

Orange Polska SA - OPL.WA - Earning Conference Call/Presentation

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Half Year 2017 Orange Polska SA Earnings Call

Corporate Participants

- Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO
 - Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board and CFO
 - Leszek Iwaszko, Orange Polska S.A. - Director of IR Department
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Conference Call Participants (Q&A session)

- Anna Kazaryan - VTB Capital, Research Division - Equities Analyst
 - Maria Veronika Sutedja - Erste Group Bank AG, Research Division - Analyst
 - Ondrej Cabejšek - Berenberg, Research Division - Analyst
 - Pawel Puchalski - Dom Maklerski BZ WBK S.A., Research Division - Head of Equity Research
 - Pawel Szpigiel - Dom Maklerski mBanku S.A., Research Division - Analyst
 - Piotr Raciborski - Wood & Company Financial Services, a.s., Research Division – Analyst
 - Armita Satari – Ovum - Analyst
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Presentation

Operator [1]

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Orange Polska Q2 2017 Results Conference Call on the 27th of July. (Operator Instructions) Today's call is being recorded. I will now hand over the conference to Mr. Leszek Iwaszko. Please go ahead.

Leszek Iwaszko, Orange Polska S.A. - Director of IR Department [2]

Hello? Yes. Hi. Sorry. Good morning, everyone. Welcome to Orange Polska results conference call for the second quarter of 2017. My name is Leszek Iwaszko. I am the head of Investor Relations. Today, we have with us CEO of Orange, Jean-François Fallacher; and CFO, Maciej Nowohoński. Our results have been published yesterday evening, and they are available on our IR website. Let me hand the floor to Jean-François to start the presentation.

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [3]

Thank you very much, Leszek. Good morning, ladies and gentlemen. So welcome to this quarterly results conference. I will, as usual, start with highlights of the quarter. And then I will pass the floor to Maciej Nowohoński, who will tell you more on the financials side. And at the end of course, we will welcome your question and hopefully give some answers to you.

So let's start with the overall results of the quarter. As you can see, they are solid. Our EBITDA was in small decline, almost flat versus last year. How was this achieved? Actually I will mention 4 factors. First of all, -- and then we will come back on that. I mean, we are very happy with the start of Orange Love, our new convergent offer that we launched in the middle of February. That allows us to achieve our commercial costs -- goals sorry, at low cost actually. Second reason for that good performance, we have lowered the handset subsidies in line with what's happening on the Polish market. Our mix is supporting commercial cost optimisation. And finally this quarter as you probably have seen, we closed quite a number of real estate transactions, which are also helping for a good EBITDA performance of Q2.

So on the next page, I would like to spend a little bit more time on our commercial achievements. So first of all, I will comment on convergence. So it's been now, I mean this product has been coming our flagship proposal on the Polish market. You know that today, still a majority of the households in Poland are buying telecoms from different providers. Obviously, with this offer, we want to change this, and we I mean doing that concretely . Because Orange Love, our new flagship product has acquired 200,000 customers in the course of actually a bit less than 5 months. So we believe this is really a good convergence. So that's the first thing I would like to comment. You have to know as well that 80% of these new 200,000 customers actually have purchased at least one additional service from Orange. So there is really value creation through this new offer.

As you can see on this graph, the convergent base has increased also by 16% this quarter. We are now exceeding 1 million convergent customers. And actually majority, as you can see there, of our sales of fixed broadband and mobile are now done via these convergent offers so much more in the past. So I believe that this strategy of convergence is really starting to bear its fruit, starting to work.

Now let's have a closer look on mobile. So I'm going to comment on the graphs -- the bottom graphs on the left side. The net additions were rather good, as you can see there. They're a little bit lower than last year. That you can see on the graph, simply because we have been trying this quarter, like the first quarter, to have a more balanced strategy between volumes and value. And as understood very well, we put emphasis on value. The MNP outlook in the second quarter is still positive for us in post-paid. It's marginally I would say worse than last year because we have counted 27,000 positive MNPs 32k. So that's quite good and comparable to last year.

On mobile broadband, you will see indeed on this graph that the net additions are negative. And obviously we are losing mobile broadband customers. So these are the customers that are using only dongles or devices that are pure data devices. This category loses appeal on market simply because I would say 2 reasons. First of all, it's probably linked to the success of our fixed broadband offers; and second due also to the fact that with smartphones we are giving now more and more abundant data packages, which are making probably the use of these offers redundant.

And last but not least, I would like to comment on our performance on the fixed broadband side. These are on the slides. The transformation of our customer base is continuing. The net additions, as you can see, are very positive, thanks to two effects, fixed wireless and of course fibre. So the fibre net additions, that you can see on the right chart on the bottom, are good. They are slightly below the ones in Q1. This is something, if you remember well, we warned you about, simply because this quarter has been containing in Poland, a lot of days off each month, long weekends, which has been actually slightly weighting. And that explains the slight decrease that we were expecting. If you remember well in Q2, overall we are really on track with the sales. And you will see later more in detail that penetration of fibre customers inside our deployments is also raising, which is a positive news.

