

# Orange Polska

## 2Q'19 results

.one

25 July 2019



## Forward looking statement

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

# Reconciliation of operating performance measure to financial statements

Disclosures on performance measures are presented in the Note 2 to Condensed IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the 6 months ended 30 June 2019 (available at <http://orange-ir.pl/results-center/results/2019>)

<i>in PLNm</i>	2Q 2019 IFRS16	2Q 2018 IAS17	1H 2019 IFRS16	1H 2018 IAS17
<b>Operating income</b>	<b>138</b>	<b>73</b>	<b>209</b>	<b>106</b>
Add-back of depreciation, amortisation and impairment of property, plant and equipment and intangible assets	575	636	1,158	1,277
Interest expense on lease liabilities	-12	-1	-22	-2
Estimation of IFRS 16 impact on operating leases for Q2 and H1 2018	-	-7*	-	-13*
Depreciation of property, plant and equipment financed by finance lease in Q2 and H1 2018	-	-9	-	-18
Adjustment for the impact of employment termination programs	6	-	4	-
Adjustment for costs related to acquisition and integration of new subsidiaries	3	-	3	-
Adjustment for the impact of deconsolidation of subsidiaries	-	-1	1	-
<b>EBITDAaL (EBITDA after Leases)</b>	<b>710</b>	<b>691*</b>	<b>1,353</b>	<b>1,350*</b>

\* Data constitutes company's best estimate and was provided for comparative purposes

# Contents

**1. Highlights**

**2. Financial review**

**3. Conclusions**

**4. Q&A session**

# Highlights & Business review

**Jean-François Fallacher**  
Chief Executive Officer

**Mariusz Gaca**  
Deputy CEO in charge of consumer market

# 1H results on track with full-year plans and Orange.one strategy

	2019 guidance/ outlook	1H 2019	
<b>Revenue</b>	growth	PLN 5.54bn +2.3% yoy	<ul style="list-style-type: none"><li>• 2.6% yoy growth of core revenues driven by convergence (+24% yoy) and IT/IS (+21% yoy)</li></ul>
<b>EBITDAaL</b>	growth	PLN 1.35bn flat yoy	<ul style="list-style-type: none"><li>• Improving trend in direct margin evolution</li><li>• Full-year guidance confirmed and supported by recent commercial actions and ongoing business transformation</li></ul>
<b>CAPEX</b>	PLN 2.0-2.1bn	PLN 1.02bn +16% yoy	<ul style="list-style-type: none"><li>• Front-end loaded capex resulting from ongoing projects</li><li>• Full-year outlook confirmed</li></ul>

## On the right track for the turnaround



**Full speed implementation of the "more for more" strategy**



**BlueSoft acquisition reinforces capacity in ICT and B2B**



**Launch of innovative Orange Flex offer**



**Commercial profitability (direct margin) improves its trends**



**Solid cost savings including the impact of real estate sales**



**Start of sales of instalment receivables to improve working capital management and leverage**

# New offer portfolio for consumers reflects "more for more" strategy

## Mobile offers

(prices in PLN)

Plan Mobilny 35	Plan Mobilny 45	Plan Mobilny 55	Plan Mobilny 75
35 30*	45 40*	55 50*	75 70*
3 GB 2 GB*	7 GB 5 GB*	∞ 15 GB 10 GB* with full speed than 1 MB/s	∞ 30 GB 20GB* with full speed than 1 MB/s

### For Orange Love Customers

25 20*	35 30*	55 50*
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\*previous offer

## Fixed Broadband and Convergence

(prices in PLN)

	New offer up to 300Mb/s	Old offer up to 100Mb/s
Love Mini	59.99 7GB	54.99 5GB
Love Standard	99.99 7GB	89.99 5GB
Love Extra	109.99 7GB	99.99 5GB
Love Premium	149.99 15GB	149.99 10GB
	219.99 30GB	219.99 20GB

## Increased download and upload speeds in fibre







# Innovative Orange Flex application to bring new digital customer experience and cost efficiencies

Buy and manage your offer via  
**the Orange Flex app**  
no paperwork and formality



