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### ***Transcript***

#### **Corporate Participants**

- Leszek Iwaszko - Orange Polska S.A. - Director of IR Department
- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO
- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

#### **Conference Call Participants**

- Maria Veronika Sutedja - Erste Group Bank AG, Research Division - Analyst
- Pawel Szpigiel - Dom Maklerski mBanku S.A., Research Division - Analyst
- Marcin Nowak - IPOPEMA Securities S.A., Research Division - Analyst
- Zbigniew Porczyk - Trigon Dom Maklerski S.A., Research Division - Head of Research
- Pawel Puchalski - Santander Brokerage Poland, Research Division - Head of Equity Research Team

#### **Presentation**

- Operator - -

Ladies and gentlemen, welcome to Orange Polska's Third Quarter 2018 Results Conference Call. I will now hand over to your host, Leszek Iwaszko, Head of Investor Relations. Sir, please go ahead.

- Leszek Iwaszko - Orange Polska S.A. - Director of IR Department

Good morning. Welcome, everyone, to our quarterly results conference. Let me introduce our speakers for today, Jean-François Fallacher, CEO; and Maciej Nowohonski, CFO of Orange Polska. There will be opportunity to ask questions after the call.

So let me now hand the floor to Jean-François to begin the presentation.

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

Thank you very much, Leszek. So good morning, ladies and gentlemen. Welcome to our conference summarizing the third quarter and the 9 first months of the year results.

So let me go directly to the first page of the presentation. You will recognize this slide that we have shown you since previous quarter. It is basically presenting our guidance and where we are versus this guidance after 9 months starting in the year. So in a nutshell, we are absolutely on track with this guidance. As you can read there, our revenue's trend has improved in the third quarter, and the decline has limited to 0.5% versus minus 2.2% in the first half.

Our EBITDA trend has improved as well. After 9 months, as you can see there, our adjusted EBITDA is up almost 1% year-on-year. And our margin, our profitable -- profitability margin also increased. And I remind that this is despite the high-margin legacy services, such as PSTN, that are put on a continuous drag down, that are putting it at continuous drag down of our performance. So I believe this is a good quarter.

So let's look now at next slide, where this improvement in EBITDA is coming from. Let me start by actually the pink square on the bottom right, where you can see that our EBITDA in Q3 was up 7.5% year-on-year. Opposite to the last quarter, this is -- the explanation of this hike is that we managed this quarter to generate significant profit from real estate sales, and Maciej Nowohonski will comment on this.

And now I would like rather to concentrate on our core business EBITDA evolution. So it is improving because all our decisions and actions are driven by value creation, as we promised you a year ago in our Orange.one strategy presentation. We actually improved our revenue structure and also worked hard to transform our cost base. And the results in both areas, revenues of core business and cost base, are better and better.

Please have a look on the green box now on the right-top part of the chart. You can see an improving trajectory of revenues from areas which will define our core business. So -- and they are key, I believe, to our future turnaround. These revenues are comprising convergence, mono-mobile and broadband. I will switch microphone. They are comprising mono-mobile, broadband and ICT. So as you can see, these core revenues are increasing and gets better and better.

In convergence, so if we look at the orange box this time, we're especially pleased with constantly improving trend of average revenue paid by our customers, and it is driven by value-accretive changes in the Orange Love offer and also an effective upsell of additional mobile and TV packages in Orange Love.

Last but not least, on the cost side. If you look at the yellow box, it shows the progress we have made in cost savings in the last 3 years. Our results this year, obviously, greatly supported by these savings, and we commented a lot on them on last quarter.

So now I would like to comment, next page, on our fiber results and the progress of these very key investments for Orange Polska. As you can see there, as concerns fiber, net customer additions in Q3 were 38,000, which is almost matching the record of previous quarter, and this is despite the holiday season. I remind that this quarter was the months of July and August, we are -- which are usually very low in terms of sales. So this is, I think, a very strong achievement in terms of fiber net adds.

Also, I want to emphasize the fact that win backs from competition are continuing because more than 80% of these gross adds are coming from competition. More than 80% of these gross adds are coming from competition, and that definitely means that we are gaining market share in the areas where we invest in fiber. And this is, by the way, also confirmed by recent -- I'll try a third microphone. And this is confirmed by -- we have an issue, so how we'll continue? So this is confirmed basically by our own market research, which shows as well that in the areas where we invest fiber, we are gaining market share.

Our coverage on the fiber network is approaching 3.2 million households now. We are present in 116 cities in Poland. And in 44 of them, we are covering more than 50% of the total number of households. And as we have flagged -- as we were flagging in the last quarter, we are building more and more midsized and small cities, which involve connection of single-family houses.

