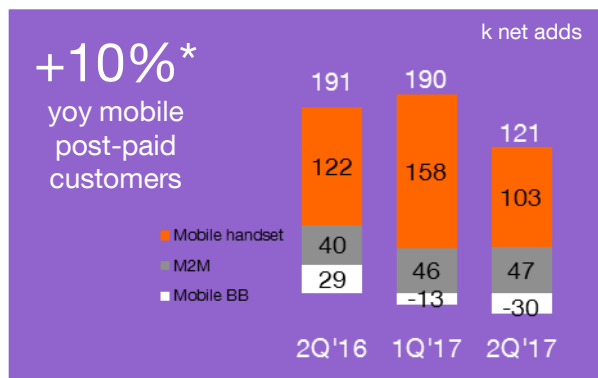
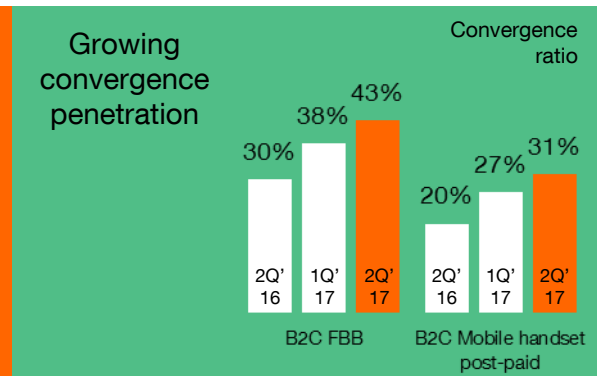
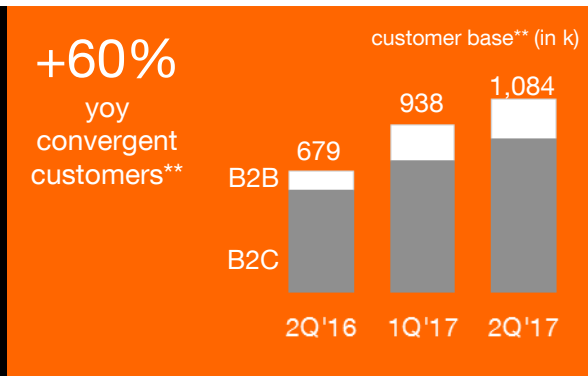
28.9%  
adjusted EBITDA\*  
margin,  
+0.5 pp yoy

PLN 437m  
capex  
15.4% of revenue

PLN 218m  
organic cash flow

\* adjusted as presented on slide #3

# Record high growth of convergent customer base



\* Includes effects of customer base revision made in 3Q2016

\*\* Since 1Q'17 convergent customer definition has been modified and reflects only a combination of fixed broadband (incl. wireless for fixed) and mobile handset offer, with financial benefit

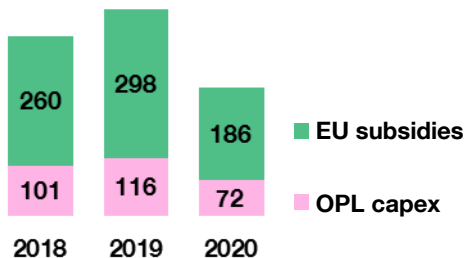
# Fibre network deployment to benefit from EU subsidies (Digital Poland Operational Programme - POPC)



18 areas out of 79 areas in total  
>360k households and 3,700 schools



PLN 1,033m total capex:  
PLN 744m EU subsidies vs PLN 289m  
own capex



## Benefits

Synergies to be generated from our earlier investments in transportation network funded partly from the government subsidies

Potential for >80k our current ADSL customers to be upgraded to fibre

Expected higher fibre adoption rate due to lower competition



# OPL acquired Multimedia Polska Energy to boost adjacent growth areas

## Transaction

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**PLN 37m**

cash consideration for the enterprise after receiving regulatory approval



**~75k**

customer base



**PLN 46  
per month**

average revenue per customer

## Benefits and opportunities

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- Quadrupling OPL's energy clients base
- Becoming market leader among alternative energy retailers and
- Improving negotiating position towards energy suppliers
- Increasing fishing pool for upselling telco services and increase customer loyalty