**No commitment**  
you can join / resign whenever you want



**Chat 24/7**  
in-app with a live consultant



**Variety of additional services**  
Activate / deactivate whenever you want



You can change your plan anytime  
**increase or decrease**



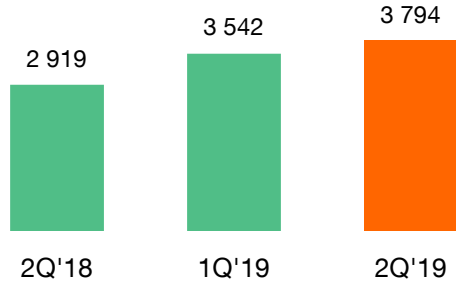
**Payments with credit / debit card**  
for all the services



# Monetisation of fibre drives transformation of fixed broadband base

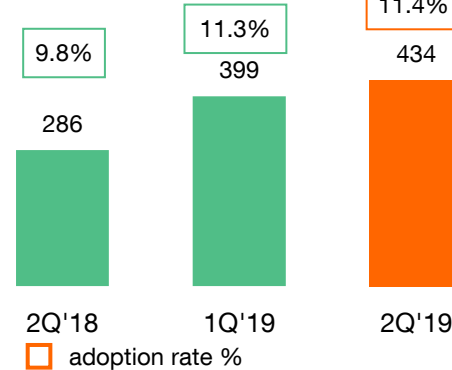
## Fibre households connectable – network rollout on track

(in k)



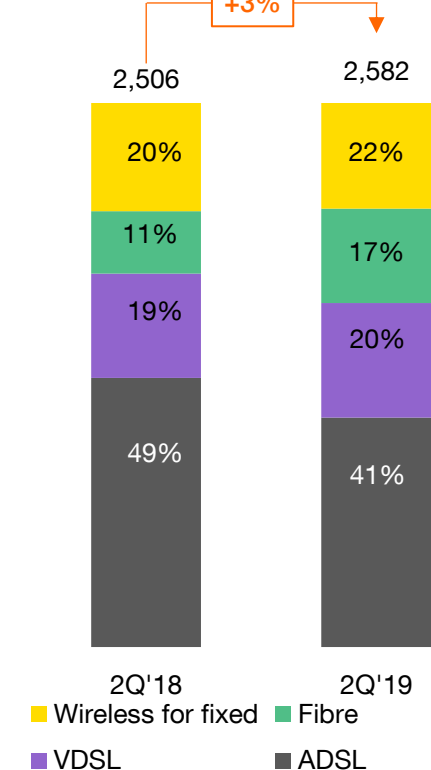
## Fibre customer base up 52% yoy

(in k)



## VHBB (fibre+VDSL): 37% of total broadband customer base

(in k)

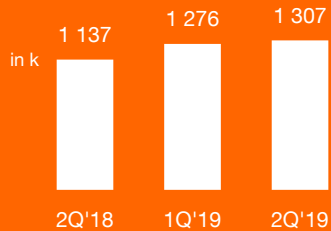


- 252k new households connectable in 2Q (full-year target of c. 800-900k maintained)
  - Focus on POPC project (connections of schools) and single family houses (c.40% of all new households)
- Fibre services available in 130 cities (vs 117 cities at the end of 2018). In 66 of them coverage exceeds 50% of all households
- 35k net customer additions in 2Q (-3k yoy but +1k qoq)
  - Gross additions up yoy with 84% of gross adds new customers to OPL

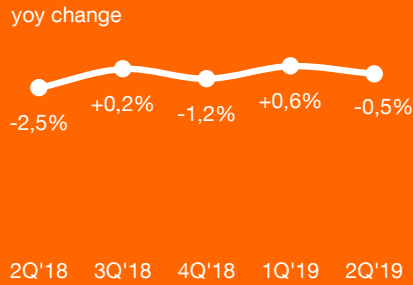
# Value creation balancing solid commercial performance and ongoing business transformation