In the third quarter, in this third quarter, almost 60% of the newly connected households were in these zones, which is much more obvious than previously. And as a result, around 25% of all households connectable in Q3 were single-family homes. And this was actually not reflected in the increased CapEx because almost half of this coverage of single-family households was built by using third-party infrastructure.

Last quarter -- and why am I speaking about single-family households? Because last quarter, I gave the example of a small city just outside Warsaw, called Podkowa Lesna, where within just 3 months, we reached a saturation of 33%. I can tell you that at the end of this quarter, so 1 quarter further, we reached 44%. So this is to show you that there is really big appetite in this single-family households market.

So overall, the average saturation of our network has exceeded 10% now. And there are, just for you to know, 15 cities on which this saturation is above 15%, and there are 6 cities in which it is above 20%. So there is definitely a growing demand for fiber in Poland.

That's all for me now. I will pass the floor to Maciej Nowohonski, our CFO. Maciej?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

Thanks a lot, Jean-François. Thank you. Thank you. So -- hello? We have an issue. Thank you. Hello? I'll try it now. Thank you very much. Now it's working.

Hi, everyone. So let's start the financial review with Page 10. So I'm really pleased to say that our revenue and EBITDA trends has improved in Q3, and this is versus previous quarters of this year. The cash generation is also very good.

So let's start the analysis of our situation with the revenue, that's the next page. In Q3, revenue was lower just by PLN 14 million versus previous year, which is much, much better versus previous quarter. So a visible improving trend here.

And the improvement came mainly from 3 areas. First of all, the revenues from mono-mobile services has improved its trajectory. They declined only 11% year-over-year versus 16% in the first semester. And this was due to a trend in the roaming revenues and also improving underlying trends, which is especially satisfactory.

For the roaming, here, there are 2 factors, important ones. So first of all, the period that we have seen the negative year-over-year evolution came to an end. Now we are apple-to-apple comparison versus the moment we have started the Roam Like at Home situation. And the other factor is that we have been helped on the revenue front from the surcharges that we have applied, according to what we have agreed with the regulator and what is in line with the regulation of Roam Like at Home.

Secondly, what helped us with the revenue was the equipment sales. But this time, this is a new initiative that we have implemented in July. We've talked about that already a quarter ago. And here, the first results are really satisfactory. This is about allowing our customers to buy additional handset in whatever periods of time during the contract duration for the service.

And then the third element, which is encouraging and helping us on the revenue front, is the energy resale business which grew its revenue in Q3. We expect further improvements in Q4 here, and we also expect further improvements in the next year.

So now let's zoom on the convergence area, next page. As we are speaking right now, we have just crossed 1 million of customers of our flagship offer, Orange Love, and we did it just within 19 months. So it's a great achievement. The total customer base on the convergent front is crossing the level of 1.2 million customers, and that's B2C only, and it grew 25% year-over-year.

Our customers really like convergence. The churn that we see here is much lower versus the mono offers. And it's also confirmed by the customer experience measures like, for example, Net Promoter Score. And here, Net Promoter Score is better by 10% to 20% versus mono-broadband offer or even half better on -- comparing to the mobile-only offer.

The ARPO is now stable year-over-year, and this is sustainable. And when you take a look at the last 3 quarters, you will even see a gradual small improvement quarter-by-quarter. And that's driven by our cautious attention to a balanced approach between the customer volumes and the value they bring. We take care of that, and we intend to keep this approach also in the quarter to come. At the same time, we are working on the enhancement of the Orange Love offer.

Next slide is about the mobile-only and the fixed-only, so let's go there. Q3 was the best

quarter for mobile business, and this is both in volumes and in value. The total number of the SIM cards has increased by 130,000, which is almost 1%. And in postpaid, net additions were better than in the previous quarters, and the improvement came from the mono services here. So it's a very good development.

Erosion of the mono base was further contained mainly due to the effective retention policy on the consumer front. At the same time, the base of the business customers continue to grow.

The ARPO situation is improving, and this is both for mono mobile and mono broadband. On the mobile -- mono-mobile front, we see 7% deterioration, improvement versus 12% in the first semester. And what is behind this improvement? Roaming is an important factor here, but it is also about the underlying trends which improved. A quarter ago, we've been speaking with you about the fact that we improved the mix of the customer base that we acquire, and that is the fact that we have improved it considerably. So it starts to work already for us positively.

Secondly, the reprice on the customer retention is now lower than it was before. So again, not only acquisitions are helping here, the quality of the acquisitions, but the quality of the retentions. Continuation of this trend, obviously, depends on the competition in both postpaid and prepaid. And here, we will closely monitor the market dynamics.