I would like to comment also two other topics that happened in the second quarter which I believe are important for the future of Orange Polska. The first one is so-called Poland Operational Program, Digital Poland Operation Program, POPC. So for those who are you Polish, you are aware of this. This is a program which is funded by European funds to deploy broadband in white areas in Poland. We are extremely happy that we have been the winner. Actually there were 18 tenders organized by the government out of, if I remember well, something like 70 vendors. The program is actually heavily subsidized, as you can see. These are very important investments because we are going to deploy a total number of households which will be more than 360,000 households for a total investment of PLN 1 billion. And you will notice that out of this PLN 1 billion, 70%, so PLN 700 million, will be financed by the European Commission.

So we believe this is for us a unique opportunity to deploy FTTH in areas which are, I would say, more smaller cities or suburbs of big cities. Because we are extremely happy as well that we've won the suburban area of Warsaw in this tender. And that actually allows us to deploy again fibre in areas where we obviously wouldn't have deployed without this European funding. These are important investments. But because you will see that PLN 1 billion is more than 1-year investment in fibre at the current speed we are having. So that's really a significant event that we would like and a very positive one that we would like to stress to you.

We assume ARPU actually will be comparable in these areas and in other location where we deploy fibre, while we believe also the adoption rates should be higher, simply because there would be a much less presence of cable companies and competitors. So based on the experience, we already have on such smaller cities, we believe the monetization will be good and as good on our other fibre investments. So we are very pleased that we have won these 18 cities and we can also contribute to the development of the local communities in Poland and will improve the digitalization of Poland through this important investment that I remind will concretely happen in 2018, 2019 and 2020.

The last topic I would like to comment here is the fact that we have announced a few days ago the acquisition of the electricity distribution business of Multimedia Polska Energia. So obviously, this is not a very big acquisition. This is very modest, but I would like to take the opportunity that you are here to comment it. It's a small acquisition, but nevertheless strategically important. You will remember that we have started an energy reselling business at Orange Polska. That is going well. It's growing. And through this acquisition, we actually will accelerate our business of energy electricity reselling. So we will grow the base to 100,000 customers through this acquisition. That will make us the leader of the alternative energy market in Poland. And by this acquisition actually, we are, I would say gaining 1 year versus our original business case. That allows us to accelerate this very specific business. With this acquisition, we are buying just paying customers who, by the way, are having on average 3 years contract. And we are not taking any costs nor employees because we are buying the customer base. So basically, I would believe this is a good move. A modest one but a good move that will accelerated again our electricity reselling business in Poland.

That's all for me now. I will give the floor to Maciej Nowohoński.

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board and CFO [4]

Thank you, Jean-François. Hi to everyone. So we are on Page 11 of the presentation with the financial highlights. You can see that the top line dynamics now reflect more year-over-year situation, which is comparable on the instalments front. For the EBITDA, this is supported by our more value

oriented approach combined with very good achievements on the sale of the real estate front. And finally, cash has rebounded above the trend that we have seen in Q1, and it is now better.

So let's go to the next page where we see more information on the revenue of the group. Here we are down year-over-year after 2 quarters of growth. But I -- as I was mentioning, we were flagging it already to you that instalments year-over-year situation is not comparable. It became finally much apple-to-apple situation right now. And right now, you can see the trend which is with us after equalization of the instalments impact. So with this quarter, the base of the previous quarter is finally comparable.

In fixed business, the dynamics are slightly improving. And this is thanks to the fixed broadband, which has started to grow, while legacy area obviously continued to hit us quite significantly. I will come back on that the legacy when commenting the EBITDA as well.

So now maybe let's look -- let's take a look at the mobile revenue in more detail, because it's an interesting set of information on Slide 13. Let me explain the maybe first the title of this slide. What do we mean by more value oriented approach? As you remember in the previous 2 years, we were very active in customer acquisitions, which was successful. We reported record-high net additions. We gained market shares, but obviously, it cost us as well considerably. So since the beginning of this year, as Jean-François already mentioned, we aim to be more balanced between volumes and value.

We have been gradually limiting handset subsidies, making sure we will still remain competitive. And yet, we are able to maintain customer net additions at good and even satisfactory level. Why? it is mainly thanks to Orange Love, which was already mentioned by Jean-François, which allows us to differentiate vis-à-vis the competition. So it is making a real difference. And Orange Love also interestingly decreases the direct price competition in mono products and mono mobile offers. And the majority of the mobile subscriptions in B2C are now made through Orange Love. So also consumers are increasingly buying smartphones on open market and exchange them less frequently than in the past. And as a result in Q2, that volume of commercial acts both acquisitions and retentions was higher year-over-year, but significant increased also proportion on the SIM-only offers that we are selling. So thanks to lower handset subsidies and on the other hand, more SIM-only commercial acts, we are able to generate more value. Of course we are closely monitoring the situation, commercial situation of the market. And we will leave for ourselves the flexibility in that respect in the future, especially regarding the subsidy policy. So more SIM-only offers, more instalment offers, more convergent discounts, which are allocated to mobile part of the business. It is weighing on our evolution of ARPU. That will continue to be so.

