

Orange Polska SA - OPL.WA

Transcript of Full year 2016 Results Conference Call/Presentation
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Corporate Participants

- **Leszek Iwaszko** - Orange Polska SA - Head of Investor Relations
- **Jean-François Fallacher** - Orange Polska SA - CEO
- **Maciej Nowohonski** - Orange Polska SA - CFO
- **Bozena Lesniewska** - Orange Polska SA - Deputy CEO in charge of the Business Market
- **Piotr Muszynski** - Orange Polska SA - Deputy CEO in charge of Strategy and Transformation
- **Jacek Kowalski**, Board member in charge of HR

Conference Call Participants – Q&A session

- Ondrej Cabejsek - Berenberg - Analyst
- Piotr Raciborski - Wood and Company - Analyst
- Pawel Szpigiel - DM mBanku - Analyst
- Vera Sutedja - Erste Bank - Analyst
- Anna Kazaryan - VTB Capital - Analyst
- Herve Drouet - HSBC - Analyst
- Pawel Puchalski - BZ WBK - Analyst

Presentation

- **Operator** -

Good morning ladies and gentlemen. Thank you for standing by. Welcome to the Orange Polska Q4 2016 results conference call, on February 14. Today's conference is being recorded. (Operator instructions).

I will now hand over the conference to Mr. Leszek Iwaszko. Please go ahead, sir.

- **Leszek Iwaszko - Orange Polska SA - Head of Investor Relations**

Good morning, everyone. Welcome to Orange Polska's results conference for the quarter four and the full year 2016. My name is Leszek Iwaszko. I am Head of Investor Relations. Let me introduce the Management Board of Orange Polska starting with Jean-François Fallacher, CEO; Maciej Nowohonski, CFO; Bozena Lesniewska, responsible for the business market; Piotr Muszynski, in charge of transformation and strategy; and Jacek Kowalski, who is responsible for HR.

You will note that our results have been published yesterday. They are available on our IR website.

Now I had the floor to Jean-François to start the presentation.

- **Jean-François Fallacher - Orange Polska SA - CEO**

Thank you very much, Leszek. Good morning, ladies and gentlemen. Welcome on our annual full-year results conference. As usual, I will start with the highlights of the quarter, and then I will pass the microphone and the floor to Maciej Nowohonski, which will actually comment more in detail our financial reviews.

Then, I will finally conclude this presentation by giving you some outlook on our expectations for 2017, and, of course, at the end we would have the pleasure to take your questions.

So let's start immediately this presentation by commenting our results. I have first to say that we have delivered our financial commitments for 2016. So you see that our EBITDA has been in the guided range, and our leverage below the commitment we set for ourselves for this year, and finally our investments, our total CapEx were according to our plans. Fibre was the most important investment in this 2016 CapEx.

So let's go now to look a little bit more precisely on the 2016 numbers. You see our Q4 revenues. You might have been surprised -- positively surprised -- that they are growing in Q4. However, I would like to insist on the fact that this is not yet sustainable growth. It is mainly due, actually, to a shift in the way we account our customers' offers.

Basically, it's also a good quarter for ICT, but Maciej Nowohonski will comment this later.

EBITDA, as you see, has been helped by revenue trends and has declined less than in the previous quarters. And cash flow was better than last year, mainly due to a better working capital management.

I think this first quarter, and I'm going to the next page, this fourth quarter is mainly a very good quarter for our commercial performance. As you can see, we had a very strong commercial performance.

First of all, I would like to highlight our performance in very high broadband. The customer base there is strong. We have added 56,000 customers, and the customer base of very high broadband is now almost 500,000. In 2016, we really increased the volumes versus 2015, and here clearly we see that fibre is making the difference, and I will come back a little bit later to comment our fibre results.

If I now switch to mobile, in post-paid, it's been also a very, very good quarter, very good momentum, with net additions which were honestly the best for many years in this Company. And this has been boosted by the success of our multi-SIM family offers, and higher number of migrations from pre-paid.

So you know that were as famous pre-paid registration during the last quarter. Then I think we have been harvesting these to migrate more customers to post-paid.

Now, to comment on pre-paid, on the pre-pay registration. You know we had this deadline of February 1 to register the pre-paid SIM cards. In Q4, the reported number of total SIMs decreased even more than in Q3, which is not a surprise or should not be a surprise for anyone because obviously in Q3 there were only two months of pre-paid registration whereas in Q4 we had the full three months.

Of course, as you can imagine, the key reasons are the same as the ones I explained to you during Q3. So, it's actually the fact that due to this registration, there is simply less activations, and it's mainly, I would say, a statistical effect. It has no material impact on our pre-paid business.

So I saw some of the comments this morning of the press about a sharp decrease in number of customers. Yes, this is true, but this is just a statistical effect due to pre-paid and has no material effect on our concrete business.

Again, what matters in pre-paid is active customers. I can report, and we are very happy to report, that more than 96% of our active customers have been registered on February 1. It was, as you know, actually a few weeks ago, the deadline. So I think this is a success.

This is according a little bit better than what we anticipated. Just a small part of the customers remain unregistered, probably those for which really anonymity was absolutely key.

So now, again, pre-paid registration is a success for us. There is still a little bit of source of uncertainty for us in 2017, as I was explaining before. There was a pre-paid market before registration and pre-paid market -- there will be a pre-paid market after registration.

Now we are after registration, so we will see how this market is going to stabilize, I would say, and how we will again find the cruise mode for pre-paid.

Now, I would like to comment on our fibre results. As you can see, our actions from number of fronts gave a good result. Our fibre base, as you can see in Q4, has increased by 31,000 customers. So we have ended the year with 88,000 customers, and a few days ago we were pretty proud to communicate that we had passed the -- I would say symbolic -- bar of 100,000 fibre customers.

So, as you have seen, we've made fibre our top priority at Orange. And thanks to a lot of improvement in our actions, and our actions on marketing and sales, we have really increased. I think what we are proud of is not only the numbers, but also the direction of the curve and the momentum we have created thanks to fibre.