On the broadband-only ARPO, you can see the reported drop of almost 4%, but that is just due to the one-off that we have duly reported to you a year ago. When we take a look on the apples-to-apples, so the underlying trend is again very stable. It's even improving versus the previous quarters, and that's driven by the fiber and B2B customers.

Now let's go to the EBITDA, next page, Page 14. So in Q3, our adjusted EBITDA increased considerably, 4 point -- sorry, 7.5% versus previous year. The trend in the direct margin improved as a result of better performance in growth services, and that was due to roaming and also better trends in our core revenue areas, ARPO trends especially.

We deliver cost savings every quarter. And over the past 12 months, we have cut indirect costs by 8%, which gave us altogether more than PLN 300 million savings. Opposite to the previous quarter, in Q3, we successfully concluded some real estate disposal transactions, which supported our results.

So now let's take a look at the bottom line on the next slide. It came at PLN 125 million, and this was almost PLN 100 million better than last year, and that was reflected, thanks to the growth of the operating profit and lower financial costs. The latter is spent entirely from the lower discount expense, which is volatile and depends on the exchange rates.

Now on the cash flow front, Page 16. Our adjusted cash flow generation improved significantly in Q3, and this is despite high-cash CapEx. This was in line with our expectations, and it stems from operating activities. Firstly, we received the PLN 138 million from T-Mobile, which is the first tranche of the whole amount.

Secondly, several items in working capital have also improved. First of all, installment receivables continue to grow, but this growth is now much lower than it was a year ago in the comparable situation. And then over the past 2 quarters, we were mentioning to you higher roaming payment as the reason for the drag on the working capital. So starting from Q3, it is no longer the case, and the settlement of roaming discounts from prior periods started to support working capital. And we expect a higher positive impact of that next year.

So to conclude, let's take a look at the net debt situation on Page 17. Our net debt increased in the quarter 3, and this is following to a European Commission fine that we have paid in August. Despite that, our leverage ratio went up only by 0.1x of the EBITDA, and this is versus last quarter and versus the beginning of the year. So our cost of debt is also stable, as you can see.

And I would conclude like that. Thanks from my side, and I hand the floor back to Jean-François for the conclusion.

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

Thank you very much. So now let me give you a brief summary. First of all, I would like to start by saying that, as you can see, these Q3 results are absolutely on track with our plan. And therefore, we feel absolutely comfortable with our full year EBITDA guidance, which I remember is at PLN 2.75 billion in IFRS 15.

So what are we going to be -- what are we busy with? And what are we going to be busy in this last quarter? Obviously, first of all, we are heading to the big commercial Christmas season in our business, which is always intense and exciting. So it would be, as usual, full of very attractive offer for our customers. And we have a high commercial ambition for this last quarter. But at the same time, we are maintaining our focus on value and despite we see some sign out there in the market that this market is getting more and more competitive, especially on mobile.

Last but not least, we are currently and we will go on intensively working on our business transformation this time for 2019. So we have plenty of new initiatives that will support our turnaround and bear fruit in 2019 and onwards.

So thank you very much, and now we are ready for your questions.

- Leszek Iwaszko - Orange Polska S.A. - Director of IR Department

Apologies for the quality. I hope it didn't disturb, that you heard everything.

## Question And Answers

- Leszek Iwaszko - Orange Polska S.A. - Director of IR Department

A. So let's start, as usually, with the questions from the floor.

As usually, we'll start with Pawel Puchalski from Santander.

- Pawel Puchalski - Santander Brokerage Poland, Research Division - Head of Equity Research Team

Q. Pawel Puchalski, Santander. My first question relates to PLN 93 million gain on asset disposal. It's over 3% of your full year guidance. Why haven't you upped -- increased your guidance to PLN 3.1 billion following such a successful quarter?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. Thank you very much for this question. As you may remember, we are in the business of the real estate sale since many years. And every year, we are selling the real estate. So it's a part of our normal business as usual.

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. And about the guidance, to be clear, I mean, if we guide, we want to achieve this guidance. And to complete on what Maciej is saying in the real estate sales in the business, which is looking at sometimes the big sales we are doing in the business, which sometimes can shift in time. You have seen it. Q2 results were, I mean, a bit below because we were expecting to sell something that we actually sold at the end of the summer. So this is why also the sales in Q3 have been better. So there is a bit of difficulty some time when you sell big real estate. But as it concerns the full year guidance, we reiterate PLN 2.75 billion in IFRS 15, yes.

- Pawel Puchalski - Santander Brokerage Poland, Research Division - Head of Equity Research Team

Q. Okay. Next question, if I might. The same real estate, but different angle, cash. If you are receiving PLN 93 million, well, in EBITDA, probably book value of this, of what you have sold is also, I don't know, is positive. So you should have scored some PLN 100 million plus in cash, while I see only PLN 30 million in your third quarter results. Why is that? And when will I see this cash from 3 quarter disposals?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. So actually, part of the cash, we have already received. And the rest of the cash, a considerable part of the transactions that we have concluded in Q3, they will come to us in the quarters to come.