COMMERCIAL

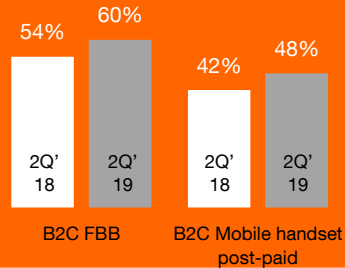
## Growing B2C convergent customers



## Convergence ARPO stabilised



## Growing convergence penetration

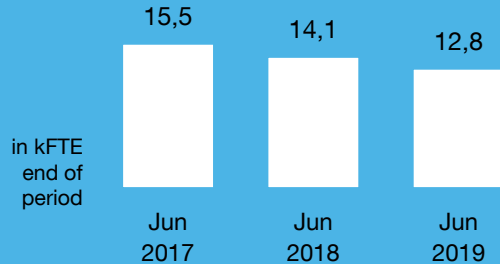


## Growing mobile post-paid net adds

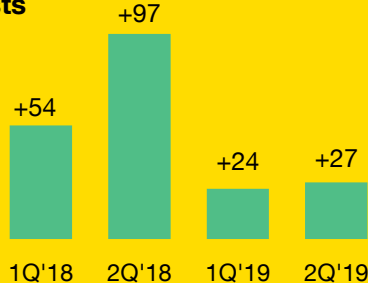


TRANSFORMATION

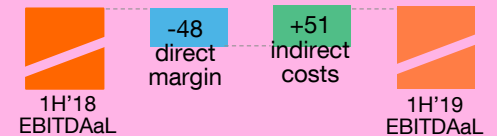
## Simplification and automation drive employment evolution



## Consistent track record in net savings in indirect costs



## Savings in indirect costs entirely offset decline in the direct margin



# Financial review

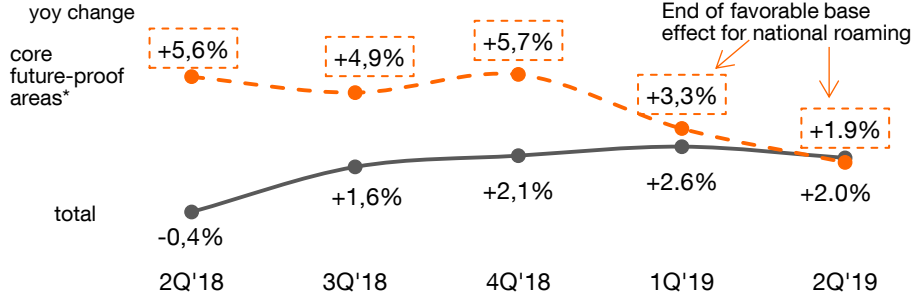
**Maciej Nowohoński**  
**Chief Financial Officer**

## 2Q/1H'19 financial results key highlights

in PLNm	1H'19	yoy	2Q'19	yoy	key points for 2Q
revenues	5,537	+2.3%	2,759	+2.0%	<ul style="list-style-type: none"> <li>▪ Growth driven by convergence, IT&amp;IS and equipment</li> <li>▪ Better performance of mono mobile</li> </ul>
EBITDAaL	1,353	+0.2%	710	+2.7%	<ul style="list-style-type: none"> <li>▪ Direct margin close to flat yoy</li> <li>▪ Higher yoy gain on sale of real estate</li> </ul>
% of revenues	24.4%	-0.5pp	25.7%	+0.1pp	
CAPEX	1,019	+15.9%	556	+5.3%	<ul style="list-style-type: none"> <li>▪ Reflects business development and transformation</li> </ul>
% of revenues	18.4%	+2.2pp	20.2%	+0.7pp	
organic cash flow	-16	+178m	83	+118m	<ul style="list-style-type: none"> <li>▪ Includes c.PLN 130m from sale of instalment receivables</li> </ul>

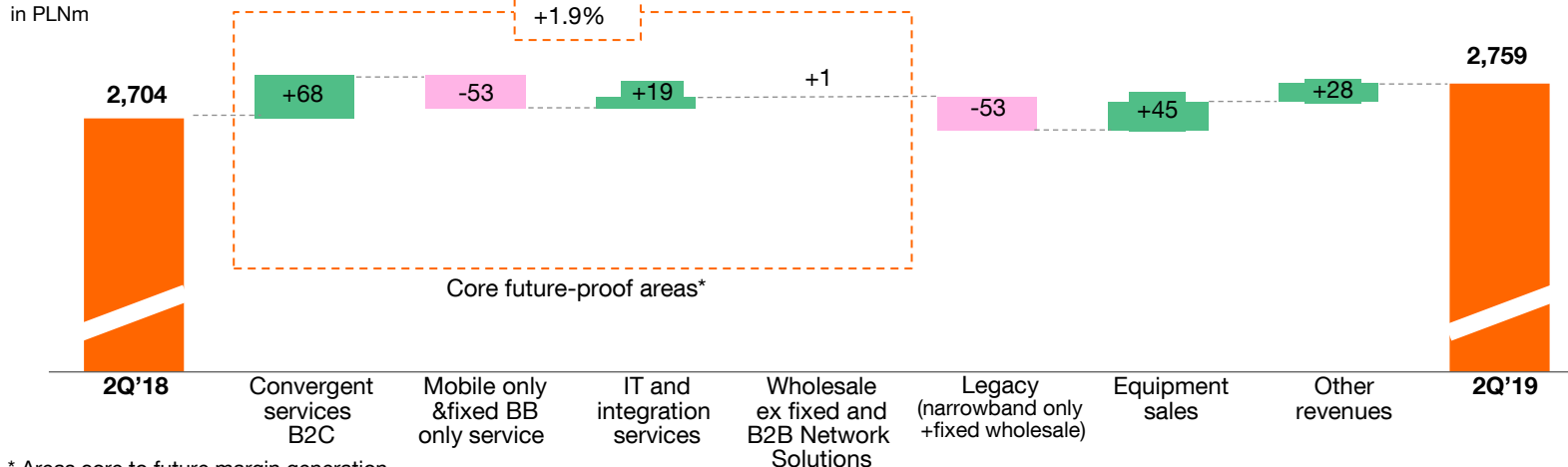
# Revenue growth driven by convergence, IT/IS and equipment