# Financial review

**Maciej Nowohoński**  
**Chief Financial Officer**

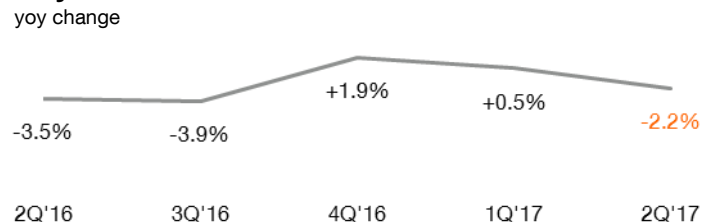
## 2Q/1H financial results key highlights

in PLNm	1H'17	% yoy	2Q'17	% yoy	key points for 2Q
revenues	5,657	-0.9	2,839	-2.2	<ul style="list-style-type: none"> <li>▪ Lower growth of equipment sales (higher comparable base)</li> <li>▪ Growing fixed broadband</li> </ul>
adjusted EBITDA*	1,568	-7.3	820	-0.5	<ul style="list-style-type: none"> <li>▪ Commercial expenses reflect high share of SIM-only offers and optimisation of distribution channel mix</li> <li>▪ Supported by gain on sale of real estate</li> </ul>
% of revenues	27.7	-2.0 pp	28.9	+0.5 pp	
adjusted CAPEX*	822	-4.1	437	-9.0	<ul style="list-style-type: none"> <li>▪ In line with FY outlook</li> <li>▪ Ex-fibre capex down 20% yoy</li> </ul>
% of revenues	14.5	-0.5 pp	15.4	-1.1 pp	
adjusted organic cash flow*	-36	n/a	218	-36.3	<ul style="list-style-type: none"> <li>▪ Rebound after weak 1Q</li> </ul>

\* adjusted as presented on slide #3

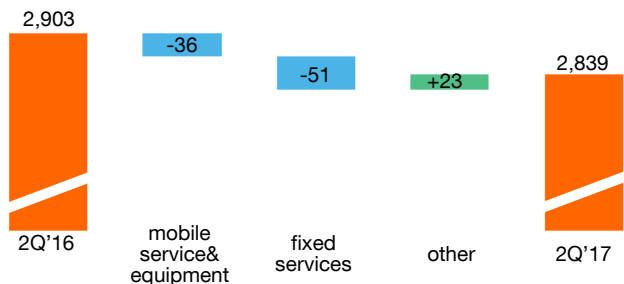
# 2Q revenues reflect normalised growth of equipment sales

## Adjusted revenue evolution



## Revenue evolution breakdown

in PLNm



## Mobile revenue

- Growth of equipment sales reflects lower handset subsidies
- Trend in services reflects mainly shift to SIM-only and instalment offers

## Mobile revenue

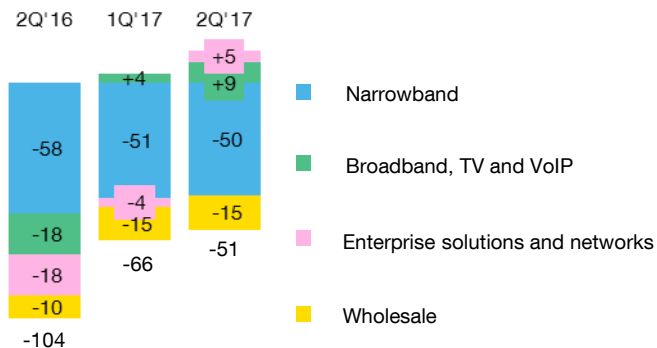
(yoy in PLNm)



## Fixed revenue

- Better trend in broadband owing to growing customer volume of VHBB and wireless for fixed

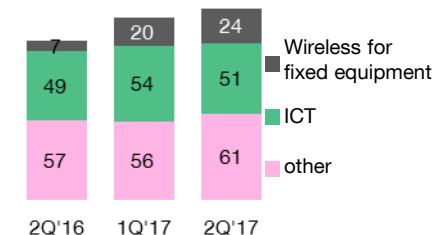
(yoy in PLNm)