- Pawel Puchalski - Santander Brokerage Poland, Research Division - Head of Equity Research Team

Q. Well, that's what I expect, but could you give me any more color? Would that be fourth quarter, majority of that cash?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. These are concrete commercial transactions which have the confidentiality clauses, so we cannot give you too much color on them. We want to be fair to the other side who have bought it. And you can expect that rather in the first quarter of 2019 than Q4 this year.

- Pawel Puchalski - Santander Brokerage Poland, Research Division - Head of Equity Research Team

Q. Okay. Last question, if I might. With regard to two months to year 2019, please give me the precise amount of impact of IFRS 16 on Orange Polska figures.

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. We will talk about IFRS 16 on more or less comparable conference that we organized last year -- actually, this year in January, when we introduced IFRS 15. So let me give you more color on that most probably in January. We will have a special dedicated call on that. We are still in the middle of the works. But we will be on time.

- Pawel Puchalski - Santander Brokerage Poland, Research Division - Head of Equity Research Team

Q. Well, it's strange to hear that you are in the middle of the works because we all know that IFRS 16 will be effective as of January 1, 2019. Other companies have already presented us their more or less precise IFRS 16 guidance. Well, why can't you?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. I know the situation from my angle. I know that vast majority of the market starts the preparation right now. We are really very well advanced, but I cannot give you the concrete figures today. Let's be patient and let's take a look at the situation in January. It will be well, well-prepared, and we want to be really professional here.

- Zbigniew Porczyk - Trigon Dom Maklerski S.A., Research Division - Head of Research

Q. Zbigniew Porczyk, Trigon Brokerage House. Maybe a quick follow-up on Pawel's question concerning this outstanding cash. Is it more like PLN 100 million, PLN 150 million, PLN 200 million, just more or less so that we know what to expect? And second question, on the roaming issue. Is this positive delta year-on-year, is it more cost or revenue-driven? And could you provide us with the split between cost and revenue side on those positive impact?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. So regarding the first question, you can expect something around PLN 100 million. Then regarding roaming, we actually stopped giving very precise information on that front. I just would like to assure you that we fully manage the situation. The benefits are visible on the revenue front, as we have commented then, but also on the cost front. Because as I was already flagging to you, one of the actions that we have actually successfully performed for the roaming was the renegotiation of the roaming rates that we pay to other operators. And that was done and that's visible, especially for the cost of the data a megabyte or a gigabyte in the roaming service. So the effect is positive in revenue and even more positive on the costs.

- Leszek Iwaszko - Orange Polska S.A. - Director of IR Department

A. Anyone else from the floor? Yes, we have Marcin, please.

- Marcin Nowak - IPOPEMA Securities S.A., Research Division - Analyst

Q. Marcin Nowak, IPOPEMA Securities. A few questions from me. First one regarding electricity prices. Could you please comment more on potential impact from cutting the electricity prices on your business going forward in 2019, 2020?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. Yes, it's a very up-to-date question. So first of all, as you know, the cost of the energy went up in the recent months by more or less 60% to 70% versus what it was still at the beginning of this year. Actually, Orange Polska is a quite considerable consumer of the energy. So we have a cost item of around PLN 150 million to PLN 200 million on the energy front. We actually are, since many years, investing in this area to contain the usage of the energy, and we are quite successful with that. So there is a number of different initiatives that we follow in order to contain the usage. But first of all, we are a professional market player on the energy exchange. So we have actually made sure that the effect of 2019 is absolutely a fraction of what is happening on the market right now. Obviously, if this price evolution continues for many years, there's no player on the market who can basically do something about that. So in the longer-term perspective, if this energy price consumption -- energy price is holding the levels that we see today, the impact would be much more visible after 2019.

- Marcin Nowak - IPOPEMA Securities S.A., Research Division - Analyst

Q. Okay. And the second issue is...

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. Maybe to complement, Maciej, what you are saying. We have actually accelerated our plans, which are already existing and effective, to save energy in all parts of the network because this is where mostly we are consuming energy and electricity. So just for you to know, we have accelerated them already to contain this headwind that we will have definitely next year.

- Marcin Nowak - IPOPEMA Securities S.A., Research Division - Analyst

Q. Okay. But -- so if I may follow up. If -- do you have hedged price for 2020 already on the higher levels?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. Well, we cannot go into such details of our business for 2020. We are really behaving professionals. So part of the story is already secured, but part not for 2020. For 2019, it's much more clear. And as I said, it is going to be a fraction of what you can see in the energy price hike on the market.