Also, one thing I would like you to notice is that we will talk about convergence. We believe, as I commented earlier, that convergence is a key differentiator for us. Here, we can also report, and we are proud to report, that 51% of our customers taking fibre are convergent customers, meaning they take more services than just broadband Internet access. This is a fact.

Even more interesting I think is the fact that if you look in these numbers, 80% of the customers acquired in Q4 are actually new customers. They have been acquired from the market, and this is increasing every quarter. So it is showing that fibre is really a weapon for us to acquire customers from our competitors.

As you know, we are also increasing the awareness of Orange as a provider of broadband based on fibre. We are doing regular surveys on this. At the end of last year, more than 50% of the people we actually surveyed indicated Orange as a key provider of fibre in Poland, so the awareness is also raising, and that's obviously very good.

Maybe I will come back later, but for 2017 of course, we have higher ambitions for customer acquisitions. And I would like also to quote that in terms of number of homes we have passed, we have reached the target we have set for ourselves at the end of last year.

So we have passed 1.5 million households in Poland. So fibre is accessible to 1.5 million of households end of 2016, so which is equivalent of, added up, 755,000 households in the year 2016. So not only have we progressed in terms of households passed, but also, as you see, in terms of customers connected.

Just to conclude these results on fibre, we are absolutely on track with our initial business plans with this result that has been achieved.

Last but not least just to comment on mobile and mobile data. You know, in mobile, it's more and more about data. As you can see, data growth is going on. It's exceeding our expectations, and the ones that we were having during the spectrum auction.

Our network coverage is progressing. We are now covering 80% on outdoor, with 800-megahertz frequency, and 40% in indoor. We are further building our coverage in 800 megahertz and concentrating on improving it into the 2.6GHz in big cities. And thanks to spectrum aggregation, we are increasing the speed of our network for our customers.

As you know, in December we have announced that we signed the extension of our cooperation with T-Mobile to the sharing of the equipment based on these new LTE technologies 800 megahertz 2.6GHz. It will help us to optimize our investment in 4G, and obviously improve the network, 4G network, we are offering to our customers.

Before I give the floor to Maciej, let me comment on our new convergent offer. This is one offer we have introduced just a few days ago under the brand -- under the new name, sorry, Orange Love. So it is replacing, actually, Orange Open, which has existed a few years and was based on the pick-and-mix content -- concept, sorry.

Orange Love is different. It's really a bundle. It's a predefined set of fixed mobile and TV services put together in a bundle at a very attractive price. Obviously, prices are dependent on the speed of the broadband access we are offering, and of course on the number of TV channels that you are

choosing as a customer. And, on top of this, you can, of course, choose smartphones or even TV models in an instalment mode.

Prices are attractive, and they are designed to improve our competitiveness vis-a-vis our competitors on cable and broadband based again on this bundle notion.

Our strategy is obviously to promote, cross-sell, and maximize revenues from households thanks to this new offer. Through this, we are also making a big step, and leapfrogging in terms of the TV experience that we are offering to households with a new decoder. This is a first premier in Poland, which a new decoder which allows, actually, people to watch 4K.

So this is the new ultra-HD image quality. So we are the first provider, the first national provider, in Poland to offer these types of services, and also we are introducing Orange TV GO together with the bundle, which is allowing you as a customer to enjoy TV on the move. So on your smartphone, on your tablet, any time you wish and anywhere you go.

So this is really a big change, and a step change in the experience -- the TV experience -- we are offering to households, again together with a convergent bundle and extremely attractive price.

This is closing the first part of this presentation, and now I'm passing the floor on to Maciej Nowohonski, which is going to comment our financial figures.

- **Maciej Nowohonski - Orange Polska SA - CFO**

Thank you very much, Jean-François . Good morning. Let's look at the key financial information before we move to the outlook of 2017. So I start with slide 13.

You see the key financial metrics for the quarter four and the 2016. First of all, the top line trend, as Jean-François said, was positive in the quarter. I will comment that more in a minute.

Revenue evolution supported the EBITDA, which contracted much less than in the previous few quarters from the year-over-year perspective despite quite high commercial investment that we have done in Q4. I will comment that as well later on.

CapEx was seasonally high and despite that, it was 10% below the previous year.

So let's go to the revenue on the next page. The Q4 revenue increased by almost 2%. However, it is too early, as Jean-François mentioned, to extrapolate this trend for the next quarters.

It was supported by the mobile equipment sales, which basically is our instalment offer that we sell on the market. Firstly, the share of the instalment offers in the total handset offers increased considerably. It was two times higher than in Q4 of 2015.

Second of all, we are selling today more expensive handsets in order to get more value from customers.

Revenue was also helped by our ICT activity. We have, as you know, a dedicated subsidiary, Integrated Solutions. And despite the relatively weak demand on the market in 2016 on such services, especially from the public sector, we've been able to not only maintain our position, but even to strengthen it.

Here, we see additional revenue coming from the financial and energy sectors as well as some public contracts. I mention here one specifically, National Prosecutor's Office, which is delivering additional revenue not only in Q4, but also for the future.

So now, let's look on the next page for the zoom on the mobile revenue. We've been discussing already the strong impacts coming from the equipment sales, which means instalment offers.

Now let's take a look at the service revenue. The trend here versus the previous quarter has slightly

deteriorated, but it is only due to the comparative base. So here, a positive one-off in wholesale was recognized in Q4 of 2015.

Evolution in the retail parts of the service revenue is basically unchanged, however negative. We are down in Q4 around 6%, year over year. On one hand, this is supported by constantly growing number of customers. On the other hand, we still see the dilution of ongoing shifts to instalment offers and convergence discounts.

If we look at this revenue from the cash perspective, so if we include the instalment parts, retail revenue was slightly up year over year in Q4. And this trend improved versus previous quarters, and we are expecting also a gradual, I mention gradual, improvement in the next quarters.

Similarly, our reported post-paid ARPU continues to show 11% year-over-year deterioration. However from a cash perspective, it is only half of that. It is around 5% down.