## Other revenue

Good performance of ICT continues

(in PLNm)



# More value oriented approach in mobile thanks to lower handset subsidies and shift to SIM-only offers

2Q mobile revenue

PLN 1,568m

-2.2% yoy

service

PLN 1,260m

-5.9%yoy

equipment

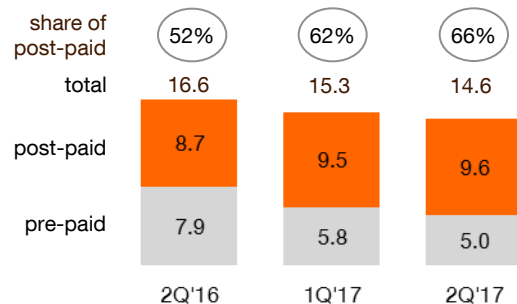
PLN 308m

+16.2%yoy

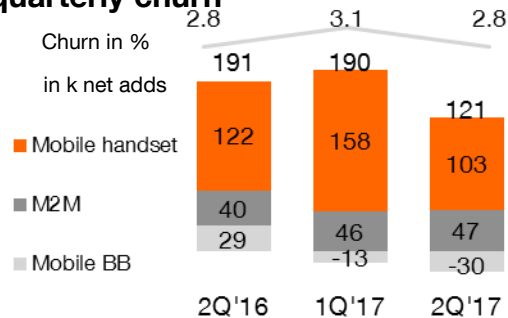
- Lower handset subsidies reflect market trend
- Trend of wholesale services affected by PLN 20m one-off in 2Q'16
- Customer base trends:
  - Post-paid: good net adds in handset offers; mobile broadband continues to reflect shift to wireless for fixed and growing data packages in smartphones
  - Pre-paid: last quarter of impact of registration obligation
- Post-paid ARPU reflects shift of customer base to SIM-only and instalment offers as well as convergent discounts

