

## Orange Polska S.A. (OPL\_PW)

### Transcript from Full year 2019 Earnings Call February 13, 2020

#### Company Participants

- Leszek Iwaszko, Director of Investor Relations
- Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board
- Mariusz Gaca, Deputy Chief Executive Officer and Vice President of Consumer Market
- Bozena Lesniewska, Deputy Chief Executive Officer and Vice President of Business Market
- Maciej Nowohonski, Chief Financial Officer

#### Other Participants

- Pawel Puchalski, Analyst
- Piotr Raciborski, Analyst
- Anna Kazaryan, Analyst
- Marcin Nowak, Analyst

#### Presentation

##### Operator

Ladies and gentlemen, thank you for standing by. And I would like to welcome you to the Full Year 2019 Orange Polska Results Call. Please note that, at this time, all participant lines are in listen-only mode. The format of the call will be a presentation by the management team, followed by a question-and-answer session.

So, without further ado, I would like to pass the line to Mr. Leszek Iwaszko, the Head of Investor Relations at Orange Polska. Please go ahead, sir.

##### **Leszek Iwaszko, Director of Investor Relations**

Thank you. Good morning, and welcome, everyone, to our results conference summarizing Q4 and full year 2019. I have the pleasure to introduce management team who will be speaking today, starting with our CEO, Jean-Francois Fallacher; Bozena Lesniewska, who is in charge of the Business Market, the Deputy CEO in charge of Business Market; Mariusz Gaca, Deputy CEO, in charge of Consumer Market; and Maciej Nowohonski, our CFO.

Let me now hand the floor to Jean-Francois to begin the presentation.

##### **Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

Thank you very much, Leszek. Good morning, ladies and gentlemen. Happy to see you here in Warsaw and then following us on the conference as well. So this is the conference where we're going to summarize our fourth quarter 2019 and full year 2019 results. And as Leszek just explained, you have a little bit more members of the executive committee on the Orange Polska around the table. You have the opportunity to ask more questions at the end of this meeting.

So let me directly come to the first page of this presentation. As you can see there, we are very proud, actually, to be in front of you today because we have delivered fully on our financial commitments for 2019.

So starting with the EBITDAaL. So as you can read, it was up 7% year-on-year in 2019. This is the second consecutive year that we are actually posting the growth of our EBITDAaL. You remember that it is after 12 years of decline. So I would like to point out that last year, in 2019, the growth of this EBITDAaL was of a bit of a better quality.

What do I mean with this? If you look at this EBITDAaL growth, our gains on disposal of assets were a record high last

year, which obviously is a very strong achievement, and we are proud of that. However, we are especially pleased that this EBITDAaL was also growing if we exclude these gains. And this was not the case in 2018. So this EBITDAaL growth, excluding asset disposal, amounted to 4.5%, and it was mainly driven by strong Q4 numbers that the team here is going to present a bit further after. And this EBITDAaL growth resulted both from growing revenues and also further cost efficiencies.

Let's now talk about revenues. Our revenues were up, close to 3% last year, and I have the pleasure to say that this is the first time Orange Polska report growing revenue in the last 13 years. And this is despite constant pressure we have from our structural decline in legacy area, and we did manage this growth of revenue within expecting CapEx level and falling financial leverage.

Let me now go to the next page. This chart that you see in the bottom of the page is presenting trends of our key financial metrics over the past four years, which, I think, in our view, illustrates best significance of our 2019 achievements. They confirm our turnaround. We are constantly improving our performance, which means that we are obviously on a good way for sustainable growth. We achieved these results because we are consistent with the execution of our strategy. This is compelling evidence that this strategy is working.

Let's now look at some of the most important developments of last year. We picked only three in the slide out of many of them because we believe these three ones are really standing up. Why? The first one, the landscape in the Polish telecom market changed last year. You know that. We have quite thoroughly commented that, with probably the first ever tariff increases in this market. We Orange, introduced the more-for-more approach in the majority of our services, in B2C, in B2B, we're the first to do it.

Secondly, I want to stress here the acquisition of BlueSoft. We rarely do acquisition. This one was carefully selected, and we are very happy we did it. Bozena will say a few more words on a moment. And thirdly, Orange Flex. This innovation is an investment into our future. We designed it and launched it because we believe in the attractiveness of pure digital products, and we want to lead the change and actively disrupt the industry.

And, now, I will pass the floor to Mariusz Gaca, which is going to comment further our activities in the consumer market.