So now, let's go to the next slide, which is dedicated to fixed broadband. Performance of the fixed broadband continued to improve from the commercial perspective. We have stabilized right now the line losses on a very low level, and even if we treat it without the CDMA category, which is a legacy for us, we were almost flat. And high-speed broadband base, as Jean-François mentioned, increased quite strongly. And it constitutes already 25% of our total fixed broadband base, and it grew to 25% from 15% a year ago.

According to our estimates, we increased also our market share in this category, high-speed broadband, by a few percentage points mainly thanks to the fibre.

However, ARPU continues its deterioration, 3% in Q4, and that reflects, basically, the high market competition that is on the market and it is not yet translating into higher revenue.

Now, let's go to the fixed voice on page 17. In PSTN legacy services the trends are negative but quite stable. Over the past two years, our revenue here were shrinking by 12% to 13% for obvious reasons, and this trend is difficult to stop.

PSTN is a major factor that is responsible for deterioration of our EBITDA year over year. We consider now if more milking strategy would work here. That is under analysis in the Company. And if viable, could be applied still in 2017.

EBITDA, the next slide. As we expected in Q4, EBITDA contracted much less than in the previous quarters. It was supported by revenue trends that we already discussed. Our cost evolution reflected seasonal peak in commercial spending.

Commercial costs increased significantly due to the change in the mix of handsets sold -- more expensive handsets -- and much higher volume of equipment, especially for the services, the so-called LTE for Fixed, so fixed broadband sold on the LTE technology.

The share of smartphones in total sale of handsets is constantly increasing. Also, the mix is moving towards a higher share of high-end smartphones, which is also reflected in the revenue slide that I commented earlier, equipment sales.

We saw, also, some impact of weaker Polish zloty to euro again in this quarter, like in the previous quarter. Year over year, I mean.

We are after the first year of the realization of our social plan for 2016 and 2017. And as scheduled, slightly more than 1,000 employees left the Company last year, of which more than 90% under voluntary departure programs.

During the last three years, we have reduced our employment by more than 20%. We have high ambitions to work further in this direction in the future.

Let's now look at the bottom line. Important slide. Bottom line in 2016 was heavily affected by recognition of non-cash asset impairment. In impairment test, the enterprise value is compared with the value of assets. The enterprise value is defined as sum of discounted cash flows for the Company for the financial projections until 2021, and then the terminal value measures that perpetuity after 2021.

Such test is performed every year. This time the Company recognized impairment loss as the enterprise value got lower than the value of assets. The main reasons for worse evolution of the enterprise value include a couple of factors.

First of all, structural decline in the legacy business, PSTN, wholesale access. Second of all, worsening competitiveness of our ADSL business, which becomes now more legacy than previously. Then, slower recovery of our mobile ARPUs as competition does not ease as fast as we previously assumed, and finally smaller pre-paid market after registration. This market is going to be smaller.

All these reasons are structural and factual. They increase the business risk for our ambitious plans.

Correction of the Company assets is, of course, never welcome. Nevertheless, we as management do act responsibly, and for the good of the Company and shareholders. We need to stand firmly with our feet on the ground and focus on allocation of adequate resources into the areas that are key for our turnaround.

Monetization of the mid-term plan is slower than expected. Therefore, we will take that into account and act. Jean-François will come back on that topic later in the presentation.

Now, moving to the next slide, which is about the CapEx. The total amount of the CapEx was in line with the expectations, and it was similar to last year. We clearly focused on fibre and LT connectivity investments. Those two areas consumed around 45% of our total portfolio in 2016.

At the same time, we reduced CapEx consumption on all other fronts. Here, we want to spend the next month on revision of resource allocation in the context of the net asset correction.

The next slide shows the cash flow generation. So let me comment here more for the full year results than quarter specifically. Cash flow in 2016 was influenced mainly by EBITDA drop and timing of CapEx. Legacy business deterioration is responsible for the majority of EBITDA year-over-year loss.

Instalment offers contribute to EBITDA, but cash is deferred to the future.

We paid high Q4 2015 CapEx at the beginning of 2016. Throughout 2016, we kept high investment each quarter.

Working capital management in 2016 was much better mainly thanks to the reverse factoring transactions that we have implemented and we are going to continue in 2017 as well.

Looking forward towards 2017, please note that EBITDA cash drag will still be there, and working capital requirements will most likely be higher, since it is quite stretched already.

In addition, with respect to our deleveraging initiatives, the way we monetize real estate or sale of instalments receivables is quite long, and we have to admit quite difficult. Here, management is willing to take only such decisions which will bring incremental value to the Company, and not the contrary.

To conclude the financial review, let's look at the net debt, on the next slide.

We finished the year with the net debt at close to PLN6.8 billion, and leverage ratio of 2.1 times below the self-imposed ceiling of 2.2. At year-end, our debt is 70% based on the fixed interest rate. We are now slightly increasing this percentage in anticipation of raising interest rates.

Our net debt will go higher in 2017 if we have to pay European Commission fine. But we anticipate our cost of debt to remain rather stable today.

That's all from my side. Thank you for your attention, and I hand the floor back to Jean-François .

- **Jean-François Fallacher - Orange Polska SA - CEO**

Okay, thank you Maciej. We are going now to look at 2017, and I would like to comment to you and give you an outlook of how do we see 2017.

So, starting again with the expectations for this year 2017, starting with the top line, we believe that top line erosion will stay with us in 2017 for those reasons. First of all, in mobile, we believe that we had a very, very strong year in 2016, and it was probably thanks to also these big movements that were linked to pre-paid registration. So, we believe that it will be a little bit lower in 2017.

And on the other hand, you know that we are expecting this summer some changes in roaming regulation, and as I was telling to you, a little bit of uncertainty is remaining in the pre-paid business. So for those reasons, we believe the top line erosion, at least on mobile, will stay in 2017.

In the fixed segment, we do not see major change in the trend. The pressure on legacy is continuing. In fixed broadband, there is still adverse revenue evolution, which will be gradually improved and compensating thanks to the improved volume effects.