## Mobile customers

in millions

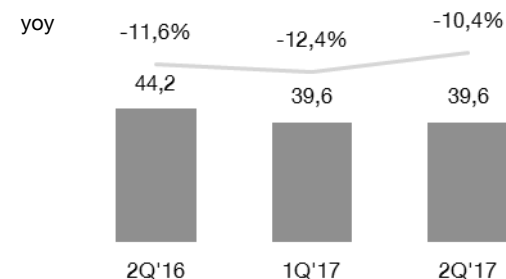


## Post-paid net adds & quarterly churn



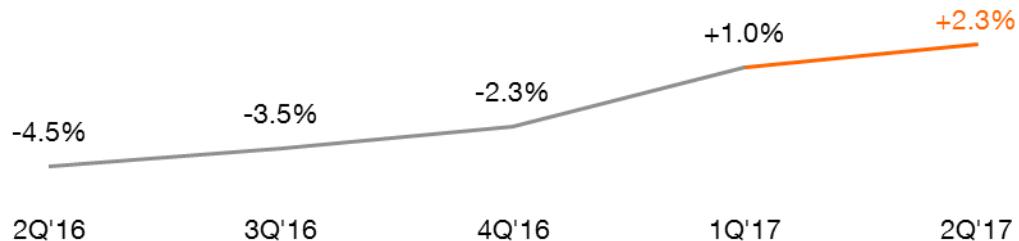
## Post-paid ARPU trend

(PLN/month) and yoy % change



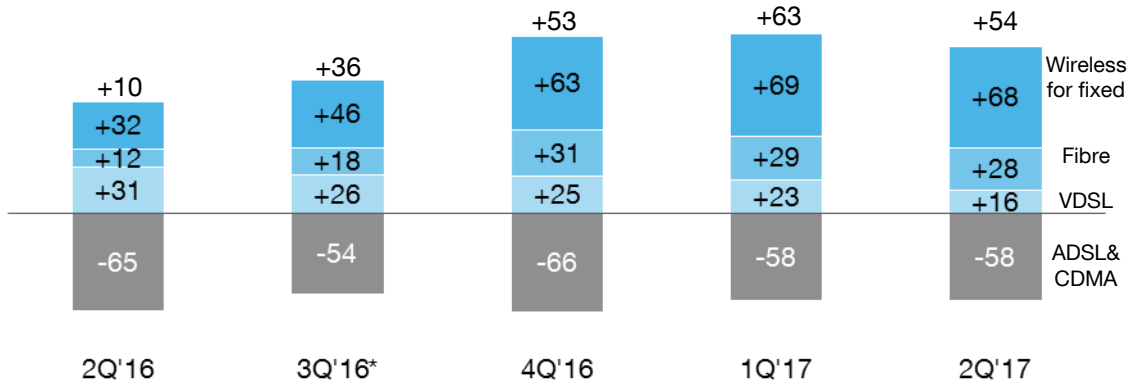
# Successful transformation of fixed broadband business

Improving revenue trend...  
yoy change



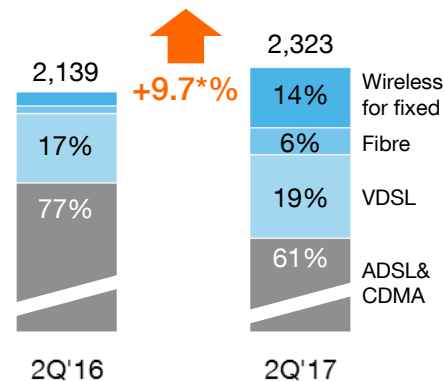
...driven by better customer additions

in k



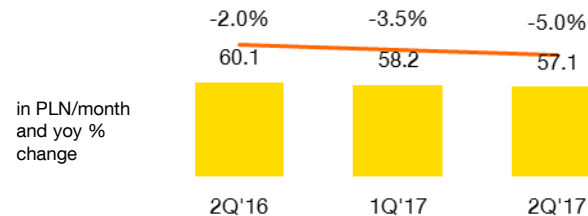
Customer base

(in k)



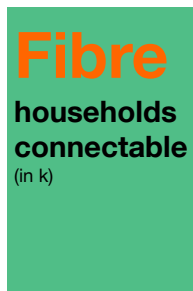
**43%** FBB B2C base on **convergent** offers (+13 pp yoy)

ARPU diluted by growth of wireless for fixed customers



\* Includes effects of customer base revision made in 3Q2016

# Fibre service available in ~40% of households in big cities



1,011

1,687

1,953

2Q'16

1Q'17

2Q'17



39

2Q'16

117

1Q'17

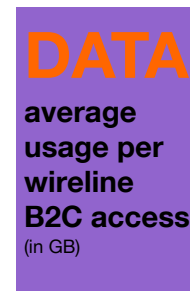
145

2Q'17

3.9

6.9

7.4



52

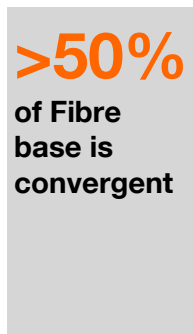
2Q'16

70

1Q'17

69

2Q'17



convergence as %  
of B2C base  
(in %)