## Revenue evolution



- Further strong growth of convergence (+22% yoy)
- Better trend in mono mobile reflects lower post-paid customer base erosion and gradual improvement in ARPO trend
- Another solid quarter for IT/IS (+13% yoy) (BlueSoft to be consolidated beginning Q3'19)
- 15% yoy growth of equipment revenues reflects our focus on attractive smartphone offer

## Revenue evolution breakdown

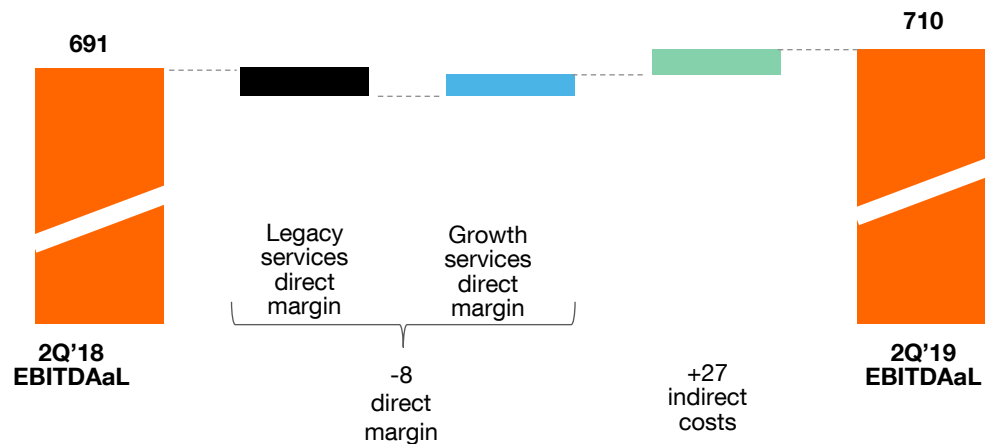


\* Areas core to future margin generation

# 2Q EBITDAaL growing with improved trend in direct margin

## EBITDAaL evolution

(yoy change in PLNm)



**Full-year guidance for EBITDAaL growth in 2019 confirmed**

### Direct margin:

- Growth areas (convergence, fibre and IT/IS) increasingly offset ongoing pressure from high-margin legacy services (PSTN revenues down 15% yoy)

### Indirect costs:

- Lower labour costs reflect the second year of Social Plan implementation
- Ongoing transformation of business areas (network & IT, property, CRM subcontracting)
- Higher yoy gains on disposal of assets

**employment down**

**9% yoy**

(in kFTE end of period)