This is obviously thanks to the fibre plan, and also convergence, that will move our fixed broadband segments positively against this legacy decrease pressure.

Concerning our EBITDA, as you can see, and read there, we see it for 2017 in the range between PLN2.8 billion and PLN3 billion. This guidance actually reflects the above-mentioned pressure on the high margin revenues, the legacy and roaming, and of course we will need to maintain quite a high level of commercial expenses to achieve the level of gross adds and revenues we are expecting in mobile.

We obviously will continue the cost reduction thanks to which we can provide this guidance in EBITDA and also our disposal of real estate. There are still plans there to provide you this EBITDA guidance.

The relatively, I would say, wide range of the guidance is actually reflecting some uncertainties that could happen on the pre-paid market, as already told, and as well the level of real estate that we are planning to sell, which we are planning to be similar to last year.

In CapEx now, our investment, we are planning actually exactly a similar level that last year, and this I would say despite the expected revenue decrease. So within the same envelope of PLN2 billion we are planning to spend more on fibre, and to connect, actually, this year more than 1 million households.

Again, we believe this is really of strong value for the Company and for its stakeholders and its shareholders. And even though, I would say, the outlook of the underlying business, as you see, is still planned to decrease, we decided to keep this investment level and even accelerate fibre.

This will -- this, again, despite, as you know probably, the EC fine that we will need to -- we might need to pay in the first semester of this year.

So that's about the outlook in terms of revenues, EBITDA and CapEx.

Now, we cannot deny that the monetization of the strategy we announced in the past years is slower than we had anticipated, and obviously we have to do more to facilitate our ultimate strategy goal, which is to turn around this Company.

As you have seen, we believe now, and we have proof, that the fibre strategy is working, and we want, obviously, to accelerate, and accelerate also convergence. So taking these two effects into consideration, the management has decided to recommend not paying any dividend in 2017.

This is obviously to focus all our financial resources into fibre focus, into this fibre plan focus, and also into our efficiency increases. It's a very tough decision for us, but we really believe it is the right one for our shareholders taking the circumstances of this Company.

So in the next page, I would like just to tell you that the first eight months of being a CEO of Orange Poland, I have concentrated in delivering the 2016 commitments, obviously, in improving the fibre execution, into setting up a new organizational structure in Orange Poland. We had pre-paid registration to deal with, and we launched this new TV offer, and this new convergent bundle, under the name Orange Love.

Now, we have decided to accelerate on fibre. So it's an organizational challenge. We want to cover more households than last year. You see 40% more than last year, so from 750,000 households to more than 1 million households.

We want to shorten also this fibre service delivery time, which is still too long now, and we will and want to introduce new efficiency initiatives. We want definitely to accelerate our cost savings plans.

So now, after this first eight months, it's going to be time for me and the management team of this Company to work on long-term strategic actions, and probably better resource allocations. So we will come back to you, actually, with greater confidence in the mid-year, at the latest, probably, along our H1 results to have more details on this plan.

So in a broad sense, or in a nutshell, our strategy does not change. It's continuing to be based on investments in superior connectivity to regain and grow in market share, and to increase our efficiency, and again in order to give you more concrete mid-term plans on our recovery and responsible commitments, we will come back to you in the middle of the year.

So, thank you very much -- for being here today, and for your attention. Now, I think we can open the floor to questions.

Question And Answers

- **Leszek Iwazsko - Orange Polska SA - Head of Investor Relations**

As usual, we start with the questions from the floor. Please. Pawel.

- **Pawel Puchalski - BZ WBK - Analyst**

Q. Hello. Can you hear me?

- **Leszek Iwazsko - Orange Polska SA - Head of Investor Relations**

A. Yes.

- **Pawel Puchalski - BZ WBK - Analyst**

Q. Pawel Puchalski, BZ WBK. Four presentations ago, you presented a slide, a return to growth, suggesting that 2018 will be a year in returning to growth in revenues and EBITDA. Can you officially deny is this your plan?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. I will take this question. So first of all, as Jean-François said, we are asking really, kindly, for a little bit of the patience to discuss the long-term situation. We will be much more talkative on that front with the results of the second quarter.

Today, what we can say, and what we said already, is that the monetization that we have seen is slower than expected.

How does it convert into the speed of recovery? We need to first of all take into account all the trends that we see today, all the actions that we have already launched -- quite many, starting from the operational changes as Jean-François mentioned, ending on the new offer which we have just launched a few days ago, plus any necessary additional decisions for the resource allocation that we have to prepare. And, as you understand, we cannot be too talkative on that front before we take them.

- **Pawel Puchalski - BZ WBK - Analyst**

Q. But you admit that the lack of this slide, lack of a presentation that we are about to return to growth on revenues and EBITDA is a strong suggestion from your side.

- **Jean-François Fallacher - Orange Polska SA - CEO**

A. Yes, we see clearly some delays.

- **Pawel Puchalski - BZ WBK - Analyst**

Q. Okay. Another question. Do you see any rationale why your net debt to EBITDA should be above net debt to EBITDA level of your parent company, Orange France, which is at 2.0?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. Well, to date the net debt to EBITDA is at the level of around 2.1, so it's apparently already a little bit higher.

Second of all, we should not look at the net debt to EBITDA only from the perspective of the net debt as reported as this.

We are not rated today. But the rating agencies are looking at the net debt in much more strict views. So they take into account also such factors as obligations towards the employees, as the UMTS liability that is with us that we pay every year in September, and some operational leases which normally exist in the Company and represent, for example, the rental obligations towards the people from who we rent the space in the shops, the space for the masts, and different rentals.

So from the rating agencies' perspective, this level of debt could be even higher by PLN2 billion. So we should not forget about that perspective.

Then, the -- as we have shown, the net debt to EBITDA even before the payment of the EC fine would go up. Not excluded, that's starting from quarter one already. So that's the reality of today with our debt.