43

FBB

52

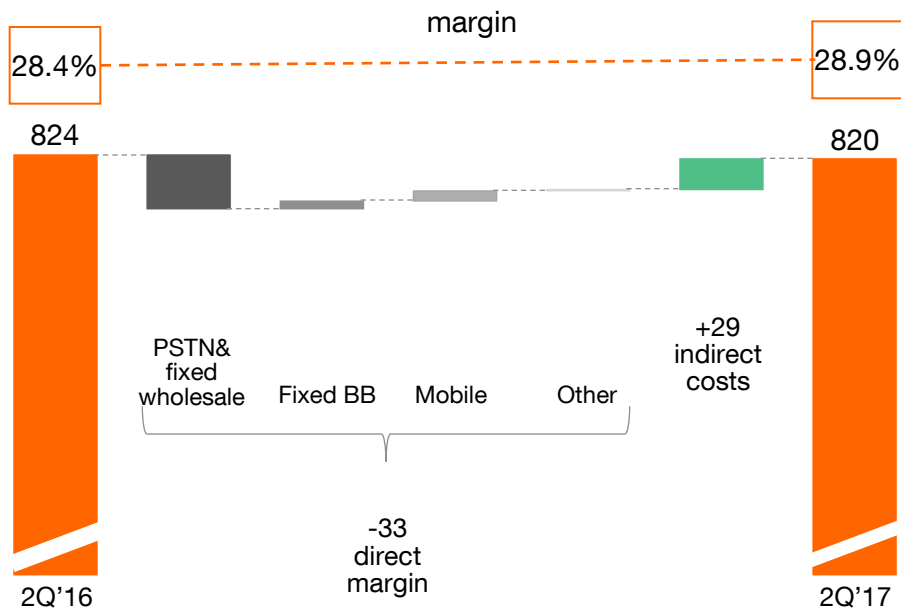
Fibre

- 28k net customer additions in 2Q vs 29k in 1Q and 12k in 2Q'16
  - >70% of 2Q gross adds new customers to OPL
  - Services already available in 54 cities (c.90% of the network is deployed in big cities)
- 266k new households connectable in 2Q of which 50k on third party infrastructure (full-year target of >1 million households maintained)
- PLN 154m capex in 2Q'17; capex per household connectable at ~PLN 450

# 2Q EBITDA supported by stronger focus on value and real estate sales

## Adjusted EBITDA\* evolution

yoy change in PLNm



### Direct margin:

- Majority of evolution explained by fall in legacy business lines
- Fixed broadband improvement owing to revenue growth from wireless for fixed and VHBB
- Mobile supported by lower handset subsidies and optimisation of distribution channel mix

### Indirect costs:

- Optimisation of advertising and promotion
- PLN 20m yoy higher gain on sale of real estate

### employment down

**5.8% yoy**

(in kFTE end of period)

16.4

15.5

2Q'16

2Q'17

\* adjusted as presented on slide #3



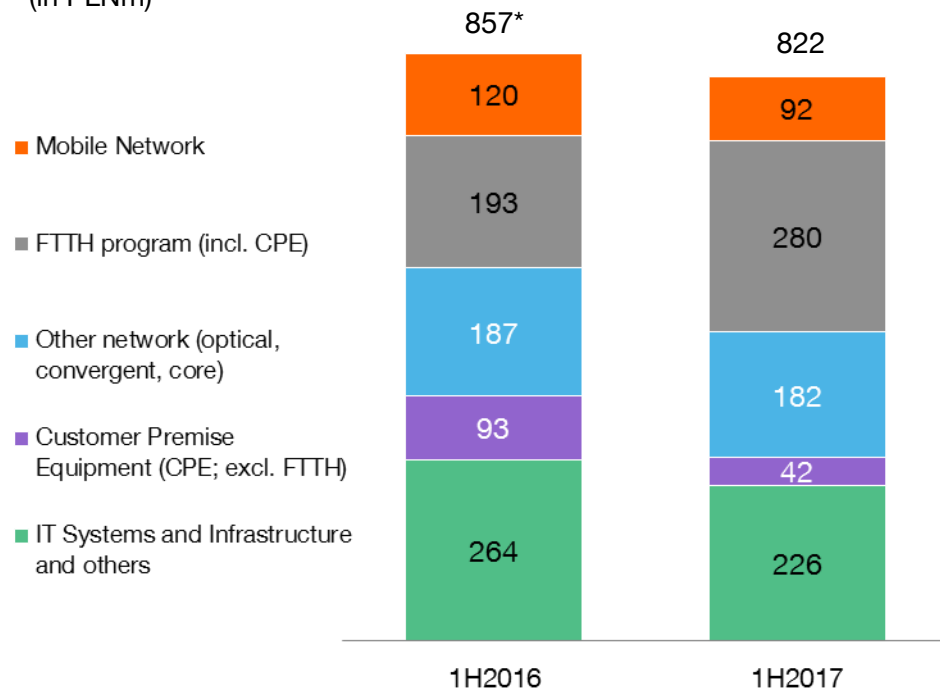
## Net income supported by stronger EBITDA and lower depreciation

in PLNm	1H'16	1H'17	2Q'16	2Q'17	change
reported EBITDA	1,692	1,560	824	812	-12
depreciation and amortization	-1,336	-1,281	-683	-642	+41
(impairment)/reversal of impairment of non-current assets	1	-1	1	-1	-2
reported operating income	357	278	142	169	+27
net financial costs	-192	-157	-96	-86	+10
income tax	-50	-11	-29	-12	+17
reported net income	115	110	17	71	+54