So looking forward to the second semester, and I think especially in Q3, we expect some negative impacts coming from implementation of the roaming, especially by the fact that Q3 and months of July and August are high-vacation seasons for Polish people. So a lot of them will travel, and a lot of them will use the data versus not using the data in the past. So here, we can expect some weigh in the EBITDA of Q3 especially.

So then a couple of seconds on fixed broadband on the next slide. So here we clearly show a continued transformation of this part of our business. And we confirm that the trends of the revenue is sustainable, so it is growing. On the base front, ADSL losses are increasingly offset with fibre and wireless for fixed solutions. And those 2 categories are clearly for us the growth drivers. And this growth is obviously facilitated by the offer by the Orange Love, by our flagship, and good quality of our mobile network which is supporting a lot of the customer experience that we see among our customers.

Interestingly, the usage of the wireless for fixed, the usage of data is quite high. And we are able to accommodate this usage, so it's more than 30 gigs per month. So those customers are really active on the data front. And in terms of the overall evolution the customer base, it is up 10% with growing categories, the growth areas, wireless for fixed and fibre, VDSL constituting now almost 40% of our base. It is a sharp positive evolution of the structure of our base. And according to our internal estimates in the first semester we managed to stabilize the total market share and we continue to grow the market share in fast fixed broadband category.

Now a couple of things on the fibre front, page 15. So here, both the production of the network and the customer take-up progress are scheduled. We extend the coverage of the fibre faster and the use of the infrastructure of the other operators while doing so. So in the second -- in the first semester, around 20% of our production relates to third-party infrastructure from operators like Inea or Netia. And our fixed fibre broadband program is available right now in almost 2 million households, which represents a coverage of 40% of households in big cities in Poland. So it's a considerable chunk already, and please note that we still continue.

And a few interesting facts here for the coverage, that the highest coverage we have today is in Lublin. It is 65% of all households in Lublin. There are some 5 other cities that we already exceed the coverage by 50%. So these are Bydgoszcz, Elbląg, Opole, Radom and Szczecin. And volume-wise, the highest coverage is obviously in Warsaw in the capital, where we have more than 400,000 households connectable already. And that gives us around 40% of the coverage in Warsaw. So the average customer adoption rate was, at the end of the first semester, at 7.4% and is obviously growing. And this is a good development that we are able to report to you. And in 5 cities among the ones that we have already invested in fibre, the adoption rate is surpassing the level of 10%. So we will continue to work on the improvement of the monetization of the fibre network in the second semester, especially in a peak commercial season, which is for us in Q4.

Then let's go to the financial front on the EBITDA. And here, as Jean-François mentioned already, the EBITDA was almost flat year-over-year. And it was mainly thanks to the better evolution of our direct margin. Just to recall you, the direct margin is the difference between the revenues and the direct costs. And those direct costs are commercial costs like customer acquisition and retention cost, content costs and interconnect. And better performance on fixed broadband and mobile allowed us to compensate better the drop related to the legacy business. And the legacy drag, you can see it on the graph, is still with us, will be with us in the future. Our main objective right now is to make this compensation as good as it is only possible.

Mobile benefited from more value-oriented strategy that we have already discussed, and you can also see the decrease of the commercial costs. The biggest improvement was the fixed broadband. And here, it is not only the revenue, which is growing, but also the direct margin, which started to grow. Simply, the volume is -- positive volume evolution is surpassing the current financial costs that we invest into this category.

Good news on the indirect costs this quarter were supported by exceptionally good sales of the real estate. And we are really satisfied with the result we achieved so far. Second semester is again very ambitious for us in our plans. But as usual, no guarantee of success because of the complex process of -- which is standing behind such every sale of the real estate.

For the second semester, we would like to continue the good commercial trends that we have. Especially subsidy policy plays its important role here in the second semester. However, we will remain for ourselves the flexibility and the right to make proper decisions vis-à-vis different tactical

situations on that front. Uncertainties will be with us, especially on the roaming front because here we are in the new situation, as all operators are, as the whole market. And we will have to see what are the developments (inaudible), especially in Q3 because this is high season.

And obviously, the real estate remains for us important component of the EBITDA evolution, however, by its natural nature, uncertain.

Then on page 17, you can see that net income, which is better, and it is supported by better evolution of the EBITDA, by lower depreciation. The lower depreciation, the reasons are known to you because they are not new. They've been with us in the previous quarters. And the commercial costs are finally also slightly lower.

CapEx, first semester was clearly the picture of the turnaround and the fact that we are investing in the turnaround. The fibre CapEx is up 45% year-over-year. So we continue at a very high pace of production. And fibre is 1/3 of our CapEx overall in the first semester. So at the same time in all other areas, we try to be lean as much as possible. These categories are down 20% year-over-year. And it is the result of the optimization, that is an on-going task for us; and completion of certain projects, which were with us last year and are not anymore.