- **Pawel Puchalski - BZ WBK - Analyst**

Q. Is my assumption correct that you might withhold dividend until you return from 2.6 you expect for year-end 2017 until 2.0?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. Yes, as I said, and I will repeat, I would like to keep a long-term perspective for later, for mid of this year, to give you the complete picture of that. But -- well, it's not excluded, that we could wait with the payment of the dividend a little bit longer than just the 12 months which are ahead of us. But this is something which is probably too early to discuss today.

- **Pawel Puchalski - BZ WBK - Analyst**

Q. And final question from my side, you made an impairment. What is the impact of the impairment on your annual depreciation?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. Actually, the impairment was impacting the goodwill of the Company, so, as such, it is not impacting the depreciation of the future quarters.

- **Pawel Puchalski - BZ WBK - Analyst**

Q. Thank you very much.

- **Piotr Raciborski - Wood and Company - Analyst**

Q. Piotr Raciborski, Wood and Company. I have a few questions concerning your KPIs. First one, we've seen an acceleration in FTTH customer acquisition process. My question is, is it sustainable, and if there is a positive impact of pre-paid mandatory registration on your cross-selling capabilities?

- **Bozena Lesniewska - Orange Polska SA - Deputy CEO in charge of the Business Market**

A. Probably there was no plan to use this microphone. Definitely we see the good trends for FTTH growth. Last time when we met here we announced that we will sustainably grow, and it happened in Q4, and we are ready to continue it. And we have such assumption because there was the investment which we put to the fibre infrastructure that we will grow from quarter to quarter.

- **Piotr Raciborski - Wood and Company - Analyst**

Q. Okay, but do you have some calculations about the impact of the pre-paid mandatory registration because 7 million people probably was pushed to go to your showrooms to register the pre-paid cards, so maybe then they were cross-sold with FTTH as well. And maybe this pace of 10,000 customers monthly is not sustainable for the next quarters.

- **Jean-François Fallacher - Orange Polska SA - CEO**

A. May I maybe comment? Obviously, Q4 results was very strong, so, as you rightfully stated, we have to be cautious probably with what's going to happen in Q1. Because first of all, you're right, we had a lot of traffic thanks to pre-paid registration that we will not have in Q1. There was the very good months of November, December, which is always happening in the telecom business. This is usually a very strong quarter, so there is this factor as well.

So that all, I would say, pleads for a fact that our Q1 will be a bit less great than Q4. However, talking about fibre, we are also increasing the coverage month after month, so that should also drive additional sales.

So, as Bozena was stating, we are really confident on the fact that the momentum is there, that the momentum will go on. We should be a bit cautious on the way we might have to analyze Q1 versus Q4, because there is seasonality in our telco business, and you know that. It's not going to be a surprise for anyone.

- **Piotr Raciborski - Wood and Company - Analyst**

Q. Thank you. Another question concerning the pre-paid KPIs. This drop in ARPU in pre-paid segment has decelerated 1% year on year. Is the result of outlaw of one-time users, or is there some other reason here?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. I think that, first of all, what is impacting the ARPU in Q4 is the impact of the promotions which were on the market to boost the registration. And this is the first factor which is impacting the ARPU. So, basically, customers received very rich data packages for which the amount of the payment was very limited and that was the major reason for that.

- **Piotr Raciborski - Wood and Company - Analyst**

Q. I had another question concerning your pricing, because in Orange Love offer you have basically cut the prices of your four-play offer by 25% for each of speeds of FTTH. So aren't you afraid that the ARPU in the fixed broadband segment will deteriorate due to the -- to this movement?

- **Jean-François Fallacher - Orange Polska SA - CEO**

A. So, to talk about the pricing of Orange Love, so, first of all, we did not cut price. We priced this bundle. And that's new. This is a bundle, unlike what we used to have as products where you could cumulate and get some discounts. This is a bundle, so we priced this bundle to be competitive, so that is important.

Obviously, if you decompose the bundle you can make all kind of calculations. So you can place the discount before -- if you compare this new price to the previous ones you can place some discounts on all mobile, or fixed, wherever you want. But what I want to state here is that we priced it into a way to be competitive and to make it affordable. This is what you should understand.

So, obviously, if you just compare mobile to mobile, you might say that there is a discount, there will be ARPU decrease. What we want to achieve through these bundles is, obviously to attract additional revenues per household. So through these affordable bundles we want to attract customers having today fixed broadband from Orange to take their mobile from Orange.

Or, reciprocally, we want to attract those customers of ours having mobile only to take their broadband subscription and TV subscriptions at Orange. So, yes, you're right, there will be an effect of -- there might be an effect on repricing on customers that would already have all the services at Orange, but this is a minority of them.

There would be a positive effect of attracting additional revenues for those customers who would have only one of the services at Orange and that would bring additional ones. Plus, obviously, a very positive effect on the new and new -- what we call the-new customers, which were not at all in Orange and that are coming to Orange with broadband, TV and mobile.

- **Piotr Raciborski - Wood and Company - Analyst**

Q. My last question, will you prolong the 450-megahertz reservation?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. The question, 450 megahertz, whether we prolonged it. We actually today appealed to the decision of our regulator regarding this spectrum and we are waiting for the feedback. We have appealed because of the price.

- **Piotr Raciborski - Wood and Company - Analyst**

Q. Thank you.

- **Leszek Iwaszko - Orange Polska SA - Head of Investor Relations**

A. Any more? Yes, Pawel, one more question.

- **Pawel Puchalski - BZ WBK - Analyst**

Q. One more, if I might. You suggested a higher working capital requirement for 2017. Please tell me precisely why is that, because I would like to know whether it would last in 2018 and 2019, or it's kind of one-off?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. That is a reflection of our CapEx intensity, which we are going to continue, one thing.

Second thing, we have today the facility for the management of the working capital in place, which is for our payables that I mentioned already, and that will continue with this. But we should not expect additional strong improvement because of that factor. So net result of that would be that we maintain the supply chain financing, but we don't go further with this, because this is already at its maturity level.