14,1



June 18

12,8

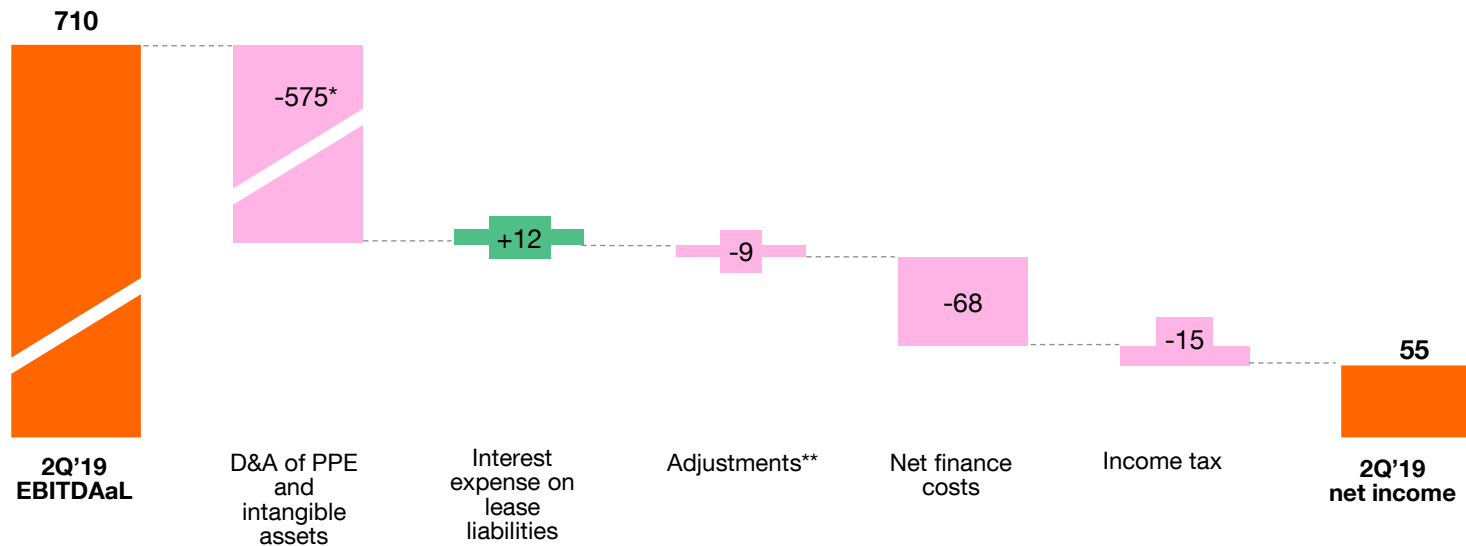


June 19

# Net income supported by lower depreciation and lower financial costs

## Evolution from EBITDAaL to the bottom line in 2Q 2019

(PLNm)



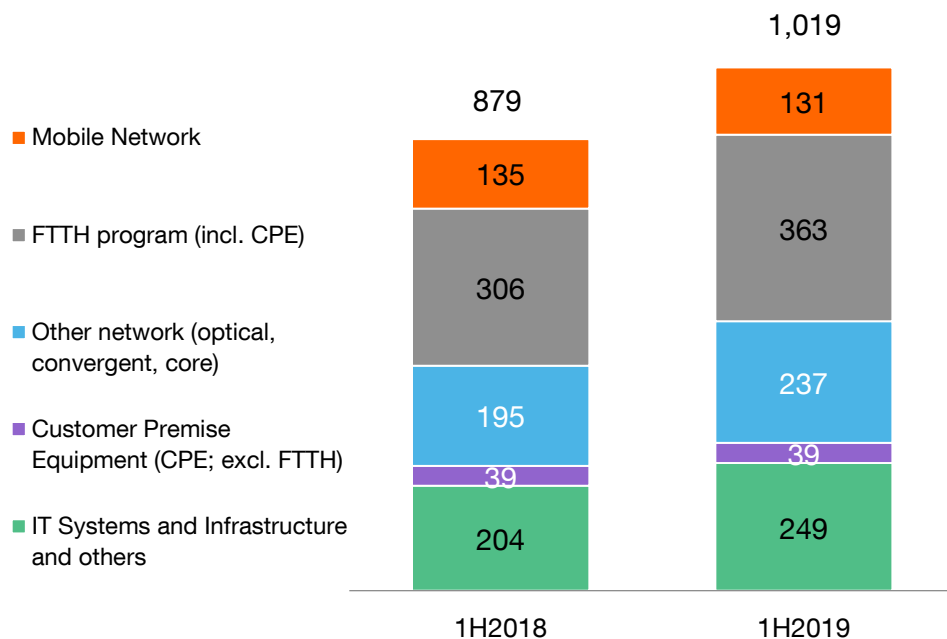
\* reflects PLN 49 million positive impact of extension of useful life of certain assets

\*\* as presented on slide 3



# Higher capex in 1H reflects different phasing of investments through the year

## Investment areas (in PLNm)



- **Fibre capex** (36% of total) up 19% yoy reflects:
  - Acceleration in POPC project
  - Growing customer gross additions
  - Broadly flat capex per household connectable
- **Other network capex** increase driven by customer projects and network infrastructure
- **IT & infrastructure capex** growth reflects mainly different phasing through the year
- **Full-year capex outlook maintained:** PLN 2.0-2.1bn, including PLN 700-800m on fibre rollout