And in terms of the fibre CapEx, please note that the unitary CapEx is very similar year-over-year, apples to apples. So we keep a good control over the cost of the investments that we have behind the fibre.

Then the cash flow on the next page, of course I already mentioned it is better and it rebounded after Q1. And it was thanks mainly to EBITDA, much lower cash CapEx, and very high proceeds from the sale of the real estate. Year-on-year of course, you can see some working capital still being a drag. This is coming mainly from the fact that the mix of the purchased handsets is changing. Right now, we are selling more expensive handsets. This is what customers actually want to buy, and we have adjusted our purchases. And we are paying for that faster than we recover the instalment, that will be coming in 2 years perspective. Then we gradually optimize the spendings on the handsets. I guess, we can expect Q3 being lower in purchases of the handsets. It's a little bit of the seasonality, but also the fact that we adjust to more SIMo situation. We should not forget that overall this year, cash flow generation is under the influence of still dropping EBITDA year-over-year and very high CapEx investments. So we should not expect outstanding cash performance in such situation. This is basically natural.

We are continuously working on the working capital improvement. Right now, as we speak, we have around PLN 150 million of the working capital in the supply chain financing model. So this is helping us to optimize the payment terms quite significantly. And not excluded that in the second semester, we will make some further progress in that respect.

Then very quickly on the net debt on the next page, it is broadly stable, you can say. It is around 2.3x net debt to EBITDA. There is still in the first semester, a negative impact of the cash because of the Q1 not fully compensated by good Q2. One additional news -- not news really, but really information is about the European Commission fine. Of course it can, in the future, weigh on our leverage. However, the Court of Justice plans to issue judgment in another case before ours. And the timing of this decision has not yet been set, this decision in front of us. So this increases the probability that the verdict in our case may be delayed, well even until 2018.

So that's all on my side. Thank you for your attention. And I hand the floor back to Jean-François for conclusion.

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [5]

Thank you, Maciej. So let me give you a brief conclusion in the second quarter. Our commercial results confirmed – the confidence to the success of the Orange Love offer. That really differentiates us on this very competitive Polish market. It also helps to monetize our fibre investments and transform, I would say even turn around our fixed broadband business.

On the financial front, you understood we are quite satisfied with these Q2 results. And actually, we are reiterating with confidence our full year guidance. However, as Maciej stated it, there are certain risks ahead of us, especially in Q3 as roaming the famous new roam-like home implementation is quite a risk because this is the high season of roaming. A lot of Polish people going abroad, so there is still a bit of uncertainty there, and it might be a risk.

As concerns the back-to-school period and the Christmas commercial period, we believe they will be very intensive. We are currently working towards making our proposals for these periods. Even more simple and at the same time to take care of value that it is bringing to us. Again, we are pursuing value strategy and not volume strategy anymore.

Last, but not least, a quarter ago, I told you that we would give our strategic update alongside these Q2 results. However, we received some feedback from some of you that as we are in the middle of the summer, we prefer to postpone it to September 4. So immediately after this, we will meet investors on roadshow and conference. So actually, I would like to invite you all for the special event that we will hold in September 4 on the Warsaw Stock Exchange where we will comment our plan for the coming 3 years.

Now thank you for your attention. That concludes our presentation, and we give you the floor for questions.

Leszek Iwaszko, Orange Polska S.A. - Director of IR Department [6]

Yes. As usual we will start the questions on the floor. So I encourage

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Questions and Answers

Pawel Puchalski, Dom Maklerski BZ WBK S.A., Research Division - Head of Equity Research [1]

I'm from BZWBK. I've got a couple of questions. First of all, you mentioned roam-like at home. What's the expected amount of negative impact on EBITDA starting in quarter 3? And the other question would be on working capital. I just want to be sure I would like to know whether your working capital would decline, or negative working capital input will decline below PLN 100 per quarter as of quarter 3 or not? The other question would be one of the first pages, you showed the impact of fibre. And you are falling from 29,000 to 28,000. And you are commenting that it slows down because of the calendar days, et cetera. Well, fibre is pretty new for you. The number -- the growth should be accelerating quarter after quarter. So actually, that would be a good explanation for a very mature business, but not for an expanding line of business. And fibre should be expanding line of business in your case. So please explain me once again why is it only 28,000?

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [2]

Yes. I will take this last question. And then I will give the floor to Maciej to answer the first two if you allow me. So again I mean if you remember in Poland in April, May, June, we had very long weekends of 4 days each month. In a day where our sales happen in the basically from Monday to Saturday, when you have this kind of long weekend, it really is weighting, believe me. That's one. Second explanation is if you remember well until the mid of Feb, we still had prepaid registration. Prepaid registration was a big opportunity to sell because we had a lot of traffic in our shops from customers of ours that were coming to register their prepaid. So we had quite good sales in fibre as well as in Q1. So those are really the 2 explanations. Again, we are not disappointed by the sales. And if you compare them with the sales of last year, they are already from a totally other order of magnitude. So fibre, I would say, sales are really there. They are growing. so we are absolutely confident on this one.