- **Pawel Puchalski - BZ WBK - Analyst**

Q. Looking at 2017 and beyond, would you call 2017 working capital requirement extremely high, or comparable, or those should be at level in 2017 for many years ahead?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. Well, this is depending on the level of the CapEx intensity that we will have in the years beyond 2017. So, Pawel, here again I kindly ask for a little bit more patience to look at that in a quarter or five months from today.

- **Leszek Iwazsko - Orange Polska SA - Head of Investor Relations**

A. One more question from the floor.

- **Pawel Szpigiel - DM mBanku - Analyst**

Q. Pawel Szpigiel, mBanku. On the slide 25 you said that you want to put a stronger focus on cost saving initiatives, which were actually, for me, hardly difficult to see in the last quarter. Could you please elaborate on that a little bit more?

- **Jean-François Fallacher - Orange Polska SA - CEO**

A. So, this is precisely what we want to elaborate a bit more in the mid of this year and this is precisely what we are currently working on and it's a bit too early. So, yes, you need to have a bit of patience. And that's precisely the topic of what we would like to come back to you with again mid of this year. But there is really a will to accelerate there.

- **Leszek Iwazsko - Orange Polska SA - Head of Investor Relations**

A. I suggest we now switch to our teleconference listeners. Operator, please.

- **Operator - -**

A. Thank you. (Operator Instructions). We will take our question from Herve Drouet from HSBC. Please go ahead.

- **Herve Drouet - HSBC – Analyst**

Q. Yes, good morning all. A couple of questions on my side. Firstly, on the European fine, if you can remind us again on the provisions potentially you may have taken. And do you believe if there is this potential fine and if it happens it will be the first half, in your view?

The second question is on the regulations. Clearly, your strategy is definitely accelerating in fibre investment. I was wondering how much guarantee do you believe you have in hand on any potential change on the regulation, especially a view on the fibre? Do you believe it will stay the way it is, or any input there will be, as well, welcome?

And finally on the corporate revenue. In previous quarter I believe you had some pressure, especially in the B2B segment. I was wondering if you can give a bit more light in Q4 how these have evolved over time and how do you see that evolving in 2017? Thank you.

- **Maciej Nowohonski - Orange Polska SA – CFO**

A. Thank you very much. I will take the first two questions. Regarding the European Commission fine, the timing of that is, well, not yet certain. We do not hear a lot from the tribunal on that topic.

Looking at the course of the proceedings, at this stage I would rather say that this is more towards the second semester of this year than the first one, but we will see. We will see.

Provision amount is -- the amount is fully provided as of today and it's around -- together with the interest around PLN650 million.

Regarding the regulations, one point maybe which is not very clear or we have not put it very clearly, but we will repeat it right now. So, we are regulated from the LLU perspective on the entire territory of Poland today, on the fibre as well.

The element which is not regulated on certain areas, mainly big agglomerations, is the BSA category. And here we do not expect in the foreseeable future, I would say, negative news as of today. We do not hear about that from the regulator at that stage.

- **Jean-François Fallacher - Orange Polska SA – CEO**

A. And maybe to add on what we are just saying, there are two elements. Obviously, there is always the risk to be more regulated and, especially, if we would become really too dominant on fibre at some point, but there are two additional elements that I would like to highlight.

The first one is the deal we signed with a provider called Inea, which is a strong broadband provider in Poznan, one of the major cities in Poland, where, obviously, we made a deal by which we will benefit on a wholesale basis from their infrastructure.

So this is really showing the will of Orange Poland, as we said in the previous quarters, to open discussion with any providers that would already have fibre or plans to deploy fibre. So we really want to avoid to double-invest in given areas where fibre is already. So, again, have a look at this deal with Inea that we did.

And the second topic as well -- and I will pass the microphone to Piotr Muszynski -- is the upcoming project of the government called POPC. As you know, there are European funds that are going to be available on the Polish market. So maybe, Piotr, do you want to say a few words?

- **Piotr Muszynski - Orange Polska SA - VP, Strategy and Transformation**

A. Perhaps this is, as you know, the last opportunity to spend European funds for infrastructure -- telecommunication infrastructure, 79 NUTS today all together is 3 million households, in the range we have 0.5 million of our customers. We are preparing the applications and would like to participate in the contest. And our participation in the contest is based on a pure business assumption. So we are looking for the areas when we have the biggest synergy with our existing base and when the business case is on a comparable level as the -- as our general FTTH business case.

But this is a unique opportunity and, here, own investment will be supported by our strong, strong will to co-operate, as Jean-François has mentioned, on a wholesale basis with those who will build the infrastructure, because this infrastructure will be under the regulatory pressure and it will be open

network. So, first, own investment to some extent, and then definitely we are interested in being an operator on a wholesale basis on the infrastructure built by the third party.

- **Bozena Lesniewska - Orange Polska SA - Deputy CEO in charge of the Business Market**

A. Referring to the question about B2B, I would split this market into two parts. The SOHO SME part, where we are going to fight for revenues with convergence similarly to B2C market. We already have a quite good experience from the previous year, when we had the convergent offer which was the prototype of this Orange Love offer.

Now, the SOHO SME convergent offer goes also under the umbrella of Orange Love and it will be Orange Love for business. And we will continue the activity around it. And last year brought us some positive reflection in revenues, especially in SOHO segment, so we believe to continue. And we believe this year may bring some growth in this area.

When we are going into upper segments of the market, to the corporate market and to key account market, it's really under very huge pressure and there is the environment which is quite still unpredictable. We believe that in Q2 or later this year the public sector will come back to the -- again to the table to negotiation, because, as you know, the last year was very difficult as far as the public sector is concerned.

But we cannot predict really what will happen in the competitive environment around the corporate segment. Here we have huge pressure, huge, I would say even, price war, so our expectation are -- it will be also difficult. But, anyway, we also invest here in modernization of our networks. We have a special dedicated business network acceleration program to it and we will act around fibre and mainly around ICT.

As you could see, the ICT grew in Q4 significantly, the revenues from ICT. It's connected with our shift towards the more margin giving services than just reselling of the equipment, which was the case in the first part of last year. So we will continue our focus around the ICT, around providing the solutions to the companies and treating in this segment the convergence as fixed, mobile, plus ICT solutions idea.