- Marcin Nowak - IPOPEMA Securities S.A., Research Division - Analyst

Q. Okay. And the second issue. Could you please comment on the third-party household connections? What is the current level of penetration of those connections? I am rather -- and could you please tell more about the households which are already 1 year or 2 years in the network? How much penetration is on those customers and if you upsell those customers and how that will look like?

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. Shall I take this one? I mean, it's pretty fresh, as I was telling you. I mean before, let's say, the third quarter, the first quarter where we are starting to significantly add single-family households in our, let's say, footprint. So it's this pretty fresh. I just was giving you an example of a city clearly to show that there is more appetite. So -- but it's a bit fresh to comment on this on a larger scale.

- Marcin Nowak - IPOPEMA Securities S.A., Research Division - Analyst

Q. Okay. But I was asking about your third-party connection in the network. You have around 300,000, 400,000 of third-party connections. And how -- what's the penetration of those customers?

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. No, we are not disclosing this number. But it's obviously going quite well as well because, I mean, you know that our strategy was clearly, when we can, is not to overbill for obvious reasons. Obviously, there are sometimes a bit more operational difficulties because we are relying on third-party operators and sometimes competitors of ours. So -- but we are fixing this along the way. And there is, I would say, not -- don't expect there are big differences in the penetration. And if I may, on third-party infrastructure penetration, it's less of an issue or KPI because obviously, there, we have variable costs, which is very different from our own investment. So we are less, I would say, sensible to the penetration in the so-called third-party households coverage than obviously in our own investment.

- Marcin Nowak - IPOPEMA Securities S.A., Research Division - Analyst

Q. Okay. But you said that penetration or acquiring customers on third-party is going well. Aren't you afraid that T-Mobile will also do well on your network going forward?

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. I mean, we can come back on T-Mobile deal. Obviously, as I commented in the last quarter, we are aware of the pluses and minuses. And if we did the deal that we believe it's value accretive. And we believe there is more advantages for us to open this network to a third party, namely T-Mobile. And there, I would say an inconvenience on the retail side, but that's obvious that we expect we will have a competitor on the retail side. But again, I mean, why are we not fearing T-Mobile? We are competing with T-Mobile for many years in many

geographies. By the way, Orange loves competition. So there will be more competition. We are ready for that.

- Marcin Nowak - IPOPEMA Securities S.A., Research Division - Analyst

Q. Okay. And could you please also comment about the CapEx for fiber investments? Last year, there was an issue of growing cost per connection. Do you see any issue here still?

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. No, we don't see any issues. However, we are extremely cautious and we are working, I would say, on a daily basis on this topic because there are a number of elements which are happening currently. One, you know all of you here is the fact that in the market, there is a salary increase, there are salary increase and especially for the bottom of the pyramid of the salary in this country, which are quite high. So there are more funds, which are obviously coming to Poland who -- not only the investment of Orange and other operators, but also for the POPC European money that is floating on the Polish market. So those, I would say, forces are obviously potential in clashing these forces, but it's really contained. Now if we look at our own coverage, there is obviously also this move to single-family households. As you can imagine, a single-family household is a bit more expensive to build than a building with a higher number of households. But as we also tried to demonstrate to you through this example of small cities that there is much bigger appetite. So penetration goes much faster in single-family households than it goes for a larger building. So those 2 effects combined, I mean, we are really on track with this fiber project. There is no surprise, no bad surprise. There are rather good surprises, actually.

- Marcin Nowak - IPOPEMA Securities S.A., Research Division - Analyst

Q. Okay. So my last question. If the demand is so strong in family houses, will you consider going much wider in terms of households across the Poland?

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. I mean, we have to also respect our capacity to invest. So we won't be able to go faster than our capacity to invest. And I remind you that we have decided to cut the dividend to invest all our possible cash in fiber, and that's what we are currently doing. But the constraint is obviously the money we can allocate to fiber.

- Leszek Iwaszko - Orange Polska S.A. - Director of IR Department

A. If I don't see anyone else on the floor -- Pawel, okay.

- Pawel Puchalski - Santander Brokerage Poland, Research Division - Head of Equity Research Team

Q. Just one follow-up. You mentioned your energy cost at some PLN 150 million to PLN 200 million, if I recall correctly. Is this total energy bill of Orange Polska or just the electricity part?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. That's the total bill for energy.