### **Mariusz Gaca, Deputy Chief Executive Officer and Vice President of Consumer Market**

Thank you, Jean-Francois. Hello, everyone. Let's look at Slide number 8. It is now almost three years since we launched Orange Love, which is our flagship convergent offer, and this hard bundled formula still works well and continues to attract solid customer volumes. The pace of growth was lower than previously.

Firstly, because new -- first of all, new customer acquisition is going very well. But we naturally have many more customers now than before that are coming for retention. And some of them, of course, churn in the environment of a very high competition especially in the fixed market. And secondly, I just want to remind the penetration of convergent is already more than 60% in our fixed broadband base. But despite the convergent, customer base grew by 133,000 customers last year, and this was 11% of growth. Already more than 50% of all postpaid B2C services are convergent. Convergent customers are more loyal than mono service customers if you look at any broadband technology, copper, fiber, wireless.

And I'm especially pleased that despite this increased competition or very high competition level, we manage to stabilize and even slightly grow our convergent average revenue per offer. In Q4 alone, it was up by almost 1% comparing year-on-year. This was thanks to upsell and price increases. We expect to deliver even more progress in this area in the course of 2020.

Let's look at fiber, which is one of the key enablers of convergence. And let me start discussing fiber with especially good news. Net customer additions in Q4 were 47,000. This was by far the best quarterly results we achieved ever. 12% better than the second best quarter, which was Q4 of 2018. On the level of gross adds, this improvement reached almost 20%.

Total fiber customer base increased more than 40% in 2019. And we are gaining customers faster than before. The last 100,000 customers, we gained in seven months. Previous 100,000, we gained in eight months, but it took us as long as 26 months to gain the first 100,000. Customer acquisition is obviously benefiting from constantly growing network coverage.

However, competitive environment is not helping here for the value player like Orange. Other market participants, mainly cable companies, are still very much focused on price competition. In such environment, we pursue our more-for-more strategy and gain market share in areas where we invest. This is the evidence that there is a big appetite for fiber, and customers recognize it's high quality. Fiber already accounts for 20% of total broadband base, almost as much as VDSL

and wireless for fixed.

Despite fast network expansion, we are able to grow fiber service adoption rate every quarter. On average, it stands at 12.4%, but there are already 16 cities with penetration that is higher than 20%. And for your comparison, there were eight cities like this in 2018. Cities with the highest adoption rate are mostly small cities. We see high demand there and, in particular, in single-family houses, where the adoption rates already exceeds 20%.

We doubled our coverage of single-family houses last year. They constituted one-third of total network rollout in 2019. Fiber network reached 4.2 million households, and as you well know, we plan to reach around 5 million at the end of this year. And this is in line with our strategy assumptions. High demand for fiber encourages us to analyze if there is economic sense to densify and expand this network a bit more, and to do this without significant additional capital expenditures. You heard our major shareholder presenting this FiberCo concept in December. We are studying this case at the moment.

Let's go to the next slide, where we will discuss mobile. Last year was particularly exciting for mobile business. We were the first with more-for-more strategy implementation, and we are very satisfied with that move. We can say today that this approach was well received by our customers. Net additions did not suffer.

As you can see on the slide, in postpaid total, they were even higher in 2019 than a year before. Average churn for 2019 was also lower than the year before. Higher data packages do not cause customer migrations downwards to lower tariffs. In fact, last year, we further improved mix of customers towards higher tariff plans, both in acquisition and in the retention.

We also made a number of value-accretive moves in prepaid last year. Apart from price increase of unlimited services and calls per minute, we also canceled some value dilutive bonuses and old promotions. You can notice in our Q4 results improved trend in mono mobile revenues and average revenue per offer. It is driven by price increases, and Maciej will comment on that a little bit more in a few minutes. We obviously expect further improvement here in 2020 coming from monetization of our more-for-more strategy.

Data traffic, no surprise, continues to soar, as you can see in the chart on the bottom of the page. Growth rates are lower in percentage terms than a year ago, but in the number of bytes consumed by the customer, the growth was similar. To be able to accommodate this traffic growth and preserve good customer experience, we constantly improve our network quality.

In 2019, we modernized mainly through refarming more than 5,000 base stations, so this is more than 40% of total. As a result, total capacity of our LTE network increased by around 35%. And of course, mobile network will receive a new kick very soon with launch of 5G technology.

Ladies and gentlemen, that's it from my side, and I will hand the floor now to Bozena.

### **Bozena Lesniewska, Deputy Chief Executive Officer and Vice President of Business Market**

Hello, everybody. Let's look at Slide 11. On B2B market, year 2019 resulted in 4% revenue growth in comparison to 2018. There were two main levers of growth: recovery of mobile line of business and ICT development. Mobile growth, especially on SOHO and SME segment was a result of implementing value strategy, which we initiated as the first one already in November 2018.