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [3]

So regarding the question on roaming, today, I'm not in the position to give you concrete impact of that. Because well actually, we have a certain element of uncertainty how the adoption of the data roaming usage will actually happen during the vacation period. It's important for us because this is around 40%, 45% of the total traffic for the year. So we will see. We nevertheless should factor in the fact that the margin of Q2, margin of Q1 for that activity will not repeat, for sure. We will have more costs. We will have a little bit less revenue on that. We may have some positive impact coming from the fact that that the usage in Poland will be higher for guests from abroad. Of course, it is not the same type of the total traffic. Because users in Poland from abroad represent probably 1/5 or 1/7 of that who is traveling from Poland to abroad. So there will be a positive traffic, but we can assume that the trend will be distorted by some tens of millions, above 30 million in Q1 -- Q3, Q3. Then regarding working capital, I think that the structural thing that is still weighing on the working capital and will remain a weigh is the fact that we still sell more instalments than we receive the cash from the existing instalments in our portfolio. So the balance sheet position on the instalments monthly sale, quarterly sale is still growing and will be growing throughout the second semester, will be growing as well most probably through the first semester of 2018. And then we expect some kind of stabilization that cash-ins from that category will start to equalize to new contracts that we are signing on that front. So this is a structural thing. On the payables front and the handset side, I already commented that we should see an easing situation here. And as I mentioned already, we have some additional action plan to increase the supply chain financing, which should help, but the structural drag is coming from the instalments.

Leszek Iwaszko, Orange Polska S.A. - Director of IR Department [4]

Any more questions? Any more questions from the floor?

Pawel Szpigiel, Dom Maklerski mBanku S.A., Research Division - Analyst [5]

Paweł Szpigiel from mBank. And my question, I have one question. Lower base -- lower cost base in this quarter resulted from a change in clients acquisition policy. But they hardly recognized any material cuts in any other cost lines. And the room for cost cuts in other cost lines is ample, in my opinion. For instance, compared to annual revenue generated per one employee in Orange Polska and in your competition, the productivity gap is so visible for me. So I just want to ask what you, as management, want to do with this overstaffing in so-called legacy business. Even today, you mentioned that -- the trends, you cannot actually change the negative trends in the legacy business, yes.

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [6]

So first of all, please be cautious enough not to compare pure mobile business' benchmarks with, I would say, our former incumbent fixed business, which obviously has nothing to do. So please do us a favor and compare ourselves with some of our peers elsewhere in Europe or Eastern Europe. That's a fair comparison. second topic is you know we are still, I mean plan this year to release employees in Orange Polska. So that's going at a quite a high pace. If you look year-on-year, we have 1,000 less employees than last year. So this is obviously ongoing. We are well aware and I of the fact that we still need to work on our costs. This in part of the things we will talk about in September 4 actually. Part.

Leszek Iwaszko, Orange Polska S.A. - Director of IR Department [7]

Piotr?

Piotr Raciborski, Wood & Company Financial Services, a.s., Research Division - Analyst [8]

Piotr Raciborski, Wood&Company. I have 3 questions. First one concerns roam like at home regulation. My question is have you renegotiated, or do you plan to renegotiate the wholesale rates with your parent company? Because probably it will be offered much better rates than these 2 competitors in Poland, so maybe a competitive advantage for you.

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [9]

So if I can be a little bit vague with that respect because this is a commercial story and a commercial discussion. So we will be really glad to report to you any changes in that, if they will be significant when they come. And we will not flag upfront the movements because we don't want to jeopardize any discussions we could have on the interconnect front with actually all operators across Europe.

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [10]

I take the opportunity to also come back on the myth that I see on this market, that some of the operators because they would be part of big European groups will actually be subsidized by their mother companies, which obviously not at all the case. So I heard this a few times that we, Orange, would not actually suffer from this because we are a part of a large group. That's not in the case. however, you are right. We are in the process and in the course of renegotiating our agreements with

other operators. That's very clear. And especially when we look at our roaming profile, the first destination roaming for Polish people is Germany. So we are obviously have started now working on optimizing, looking at the new volumes. The cost of buying these minutes and these megabytes for us in Germany, that's very clear. As Maciej said, at this stage, we can't give you more details, but that's obviously ongoing, going on and with the aim obviously to reduce these prices with the new volumes. .

Piotr Raciborski, Wood & Company Financial Services, a.s., Research Division - Analyst [11]

I mean, there's no advantage in you are a part of a national group?

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [12]

No, because we are a company which is listed on the stock. You know 49% is listed in the stock. We are stand alone, and we don't seek subsidies from the group for whatever reason that we are part of the group. That's not working like this. So we are competing with I would say, the same weapons and also with the same, I would say issues sometimes than our competitors on the Polish market.

Piotr Raciborski, Wood & Company Financial Services, a.s., Research Division - Analyst [13]

And when it comes to the impact of roam like at home regulation, you've guided it will be like PLN 50 million] in the second half of the year so 100m annually or something like that. Or how do you think you could be in situation where we have unlimited roaming tariffs? So we should be really considerably more than that?