- Leszek Iwaszko - Orange Polska S.A. - Director of IR Department

A. Let's now switch to telephone listeners. Operator, please?

- Operator - -

A. (Operator Instructions) We have a question from Vera Sutedja from Erste Bank.

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

Q. I have several questions, please. Regarding, first, the convergent customers. If we look in the past quarters, so in my opinion is that there is the slowdown in the net adds in the convergent customers. Of course, we are going into higher level of penetration. But is this, for example, something related to the holiday season, meaning a lot of school holidays in the third quarter, so it's meant to be revived in the fourth quarter? Or we are going to continue to see further slowdown in the net adds in the convergent customers? That's the first question. The second question is related to your presentation where you mentioned the optimization plan for 2019. Can you elaborate what that is? Or is this something to be presented separately in the next quarter results or full year results? And then I would like to also ask regarding your presentation on Page 13, where you mention there is continuing focus on value pricing for the -- is it for mobile? Or is this for fixed broadband? And do I get correctly, focus on value pricing, does that mean you are raising prices? Or it's actually the opposite? Then the next question would be, should we expect further asset sales, in this case, real estate to come in the fourth quarter? Or have we seen the major sale already in the third quarter? And let's start with those. That's already 4 questions. I will continue later.

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. So Vera, Jean-François Fallacher speaking. So on convergent customers, what I can tell you is that indeed, there has been, if you compare to the previous quarter, a slowdown of the net adds. This is something that we are actually decided to for mostly 2 reasons. First of all, as you remember very well, in this convergent migration, when we have the customers -- existing customers from Orange which -- or are having both a mobile and both a fixed connection, we are actually destroying value. We are gaining a lot of value, obviously, when we have a fee broadband customer, which is taking a new mobile or when we are having a mobile customer taking a new fixed or, obviously, what we call new new customer coming to these bundles. We are cautious to keep the proportion of these value-creation Orange Love customers to something more than 70%. So we are cautious not to go too fast in migrating what we call the old old base, so the existing customer base, which is having a mobile and having a fixed which is migrating to Orange because this is unfortunately value dilutive. And we are cautious at which speed we are actually doing that. That is one. The second topic, which is explaining this also is that we have been working to, I would say, a bit slowdown the sales of fixed LTE. What we call fixed LTE, for everyone in the room to remember, this is when we are selling a fixed connection but based on our mobile network simply because we want to push our sales force to sell fixed -- real fixed services when they can and not to substitute it by mobile because this is obviously going to weigh on our mobile infrastructure. And we want to be cautious on exactly what we're selling in this matter. So those are the 2 explanations. There is a third one, which is obviously the summer time. The summer months is July, August, are not the best for the sales. So obviously, in the fourth quarter, we will see how will be the Christmas period. And as Maciej is saying as well, we are working for the next year towards some kind of revitalization of the Orange Love offer. Because I remind everyone that this is something we have launched 19 months ago, so we are also going to work on revitalizing this Love offer. That's the first question. Vera, your second question was about the 2019 -- the projects on 2019. So we are not going to comment then very much in detail here. What I can clearly tell you is that these are projects which are obviously sustaining our -- the guidance we gave you. It's sustaining our strategy explained to you guys 1 year ago. So we are continuing at double speed than before, efficiency, the cost reduction and the customer experience initiatives. So some examples on topics on which we are working: reducing the number of warehouses; better managing the number of tickets our network teams are receiving from our customer service; the allocation of our staff in different cities, which is going together with our real estate project; we are also working, as you can imagine, on our 2019 social plan. So those are some of the key topics on which we are working again to realize our 2019 guidance,

the one we gave you during the strategic Orange.one presentation a year ago. Your third question, sorry, I forgot.

- Leszek Iwaszko - Orange Polska S.A. - Director of IR Department

A. It's about value pricing.

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. Ah, about the value pricing.

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

Q. Do you -- yes, value pricing.

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. So the value pricing, this is clear to us that we are cautious because my belief, and you know that, is that the prices on the Polish market are really low. And this is a comparison with other countries of the group Orange. I mean, there was an analyst conference this morning, I mean, you can really see that. What we sell in Poland for a value of EUR 25 is sold in France for a value of EUR 65 and in Spain for a value of EUR 54. And if we compare, I would say, Eastern Europe geographies, I mean, we have the same prices than in geographies where the purchasing power is like 40% less. So I'm still a big believer that the prices in this market are too low. There are a lot of inflation trends in Poland, you know that, on salaries. We were just talking about energy cost. So basically, we are simply cautious not to trigger any price war with our competitors. That's what we mean by, actually, value strategy. But also, to be clear, we invest a lot in our network, in our fiber network. But also, and we are commenting it less in this conference, is that we invest a lot in our mobile infrastructure, in our 4G infrastructure, and therefore, we believe we are also delivering value to the market. And it's quite interesting to see that I think the market starts to realize that as well in Poland. There is more and more appetite for value in this country linked to the fact also that the purchasing power of the consumers is growing in Poland. So our investments in network, on the mobile side also, are also paid off by the sense that customers, there are a range of customers which are really ready to pay for having a great coverage. I remind that for a number of quarters in a row, we have been actually awarded the best network in terms of mobile data in Poland. And obviously, we want to monetize that. And your fourth question was about asset sales, I will ask Maciej.