- **Herve Drouet - HSBC - Analyst**

Q. Thank you very much.

- **Operator - -**

Thank you. We move on to our next question from Anna Kazaryan from VTB Capital. Please go ahead.

- **Anna Kazaryan - VTB Capital – Analyst**

Q. Yes, hello, thank you for taking my questions. The first one is about corporate income tax. For example, in 2016 your underlying operating income, if we adjust it for asset impairment, was lower than in 2015. And your net finance costs were higher, but still you booked more in corporate income tax. Could you clarify why?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. Thank you for the question. This is related with some costs which were not subject to the tax deduction scheme. That was basically lasting for two quarters of last year, so Q3 and Q4. It even ceased to be visible in Q4 and it's not going to be visible in the coming quarters.

- **Anna Kazaryan - VTB Capital - Analyst**

Q. Okay, thank you. And then about impairment. So you already clarified why you changed your projection of cash flow. But could you also clarify why you decided to change your discount rate?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. That is a basic reflection of the higher risk which is in front of us. It is not only reflecting the fact that the environment of the low interest rates is a little bit shaky today from the global perspective, but the business risk around our action plan for the mid-term is, basically, more risky than it was 12 months

ago. So we have decided to reflect that in the discount rate of -- that we use for the valuation of the business.

- **Anna Kazaryan - VTB Capital - Analyst**

Q. Okay, thank you. And now a question about fibre business. You have already made some comments, but I would like to clarify. For example, your household customers which use your fibre is just 6% of households connectable to fibre, so could you clarify your plans? When do you expect fibre uptake to increase from these levels?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. Thanks again for the question. Precisely, this is 6.5%. I have to admit that this advancement is not very different from the typical projects that we have seen in the different other geographies of our majority shareholder. We have a target to reach around 25% plus penetration of the households and this is what we already communicated. Nothing is changing here. We will reach that in the sixth year of the investment. So that's the global picture how it looks like right now.

Then, looking into the detailed performance of the different cities, we are right now in several different cities. We clearly see that our penetration of the households is varying from city to city, but we are -- we can summarize much more successful in all cities, except of capital, and then in the capital this is a little bit less successful as of today.

- **Anna Kazaryan - VTB Capital - Analyst**

Q. Okay, thank you.

- **Operator - -**

A. Thank you. We now move on to our next question from Ondrej Cabejsek from Berenberg. Please go ahead.

- **Ondrej Cabejsek - Berenberg - Analyst**

Q. Hi. Thanks for the presentation and apologies if I'm going to ask something that's already been answered because I couldn't hear most of the call. One question relates to working capital, if you could please explain.

Assuming the low end of your EBITDA and then the 2.6 -- up to 2.6 net debt to EBITDA guidance, I'm seeing a gap of between PLN400 million to PLN1 billion of working capital, even assuming the European Commission fine etc. So if you could please explain where that is coming from? What part of this is CapEx payables? What part of this is the -- or what part of your working capital are the devices? So what's basically in the guidance that you're providing?

The second thing relates to the potential asset divestments. If you could update us on whether, first of all -- I didn't quite understand whether your guidance assumes some of this happening, the real estate and the receivables on devices, and what sort of impact potentially that could have on your leverage going forward.

And then the third question, more general, is if you could please just elaborate a bit on the monetization of all of these net adds that you're having because I don't think that we're seeing any improvements, basically, across the board looking at the business.

And -- while we are seeing some sort of improvement in the market in general, be in services or your competitors etc. So it terms of especially the post-paid net adds, what sort of -- what percentage of these people that you've added in 2016 are actually paying anything for their service? If, and when, do you expect these people to start paying? What is driving these trends? Is it promotions? Is it -- when will we see this monetization and where will it show up? Thank you.

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. Okay, thank you very much for the questions. First question was related to the working capital. And I will repeat once again the major factor which is still driving the working capital in 2017, this is the continuation of the CapEx investments.

From the year-over-year perspective, you will also see the increase of the instalment receivables across the first semester. That will still increase not only in the quarterly volumes, but also in the uptake in the balance sheet. That will be growing.

Second of all -- and then third item on the working capital, once again, here is the continuation of the supply chain financing with strong improvement on the cash flow of 2016, but with very limited improvement expected for the cash flow of 2017 because it's fully operational right now and we have put into the program those payables which could be subject to the program.

This is to answer the question on the working capital.

Then the second one. You've asked about the asset divestments, real estate and instalments receivables. As I was commenting that, talking about the working capital, the task in front of us is substantial, more substantial than we thought at the beginning. Well, I can comment the instalments receivables very clearly. We have the offers to sell those receivables. However, the cost which is related with such transaction is high enough not to at this stage go for that.

Then, regarding the real estate, we have done a lot of internal preparations to accelerate the program. So far, we declare we will continue the effort on asset-by-asset sale in 2017.

We are working on more disruptive scenarios, but it would be too early today to discuss that. And those scenarios are not assuming a very radical cashing in like in one quarter or two quarter. It would take a couple of quarters more to close such more radical scenarios, but, as I said, it's too early to give you more insight into that.

And then the third question was about the monetization of the net adds, if I understand correctly, Ondrej?

- **Ondrej Cabejsek - Berenberg - Analyst**

Q. Yes, in general, because, obviously, you've been adding -- or, rather, there's a big disparity between your KPI performance and your financial performance. And I understand that a part of this has to do with promoting your fixed services, subsidizing them with mobile contracts that are probably free for some time etc.

So if you could explain. But the numbers are huge, 1.1 million post-paid net adds, yet you're seeing -- and you're guiding for, even in 2017, the continuation of decline on the services revenues. So just to understand how and when do you see these KPIs actually bringing in some revenues.

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. Well, yes, the question is very valid. That should be seen from the global perspective of the revenue that we have. The first item which is dragging on us is the legacy service, in which we are losing PLN200 million, PLN250 million per year. And that category is in fact making a whole difference to the rest of the portfolio.