Maciej Nowohoński, Orange Polska, Member of the Management Board & CFO [14]

I think that today, we do not need to say more on that front. I guess this is the floor situation that we could have the impact stronger. But as I say, it is very difficult estimate as of today. And don't forget that it's, in our view, a short-term situation. Because there are many things that operators can do in the future to stabilize the margin of the roaming front in the future, many things, but more longer term than short term.

Piotr Raciborski, Wood & Company Financial Services, a.s., Research Division - Analyst [15]

Is there someone with regulatory solutions to stop losing money on roaming, like compensation .

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [16]

It can be very clear and bold something we are selling for free, which is costing us it is never going to be a moneymaking, that's clear. Roaming in Europe would not be moneymaking because it is free, okay? But let's look at things positively. I mean, this regulation is brand-new. It's been put in place very recently in Poland. Obviously, as we said, we are going to negotiate prices we pay to other operators. That's one. Second of all is yet another reason why the Polish market should be really keen on some kind of repair on the prices front. Because after the very high price of licenses a few years ago, we

are all hit by roam like at home, all of us. So that's what I would say positive. So we can look at things positively as well. I think in the longer term, this is not going to be a sustainable situation.

Piotr Raciborski, Wood & Company Financial Services, a.s., Research Division - Analyst [17]

Could you comment on KPIs of mobile segment because you've lost over 800,000 of pre-paid SIM cards and only acquired 120,000 of post-paid customers and why KPIs in mobile segment are so weak? I know there is still some impact from SIM registration, still. And you mentioned it in the presentation, but what exactly happened to the KPIs? And does the cut in subsidies have impact on lower acquisition of mobile customers?

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [18]

So we have not especially commented pre-paid at this time. But if you remember well in the previous conferences, we were really explaining that we would be 2 prepaid markets. There would be the prepaid market before registration with some dynamics. And there will be a prepaid market after registration. Now we're clear after registration, the dynamics are not that all the same, especially on the gross adds side. So you can understand very well that the number of new prepaid cards acquired in the quarter is not at all the same than it used to be. Simply because people need to show their papers, their ID papers before they are buying the prepaid card. So the level of gross adds in the prepaid business is not at all the same. It's not comparable now in this new environment than it used to be before. So that is basically explaining this decline. Believe me, we are obviously watching very closely prepaid. If we look at actually the base, which is the active prepaid base, there is no issue at all in the evolution of our active prepaid base Q2 to Q1. There is no warning outside the fact I must meet all these KPI the way we all market, mobile market is declining. But it's simply due again to this registration effect. There is no, I would say, strong impact on our prepaid business as such.

Piotr Raciborski, Wood & Company Financial Services, a.s., Research Division - Analyst [19]

last question. (inaudible) Just last quarter (inaudible) starting from Q3. It should normalize for Q4 (inaudible) .

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [20]

12 months since the registration process had started.

Piotr Raciborski, Wood & Company Financial Services, a.s., Research Division - Analyst [21]

My last question concerns CapEx, your plan to further cut CapEx ex fibre.

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [22]

As I was saying, it is our everyday job to optimize the CapEx. We do it not only on the business-as-usual front, but also on the fibre front. It's an ongoing activity of the management. Every week, we are

working on the investment acceptance. And every week, we have the effects of that. Long-term perspective is I guess quite positive for us. But we need to take into account that in the future, we may have some additional transformation cost in the CapEx, which are not consistent today because we will have to transform the business, but more on that will be in September.

Leszek Iwaszko, Orange Polska S.A. - Director of IR Department [23]

Okay. Thank you. Anymore? So I suggest to switch to our teleconference listeners. Operator, please.

Operator [24]

Certainly. (Operator Instructions) Our first question is coming from Ondrej Cabejšek, Berenberg

Ondrej Cabejšek, Berenberg, Research Division - Analyst [25]

My first question is a follow-up on the fibre to the home net adds. So I was wondering if you sort of normalize this for the working days compared to previous quarters, what your net adds would look like, even an estimate? And second question would be if you could break down in terms of your commercial adds in mobile in terms of subsidies SIM-only in instalments. What was the share this quarter? And what was it say a year ago? And how big of a risk do you think that subsidies returning to the market eventually is? And what would trigger that essentially?

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [26]

Hello, Ondrej. This is Maciej speaking. The -- I'm not sure I fully understood the first question. This is about the normalization of the sales of the fibre, yes? And predictions for the second semester of the year.

Ondrej Cabejšek, Berenberg, Research Division - Analyst [27]

Yes, exactly. So if you took out the bank holidays and the long weekends that you said were impacting the fibre net adds this quarter, and you had a normal quarter in terms of workdays, and that's days where you would sell this product, what would be roughly the number of fibre-to-the-home net adds that you would have had in the quarter?

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [28]

Well, we will not be guiding by weeks ourselves. I think it's more comfortable for everybody to take a look at the longer prospective for ourselves. The second semester is comprising of 2 periods basically. There is a period until the end of August. And this is for many, our customers or future customers, vacation period. And then from September, what starts really is the back to school. And then the next commercial season is the Christmas season. So we will have most probably 2 different types of dynamics in those 2 seasons. So it's -- sorry, they do not fit exactly the quarterly situation, but that's the reality that we have.