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. Yes, Vera, you were asking whether the Q3 can repeat in Q4. Actually, I would like to confirm that yes, but I am not in the position because we are actually having a portfolio of a market value of around PLN 600 million in active sales. So we are in active negotiations with a number of potential buyers. But there is no guarantee at all that we will conclude everything in Q4. Probably, this is not a satisfactory answer for you, but that's the reality of the market in Poland on the real estate front. It's not a big, big market. That's why we also think to how to break the shallowness of this market and go to more substantial investors in some other geographies.

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

Q. And just to explain, the PLN 600 million is after the last sales, right? Or including?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. No, the PLN 600 million that I mentioned is still our real estate, our properties that are on the market, that are advertised to be sold, but not yet sold.

- Maria Veronika Sutedia - Erste Group Bank AG, Research Division - Analyst

Q. Okay. Yes. And I have 2 more questions, please. Regarding the EBITDA, excluding asset sale, the gain of asset sale, if I see it, it's actually down by approximately 4%. So if we look at there is other external purchases there that should be higher, energy costs as you sell more energy, obviously, and possibly it's also because electricity price increasing and there is higher content cost. So with this, is it actually isolated to the third quarter trend? Or because we are aiming basically for a turnaround, so does the -- yes, go on, please, yes.

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. Yes, Vera, so I think it's better to look at our performance on the slides, on the direct margin evolution and on indirect costs. Other external purchase contains variable cost and fixed costs all together. But first, to comment on the expansion evolution. You have seen that we have contained the drop of the direct margin in Q3 considerably. In Q2 year-over-year evolution was even about minus PLN 150 million. In Q3, it's just around minus PLN 50 million. And that's more or less the trend that we expect for Q4. In indirect costs, the year-over-year evolution for Q3 is a little bit driven by the fact that exactly 12 months ago in Q3 2017, well, the level of certain expenses, especially for A&P were exceptionally low. And that's the fact. Then there is an impact of the bonuses, which is higher, bonuses in Q3 versus lower bonuses in Q2. So that is another element. When I take a look at the evolution of the indirect cost, I don't see absolutely any bad signal right now to say that we are diverging from what we've been saying to you that we are going to decrease the indirect cost by 12% to 15% in -- until the end of 2020. We are well ahead of that plan as of today, well ahead.

- Maria Veronika Sutedia - Erste Group Bank AG, Research Division - Analyst

Q. And my last question will be regarding the energy resale. If I look at other telecom operators who did this kind of business, and actually they either closed it down or sold it because the margins are just too small or even dropped to negative because the energy sale prices you can give to the customers are obviously heavily regulated. How do you see this business in Poland? Is it actually better compared to the other countries? I was talking about Hungary and Croatia, for example. And what kind of margin do you actually achieve in this energy? And why do we have this in the first place?

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. So what I can tell you about energy, the opposite effect that we saw in our cost was not there. So I mean, in terms of top line for energy subsidiary, Orange Energy, this will be obviously good news. In terms of margin, this is also obvious that we are in a different business because we are just reselling energy. So the level of margin is obviously not at all the same than in our core business where we are investing and we are kind of producer of telecom services. Here, we are just reselling. So we are absolutely aware about the risks. So we are very cautious in what we are doing because you all know here in Poland that also, a number of alternative energy operators recently are bankrupting. So we are following that like milk over the hot water. Why did we enter this business in the past? It's obvious, because we see it as an adjacent business. I mean, I remind that we are selling insurances as an adjacent business. We're having plans in the future to restart adjacent services around banking. So we always believe that we need to go out of our pure core telecom services using the assets we are having. We are having a big distribution network. We are having a big sales force that we can obviously reuse to create value. So what I just can tell you is that even if the level of margin is not comparable to the level of margin we have in our core telco business, it's much smaller, by the way, a little bit like devices we sell when we are reselling raw smartphones that we have started in July. The margin is obviously not the same because it's a reselling

business. But they are delivering millions of zlotys to our EBITDA, which obviously will come in the turnaround situation we are in.

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. I would like to add also, Vera, that the way we buy the energy for the future resale is very safe because, first, it's fully aligned with the acquisition of a customer. So we basically know, once we have acquired the customer, what kind of cost of energy we are buying. Hence, the contract then is very easy to be assured that it's value accretive.

- Operator - -

A. Our next question is from Pawel Szpigiel from mBanku.

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

Q. The first question would be -- I do understand that you don't want to reveal precise numbers about the roaming. But actually, can you just elaborate -- I mean, approximate, sorry, the impact of roaming on your third quarter figures? That's really material information for me.