## Cash flow in 2Q reflects mainly improvement in working capital

in PLNm	1H'19 IFRS16	1H'18 IAS17	Change	2Q'19 IFRS16	2Q'18 IAS17	Change
Net cash flow from operating activities before change in working capital	1,203**	1,163	n/a*	573**	577	n/a*
Change in working capital	-4	-313	+309	+97	-109	+206
<b>Net cash flow from operating activities</b>	<b>1,199**</b>	<b>850</b>	<b>n/a*</b>	<b>670**</b>	<b>468</b>	<b>n/a*</b>
CAPEX	-1,019	-879	-140	-556	-528	-28
Change in CAPEX payables	-185	-189	+4	+16	+26	-10
Sales of assets	133	37	+96	30	5	+25
Repayment of lease liabilities	-144	-13	n/a*	-77	-6	n/a*
<b>Organic cash flow</b>	<b>-16</b>	<b>-194</b>	<b>+178</b>	<b>83</b>	<b>-35</b>	<b>+118</b>

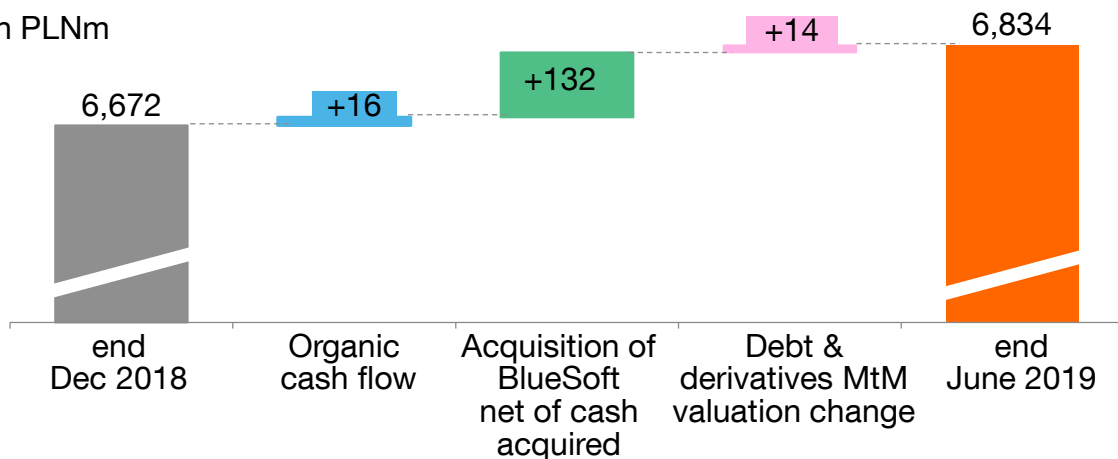
\* year-on-year evolution is not comparable because of the changes in accounting standards

\*\* adjusted for PLN 3m of payments for costs related to acquisition and integration of new subsidiaries