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [29]

I'm sorry, if we normalize the sales will be higher and daily sales are increasing.

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [30]

Well, the second question of Ondrej was about the importance of the SIM-only in acts. Right now, we have 2/3 of our acts in SIM-only. last year, it was around half. Does it answer your question?

Ondrej Cabejšek, Berenberg, Research Division - Analyst [31]

It does partly. Break down the remaining 1/3 in terms of instalments and subsidies, or is that something that you don't want to comment on?

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [32]

Well then, the rest is subsidies, basically -- excuse me, instalments. There is no almost anything sold on the subsidized, typical subsidized front. It is instalments.

Operator [33]

Our next question is coming from Anna Kazaryan from VTB Capital.

Anna Kazaryan, VTB Capital, Research Division - Equities Analyst [34]

Could you please share your view on the current competitors environment on Polish telecom markets? and do you see that T-Mobile is still aggressive? And do you see room for price increases in mobile segment? It's my first question. And second question is about handset sales. Could you share what's the gross margin on handset sales after the latest price increases, in probably a rough number?

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [35]

I'll take this one, talking about the Polish market. First of all, the prepaid market we see quite some aggressiveness from the players, we have decided actually not to follow. We are a strong player on prepaid. Some of them have been actually been very aggressive on the low end bundles and even lower first prepaid packages. We decided not to follow. Our sales are good. And we want really not to enter in this small price war on prepaid. That's one. On post-paid, yes T-Mobile is still aggressive. We are, as you understood, cautious. We believe that looking at everything that's happening on this market. And especially the new roam like home, this is not the moment to fuel a price war. So we are extremely cautious about defending our value. If you look at our sales, they are good. Our net additions on mobile are quite strong. So there is no reason at all for us to change the strategy at this point in time.

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [36]

So regarding the margin on the subsidies, we will not guide you very precisely here, but we are still slightly subsidizing the product. It is the level of the subsidy which diminished very significantly, in our view, around 6x. And still the overall margin on the activity is below the water. So we are still slightly subsidizing, but much, much less versus what we have been doing a year ago.

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [37]

And your question about -- your question about price increases, we would not seek like that. We would not seek like that. But we would rather believe that in this market, there is space for what we called 'more for more', basically. and that's -- obviously we don't know what the other players in competitors are going to do and how they're going to behave. But we definitely believe that there is space for such a strategy in Poland.

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [38]

Anna, you wanted to ask one additional question, yes?

Anna Kazaryan, VTB Capital, Research Division - Equities Analyst [39]

Yes. I just want to clarify, so just about handset sales. So what's the level of the gross margin of this particular segment of your revenue?

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [40]

It is not very different from being close to a 0 situation, but still some millions of subsidy in Q2.

Operator [41]

Our next question is coming from Armita Satari, Ovum

Armita Satari, Ovum, Analyst, [42]

My question was regarding your fibre monetization. You said you continue to work on it. Could you expand on how you plan to do that?

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [43]

Yes, with pleasure. We are very much in line our business case that we have presented to the market quite a time ago. And just to recall you the main coordinates of this business case, we want to reach between 25% to 30% of the customer coverage on the production that we do. We want to have payback within 8 to 12 years depending on the level of the competition that we have. And the IRR on overall business case should be higher by -- higher than the WACC of the company, significantly

higher. So these are the elements that are still valid as of today. Of course, there are some differences, a little bit lower ARPU, a little bit lower cost. So all of that still flies within the original business case.

Operator [44]

Our next question is coming from Vera Sutedja from Erste Bank

Maria Veronika Sutedja, Erste Group Bank AG, Research Division - Analyst [45]

Good afternoon, everybody. My question is related to the real estate sale. Is this the second quarter figure is part of a bigger deal of, let's say, bigger package in term of the sale? You said you have an ambitious plan in the second half. What is the realistic case? Are we expecting similar or even bigger than the second quarter? The second question related to your presentation on page 22, where you mentioned the flexibility for commercial spending in the peak season. Is this related specifically to Orange Love, to fibre, or to mobile? And I'm wondering -- I'm trying to figure out the balance here between what you said focus on value versus this flexibility on for commercial spending because they are in contrary to each other.

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [46]

Hello Vera, So I will take the answer to the question number one, real estate second semester expectations. It is not connected what we expect to achieve in the second semester with the transactions closed in the first semester. And thus by definition, it is subject to quite high uncertainty how the results will look like in reality. But we shoot high with our targets. We shoot really high.

Maria Veronika Sutedja, Erste Group Bank AG, Research Division - Analyst [47]

Okay. May I just add on that question? For example, if this real estate in the second half does not come true, the guidance of the EBITDA of PLN 2.8 billion to PLN 3 billion will not be in danger, right?

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [48]

The -- with all risks and opportunities that we have, the guidance that we present to you, that we reiterate by the way today, it's PLN 2.8 billion to PLN 3.0 billion, is something that we are going to achieve.