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. Pawel, as you remember, we have been pretty much on the red in the second semester of 2017. That moment of time, we had been losing year-over-year of around altogether PLN 120 million. Then the situation started to improve in Q1 of this year where it was still a bit negative, but not so much. Then it turned slightly positive in Q2, and it continues to be positive in Q3. So that's all what I can say. I think that's a good color for the trends here. And as I mentioned before, there were 3 different actions that we have successfully managed and executed. So first of all, implementation of the fair usage policy for our customers; second of all, implementation of the roaming surcharges, so those small groszes added to every megabyte that a customer is using; and then number three was the renegotiation of the wholesale contracts for the roaming with our partners, mainly in Germany. So it's -- all of that is a part of the current situation on the roaming front.

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

Q. Okay. Next question is about prices of postpaid mobile-only offers. Do you see any chance of stable prices maybe at the end of next year? Because looking at your trends in this area, that trend is getting better.

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. I think, as I said, commenting the results here, that depends on the evolution of the market. Of course, all of us know the recent promotions of one of our competitors. We have to monitor the situation. That's actually part of our plan is to be on the value side with the mono-mobile category. As you remember, in April, we have started to encourage our customers to move to higher tariff plans because we have not changed the price list actually, but we have encouraged the customers to move to the higher tariff plans, so PLN 50 or PLN 70. We have been really quite successful in that since March on the acquisition front. And right now, we are seeing also the first results of this action on the retention, which is helping to mitigate this smaller and smaller negative effect when the customer is renewing the contract. So that's actually what we can do right now or what we are following.

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

Q. Okay. Third question is about impairment of receivables and the contract assets, looking at the last 9 months, I mean, first months '18, that line doubled year-on-year. Could you please elaborate more on the reason for growing of growth?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. Yes, there are 2 effects here. So first effect, very, very small, is the quality of certain customers that we have acquired. As I say, it's a small effect. But the bigger effect is coming basically from the overall market situation on the receivables resale. So I don't want -- I don't need to mention the companies which went bankrupt and which, distorted the whole market on the receivables front, and the pricing level that we see today is the different one because the whole market is behaving today differently. So it's a simple consequence of that. I would say the factor number one is a small one, maybe 10% of the total impact, and factor number two is the biggest.

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

Q. Okay. And then sometime ago, you had an intention of sale of receivables. Could you please update me on that topic?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. We are still in front of a decision. I know that you may not be patient now because we say about that quarter-by-quarter. But we are still in front of this decision, very close. We will see if this is a good business for us or not in the context of the comparative situation versus the cost of the debt that we can acquire from outside. So no particular strong news unfortunately now, but we are very close to the decision.

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

Q. Okay. And then last but not least, what are the chance of concluding a similar agreement on FTTH network access, similar to this one with T-Mobile, I mean, in the coming 6 months?

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. It is very difficult for us to answer this question. Obviously, at this moment, we are not having engaged any discussion with major player on the market outside T-Mobile. But however, I repeat what I already told during the second quarter in the announcement of this contract, I mean, we will obviously provide this access in a similar condition to any player that would be a keen interest having access to our fiber network.

- Operator - -

A. We have no other questions. Dear speakers, back to you for the conclusion.

- Leszek Iwaszko - Orange Polska S.A. - Director of IR Department

A. (foreign language) So Pawel, again.

- Pawel Puchalski - Santander Brokerage Poland, Research Division - Head of Equity Research Team

Q. Just a follow-up on your energy business. I just want to make sure, what is the percentage of your electricity sales regulated in G tariff by the regulator?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. Could you repeat the question because I did not understand it fully?

- Pawel Puchalski - Santander Brokerage Poland, Research Division - Head of Equity Research Team

Q. Okay. You are selling electricity in Poland. Sometimes electricity sales to individuals are regulated by regulator, prices of it. Is there any part of your electricity sales regulated by the regulator?

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. We are under the general regulations of that business, but I have not heard about any part being specially regulated.

- Leszek Iwaszko - Orange Polska S.A. - Director of IR Department

A. No, for sure, G tariff does not apply to us.

- Leszek Iwaszko - Orange Polska S.A. - Director of IR Department

A. If we have no other questions, then I would like to thank everyone for the conference, and see you back in February for the full year results summary. Thank you.

- Maciej Nowohonski - Orange Polska S.A. - CFO & Member of the Management Board

A. Thank you very much.

- Jean-François Fallacher - Orange Polska S.A. - President of the Management Board & CEO

A. Thanks a lot.

- Operator - -

A. This concludes today's conference call. Thank you all for your participation. You may now disconnect.