# Leverage level unchanged despite acquisition of BlueSoft

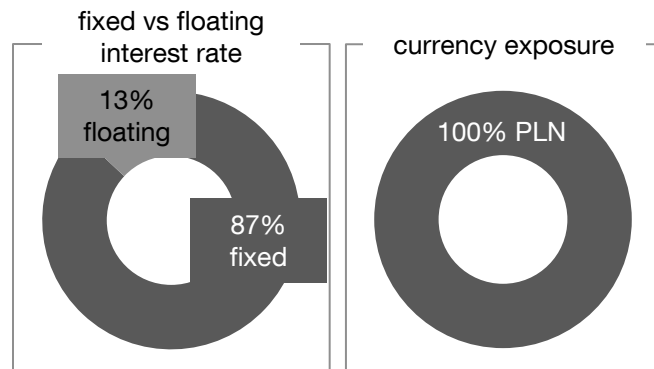
## net debt evolution

in PLNm



2.4x	net debt to EBITDAaL	2.4x
3.5%	effective interest rate on debt	3.3%

## Debt after hedging breakdown



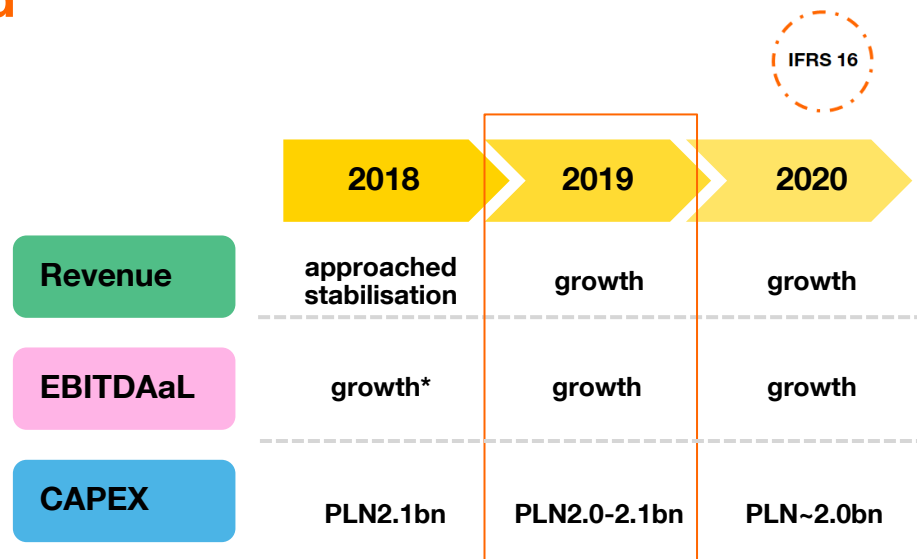
2.9 years – debt average duration

# Conclusions

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

# 2019 financial ambitions confirmed

- More for more pricing strategy adopted by OPL
- In H2 focus on:
  - Monetisation of recent commercial actions
  - Fostering adoption of fibre
  - Building on newly acquired BlueSoft
  - Ongoing business transformation
- We reiterate our full-year guidance for growth of revenues and EBITDAaL



\* Adjusted EBITDA growth under IAS18

# Q&A

## Glossary (1/2)

4G	fourth generation of mobile technology, sometimes called LTE (Long Term Evolution)
ARPO	Average Revenue per Offer
data user	a customer who used mobile data transmission in a given month
Convergent services	Revenues from B2C convergent offers (excluding equipment sales). A convergent offer is defined as an offer combining at least a broadband access (xDSL, FTTx, cable or wireless for fixed) and a mobile voice contract (excluding MVNOs) with a financial benefit. Convergent services revenues do not include incoming and visitor roaming revenues
Core future-proof areas	Areas core to future margin generation consisting of: convergent services B2C, mobile only, fixed BB only, IT and integration services, B2B network solutions, wholesale revenues excluding fixed wholesale
EBITDA	Operating income + depreciation and amortization + impairment of goodwill + impairment of non-current assets
EBITDAaL	EBITDA after leases
FBB	Fixed Broadband
Fibre	fixed broadband access network based on FTTH(Fibre To The Home ) /DLA (Drop Line Agnostic) technology which provides the end user with speed of above 100Mbps
Fibre access network project	rollout of fixed broadband access network based on fibre technology which provides the end user with speed of above 100Mbps
Fixed broadband-only services	Revenues from fixed broadband offers (excluding B2C convergent offers and equipment sales) including TV and VoIP services
FTE	Full time equivalent

## Glossary (2/2)

Growth services	Convergent services, mobile retail and wholesale, fixed broadband, IT and integration services, equipment and B2B network solutions and adjacent services
Households (HH) connectable in fibre technology	Households where broadband access service based on fibre technology can be rendered
ICT	Information and Communication Technologies
LTE	Long Term Evolution, standard of data transmission on mobile networks (4G)
LTE user	a customer who used LTE service at least once in a given month
M2M	Machine to Machine, telemetry
VoIP	Voice over Internet Protocol
Mobile-only services	Revenue from mobile offers (excluding consumer market convergent offers) and Machine to Machine (M2M) connectivity. Mobile only services revenue does not include equipment sales, incoming and visitor roaming revenue
Wireless for fixed	fixed broadband cell-locked wireless access offered by Orange Poland for home/office zone with rich data packages
Organic Cash Flow	Organic Cash Flow = Net cash provided by Operating Activities – (CAPEX + CAPEX payables) + proceeds from sale of assets
SIMO	mobile SIM only offers without devices
VDSL	Very-high-bit-rate Digital Subscriber Line
VHBB	Very high speed broadband above 30Mbps