D&A trend includes PLN 42m effect of extension of useful life for some fixed assets

# Capex reflects connectivity investments and optimisations

## Investment areas (in PLNm)



- Fibre capex up 45% yoy, in line with full-year outlook
  - Capex per household connectable at ~PLN 450, down yoy mainly owing to network expansion on third party infrastructure
  - Includes outlays for customer connections (incl. CPE) and capex dedicated for B2B customers
- Capex ex-fibre down 18% yoy
  - IT and CPE reflect optimisations and completion of some projects
  - Mobile network reflects different phasing of network rollout

\* adjusted as presented on slide #3

## Cash flow rebound after 1Q

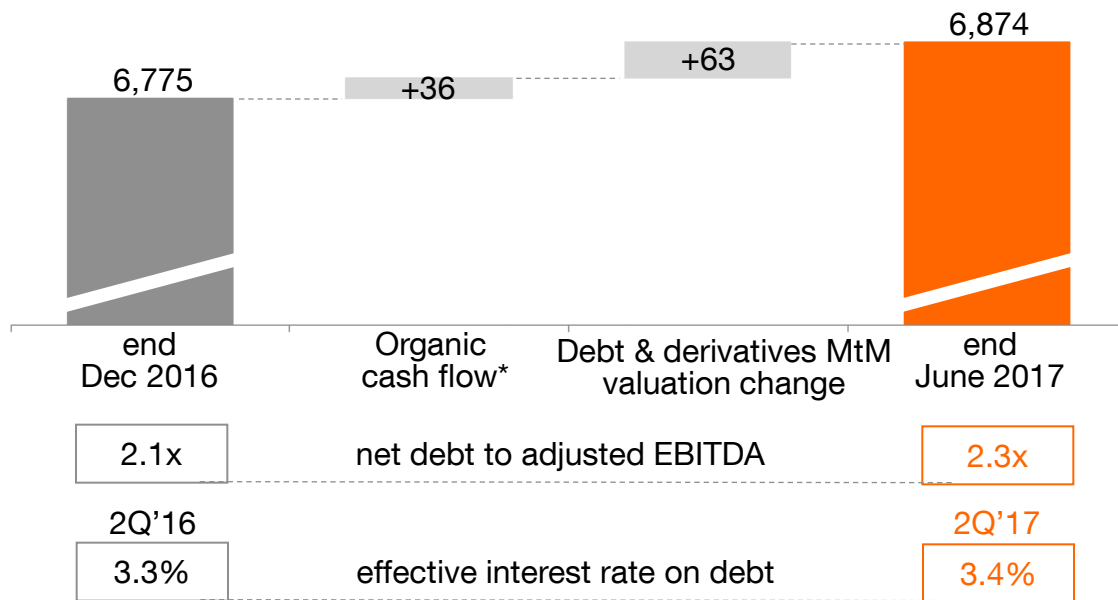
in PLNm	1H'16	1H'17	Change	2Q'16	2Q'17	Change
Net cash flow from operating activities before income tax paid and change in working capital	1,397	1,358	-39	695	675	-20
Change in working capital	-	-347	-347	15	-117	-132
CAPEX ex LTE spectrum	-857	-822	+35	-480	-437	+43
Change in CAPEX payables*	-317	-306	+11	21	15	-6
LTE auction deposits / Acquisition of LTE spectrum	-3,148	-	+3,148	-	-	-
Income tax received/(paid)	-19	-6	+13	34	5	-29
Sales of assets	82	87	+5	57	77	+20
<b>Organic cash flow</b>	<b>-2,862</b>	<b>-36</b>	<b>+2,826</b>	<b>342</b>	<b>218</b>	<b>-124</b>
LTE auction deposits / Acquisition of LTE spectrum	3,148	-	-3,148	-	-	-
<b>Adjusted organic cash flow</b>	<b>286</b>	<b>-36</b>	<b>-322</b>	<b>342</b>	<b>218</b>	<b>-124</b>