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [49]

To come back on your first question on the subsidies, clearly, we are stating this because Q4 is always a very strong period. The Christmas period is a very strong sales period attached to a very strong sales, it is attached of course strong and big commercial costs. That's the reason why you heard this comment earlier. When we are saying we want to defend value is where you understood it, much more careful with the subsidies than we used to be in the past. And this not that we are not

subsidizing anymore our offers. We are, but some of them we are not, some of them we are less. And obviously we put emphasis on what is strategic for us. So the emphasis is put on Orange Love, our convergent offer.

Maria Veronika Sutedja, Erste Group Bank AG, Research Division - Analyst [50]

okay, Orange Love, okay.

Operator [51]

(Operator Instructions) Our next question is coming from Grzegorz Witkowski, Insignis

Grzegorz Witkowski, Insignis, [52]

My question is on your net additions in broadband. You showed some increase in Q2. But if we dig deeper into the figures, I see that actually if you were to exclude the wireless to fixed, then your net additions will be approximately 0. So my question is actually if you consider this CapEx growth or replacement CapEx, or if you actually point CapEx strategically right, because actually, if you take the real fixed broadband and net add is 0, this is including replacement. And what people want to buy is wireless for fixed. So if you could comment on this.

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [53]

Yes, my first comment is wireless fixed is real it's a broadband from the customer point of view. Customers don't really care on how we are providing, but more on the experience they have. So that's the first point. So you cannot just exclude this by stating this is not real. However, I get your question, and it obviously a good question. You're right. If we would exclude the wireless, then we are almost at equilibrium. I would like to remind that the way we have done this fibre investment in the past still is we have done this investment in areas which are mostly large cities where our market share is not that high because the cable competition has been playing its role. So I remind you that in the last quarter, 70% of our gross adds were customers taken from competition. So that's one of the things you need to remind as well when looking at these fibre numbers. This is an aggressive weapon towards competition. This is not, I would say, fibre is not the weapon where we are migrating our ADSL base. So that explains it. this is something that you should really keep in mind. So obviously across the time, this will change.

Grzegorz Witkowski, Insignis, [54]

So the believe that you can come to a point when an increase in net adds will be higher than 0? I mean if fibre will be taking up more clients, then ADSL will lose?

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [55]

Not only do we believe, but we are working very hard to reach there. Believe me. So not only we believe again, but we are really working hard to that products and distribution channels on -- also on the TV, on the content that we are providing on fibre. So that's -- we more than believe.

Grzegorz Witkowski, Insignis, [56]

All right so this should improve over time. And the other follow-up is are you able to charge a premium over ADSL with fibre? How do they compare the price for old technology ADSL to VDSL and fibre?

Jean-François Fallacher, Orange Polska S.A. - President of the Management Board and CEO [57]

This is not the case because we are in a very competitive market in Poland. And obviously, it is not the fight against ourselves. The question is not pricing of fibre versus pricing of ADSL. The question was what products are we putting on the market than our competitors. So now we have with fibre competitive product, which is priced accordingly to, I would say, to the market conditions in Poland. So unfortunately, I cannot tell you that actually there is a big, I would say, price delta with ADSL. I will remind at our strategy is convergence. And there, we are creating value, so the strategy is by convergence, getting additional RGUs, getting additional products from a given family from a given household, thanks to this convergence strategy. That's where our strategy is.

Leszek Iwaszko, Orange Polska S.A. - Director of IR Department [58]

As we do not have any questions from the conference, just space for one more follow-up from the floor please.

Paweł Puchalski, BZWBK, [59]

A question on presenting of your results. You are a telecom company, not real estate disposal agency. You present all the figures in an appropriate way. I like your Excel etc but you still include your gain on assets disposal in adjusted EBITDA, which is inappropriate. Your adjusted EBITDA margin is not appropriate because it's affected with one-off disposal of assets which happened in quarter 2, which would be actually weaker quarter on quarter. And these disposals provide 1/3 of bottom line and 1/3 of your net free cash flow for the quarter. So maybe it's time to adjust your adjusted EBITDA for non-telco activity.

Maciej Nowohoński, Orange Polska S.A. - Member of the Management Board & CFO [60]

Thank you very much for the question, first of all, and recommendation, second of all. I will very elegantly disagree with you because the nature of the telco business is as it is. Incumbents are as they are. They are coming from the past, very similar for each incumbent. And you will find a similar activities of the real estate optimization in each incumbent. So it is inherent part of our business. We have to optimize that. And this is the optimization that you're doing. Previously, we needed may be a

building to contain our network infrastructure in a given city. Right now, it is just a container. Is a natural way of progressing not only quality but the network infrastructure costs, as well. So I will once again disagree with recommendation, but thank you for the question.

Leszek Iwaszko, Orange Polska S.A. - Director of IR Department [61]

Thank you very much for your attention. And we will come -- would like to invite -- reiterate our invitation for our special event on the 4th of September on the Warsaw Stock Exchange. Thank you very much and have a good day. Bye-bye.