Then when we take a look at the post-paid category itself, that needs to be seen from the two sub-categories perspective. First of all, the service revenue, which is still contracting negatively. And then you do not see on that category a positive story on the total revenue yet. But if we take into account the installment part, we are already net positive, so that is -- every quarter is improving better and better and the cash that we see from customers is already improved.

Then on the broadband category, which is under the pressure because of the ADSL and the competition with the LTE services and cable, so here this year we cannot expect that the revenue will rebound positively. But we would like to see the significant stop of the revenue leakage, if not a very minor increase in the last months of 2017. So that's the total picture.

Well, the question about the monetization is valid. We have flagged that. Jean-François has flagged that as well. And this is one of the main concerns that we have to fix for us.

- **Ondrej Cabejsek - Berenberg - Analyst**

Q. Just to follow-up on this, do you have an idea in terms of a timeline, because the question I asked previously I'm not sure I understand still? So, out of these 1.1 million post-paid net adds, if you could just quantify what part of these new subscribers are actually paying at this point. What part of these subscribers will start paying after their promotion ends, and when that should be?

And if I could also follow-up on the divestments. So, just to clarify, none of these real estate or receivables divestments are included in your guidance as of now?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. Okay. So, regarding the second point, we do have in our ranges of the EBITDA that we today disclosed for 2017. So I recall once again 2.8 to 3.0, important assumption about the continuation of the real estate program as it is, so selling of assets by assets. There is obviously a natural, I would say, risk factor into the total what we are going to achieve in 2017 and this risk factor is one of the major elements why the guidance for the EBITDA is relatively wide, PLN200 million difference.

- **Ondrej Cabejsek - Berenberg - Analyst**

Q. And can you clarify what the figure is that you're counting on with, or what the assumptions are based on this range?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. Well, I think we can speak about the range of plus/minus PLN50 million, yes, the area of uncertainty. The total amount, the total envelope of the cash and EBITDA that we expect from the real estate is obviously higher, but that's the level of the uncertainty that we have today.

- **Operator - -**

A. Thank you. We now move on to our next question from Vera Sutedja from Erste Bank.

- **Vera Sutedja - Erste Bank - Analyst**

Q. Yes, good afternoon. My question is regarding the pre-paid uncertainty that you mention about for the targets -- reflecting the target 2017. If I recall what you wrote in the press release, actually, you said this pre-paid base decline does not impact the pre-paid business in a material way. So what do you actually mean with this pre-paid uncertainty going forward?

The second question is related, please, to the roaming effect. Can you please tell me how much was the roaming effect on EBITDA in 2016? Thank you.

- **Jean-François Fallacher - Orange Polska SA - CEO**

A. So maybe on the pre-pay I can briefly comment. What we are saying now is that we are, since February 1, in a new pre-pay world where eventually you have to register before you can use pre-pay. So there is, for instance, one new thing on this market is that you obviously can change operator much more easily than before, because, thanks to the fact that you are registered, number portability is working on pre-pay as well. So this is one of the question marks we were having on the way this market is going to evolve.

We are not really worried. We are pretty confident, but, again, there is a little bit of uncertainty because it's new. We are entering in this new area for pre-pay in Poland. This is valid for, obviously, all the operators. So, again, we are confident, but there is a little bit less certainty than before. So probably in a few quarters from now, obviously, we will be very confident on the way pre-pay will evolve.

- **Vera Sutedja - Erste Bank - Analyst**

Q. Okay, thank you. Just a quick question on that pre-paid, please. When you said that the reduction didn't impact the pre-paid, this is a material way, can we say that there was not so much impact on the decline of the revenues in the fourth quarter -- in the third quarter -- or is this low single-digit revenue decline on the mobile, or can you quantify this impact of this -- what this is in the meaning of pre-paid business, the reduction is not material?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. Vera, if I understand correctly your question, you are asking about Q4 --

- **Vera Sutedja - Erste Bank - Analyst**

Q. Yes.

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. -- or you're asking about 2017?

- **Vera Sutedja - Erste Bank - Analyst**

Q. This time I want to ask how was the 2016 -- the Q4, please?

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. So, the Q4 we have seen a couple of million zloty effect of revenue decrease because of the promotion PLN1,000 that we gave to the customers that have registered. So this is up to PLN10 million for the quarter, not higher than that.

Then, second, this is not the same time of uncertainty as Jean-François mentioned. For the future, it's a different type of uncertainty related to the changed rules in 2017.

Then you've asked also a question about the roaming. So a couple of elements. First of all, roaming today is still around 2% of the total revenue of the Group.

Second of all, for 2016 we have seen already the first effects of the reduction of the rates. That was impacting us for roughly PLN20 million to PLN30 million at the EBITDA level.

We are expecting stronger effects in 2017, PLN50 million or even higher, depending actually on the level at which the usage of the data packages abroad will populate -- will be popular, the way -- the speed at which data usage will grow in the future.

- **Vera Sutedja - Erste Bank - Analyst**

Q. Okay, that's very clear. Thanks so much for the explanation.

- **Maciej Nowohonski - Orange Polska SA - CFO**

A. You're welcome.

- **Operator - -**

A. Thank you. As there are no further questions in the queue, I would like to hand the call back over to Mr. Leszek Iwaszko for any additional or closing remarks.

- **Leszek Iwaszko - Orange Polska SA - Head of Investor Relations**

A. Do we have any follow-up questions from the floor? If not, then I hand the floor to Jean-François to wrap up.

- **Jean-François Fallacher - Orange Polska SA - CEO**

A. Okay, thank you, Leszek. So, to wrap up this meeting, so you understood our financial results on Q4 and the year are in line with our guidance. We had a strong commercial quarter in Q4, our first confirmation that our fibre strategy is working.

Therefore, we took this tough decision to cut our dividend this year to concentrate our financial resources on accelerating fibre and our transformation. And, as I said to you, we will come back to you mid-year with more clarity on this accelerated transformation plan for Orange Poland. Thank you very much for your attention.

- **Operator - -**

A. Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.