\* including exchange rate effect on derivatives economically hedging capital expenditures, net

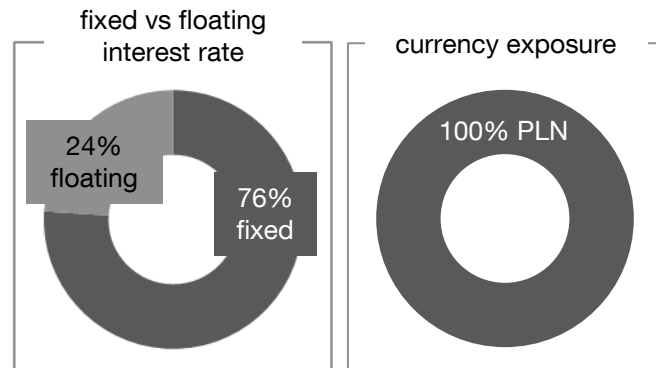
# Net debt to EBITDA ratio below maximum guided level of 2.6x

## net debt evolution

change in PLNm



## Debt after hedging breakdown



2.6 years – debt average duration

\* as presented on slide #3

# Conclusions

**Jean-François Fallacher**  
Chief Executive Officer

# Conclusion

- Strong focus on:
  - Orange Love to maximise value strategy
  - Further turnaround of fixed broadband business
  - Simplicity in customer offers and customer experience
- We reiterate our full-year guidance for adjusted EBITDA in the range of PLN 2.8-3.0bn and net debt to EBITDA ratio not higher than 2.6x
  - New roaming regulations to impact performance in H2
  - Flexibility for commercial spending in the peak season
- Strategic update to be presented on 4 September

# Q&A

## Glossary (1/2)

3P customer	a customer who purchased a bundle of fixed broadband, TV and VoIP services
4G	fourth generation of mobile technology, sometimes called LTE (Long Term Evolution)
ARPU	Average Revenue per User
CDMA	Code Division Multiple Access, second generation wireless mobile network used also as a wireless local loop for locations where cable access is not economically justified
data user	a customer who used mobile data transmission in a given month
EBITDA	Operating income + depreciation and amortization + impairment of goodwill + impairment of non-current assets
FBB	Fixed Broadband
Fibre access network project	rollout of fixed broadband access network based on fibre technology which provides the end user with speed of above 100Mbps
FTE	Full time equivalent
Fibre	fixed broadband access network based on FTTH(Fibre To The Home ) /DLA (Drop Line Agnostic) technology which provides the end user with speed of above 100Mbps
GB	Gigabyte
Households (HH) connectable in fibre technology	Households where broadband access service based on fibre technology can be rendered
ICT	Information and Communication Technologies



## Glossary (2/2)

LTE	Long Term Evolution, standard of data transmission on mobile networks (4G)
LTE user	a customer who used LTE service at least once in a given month
M2M	Machine to Machine, telemetry
MB	Megabyte
MVNO	Mobile Virtual Network Operator
Organic Cash Flow	Organic Cash Flow = Net cash provided by Operating Activities – (CAPEX + CAPEX payables) + proceeds from sale of assets
PB	Petabyte
RGU	Revenue Generating Unit
SAC	Subscriber Acquisition Costs
SIMO	mobile SIM only offers without devices
SRC	Subscription Retention Costs
VDSL	Very-high-bit-rate Digital Subscriber Line
VHBB	Very high speed broadband above 30Mbps
VoIP	Voice over Internet Protocol
Wireless for fixed	fixed broadband cell-locked wireless access offered by Orange Poland for home/office zone with rich data packages