Customers appreciate the transparent and flexible tariff plans and decided to choose, more often, higher tariff plans called XL and XXL, with higher data allowance, additional roaming packages and attractive handsets. Equally, our retention activity were supported by efficient data intelligence to match the proper offer with customer needs. In consequence of these activities, customer base increased by 4%, we noted record-low churn rate and ARPO dilution was almost stopped.

Mariusz has just talked a lot about fiber. Please note that we also monetize the investment on the business market. Firstly, we are steadily growing fiber broadband customer base from SOHO and SME segment. This also contributed to our revenue growth last year. Secondly, fiber is a key element in transformation of our data transmission business for large enterprises.

Fiber is gradually replacing copper infrastructure, as you can see on the slide. Here, we invest project by project, delivering point-to-point access, for example, for large retailers or financial institutions. We are planning to be even more active in this front in 2020. This is essential for our further development of our ICT business.

Let's look at this on the Page 12. High-quality data transmission based on fiber investment strengthens our leadership position as end-to-end technology partner in digital transformation for enterprise customers, which is the goal of our strategy, as you can remember.

Basing on connectivity, telco products and services as a strong foundation, we have successfully developed our integration activity, especially in the area of cloud business development. The double-digit revenue growth of our subsidiary, Integrated Solutions, comes from this domain. Integrated Solutions is now the third largest integrator in Poland.

Acquisition of BlueSoft in June 2019 extended our capabilities to provide advanced software and application solutions. Results delivered by newly acquired company are fully in line with our expectations. We are going to see the benefits of synergies between the companies and between the product lines from joint projects in 2020. As a result of all these activities, in 2019, we doubled ICT revenues versus 2016, a year in advance versus ambition, which we announced in our strategy in 2017.

Thank you for your attention. And now I hand the floor to Maciej.

### **Maciej Nowohonski, Chief Financial Officer**

Thank you, Bozena. Good morning, everyone. So we are very happy not only about our commercial successes, but we are happy and very happy about what we have been able to achieve on the transformation front and the economy's front - savings front. And here, the 2018 was already a very good year. We have achieved in 2018, already, the targets that we have set for us for 2020. I remember that you were asking me, okay, will you deliver further in 2019? And here it goes. Here it goes. You can see it. It's 7% additional savings that we are adding to the pack, and we have already achieved 20% counting from 2016. So the proper, I would say, base for our strategic perspective.

As we continue, and this is something that we are really proud of because we are transforming the company, and I would like to give you some examples from sales, customer care and network areas, what we are doing actually. In customer care, we have implemented several initiatives, which are aimed at decreasing volumes of contacts with our call centers. And here, we also improved very much the layout and the content of our invoices.

These are, right now, simpler and more clear to our customers. The entire crew in the call centers is now supported by artificial intelligence robot, Max. And Max recognizes around 80 different customer intentions, and customer is speaking first with robot Max. Robot can fix some customer needs itself. It's around 20% of the intentions of the customer and is eventually able to transfer further the customer to our specialists. As a result, the number of calls with human assistance fell by 20% and the number of complaints by almost 25%.

All this also, of course, generated significant savings. In addition to that, we are, as the only operator in Poland, we have the paperless contracts for our customers in all our shops. And very important, we have introduced all these efficiencies, and at the same time, we have increased customer satisfaction. I have a pleasure to say that we advanced from number three to number two in Net Promoter Score in Poland. And the absolute level of the Net Promoter Score right now for the company is highest ever.

Now, let's take a look at the network area. First, we have implemented initiatives to optimize the workflow for technical teams who installed the services and/or fix the problems with the network. And we are able now to better detect the exact location of the network failure. We also offload some of the technical customer assistance from technical teams to info lines.

And, as a result of that, number of interventions has decreased by 17%. Secondly, we also continue to optimize consumption of the electrical energy power in fixed and mobile, and it's very important for us. Among others, we do consolidation of locations here. We invest into more efficient solutions from the energy perspective. And we also use the big data analytics to monitor and optimize the use of energy.

This is only a small sample of the initiatives that contributed to outstanding results that we are reporting to you. There are hundreds of different initiatives and we could spend a long time on describing them. We also have, and I would like to underline it, we have the plans for 2020, and we will continue on that front. And the social plan that we have announced is one of the examples, but this is not the only, I would say, element. You will see that we have many ideas on the table and we will use them.

Now I propose to move to Page 15, and we will start the financial review for the quarter and for the year. So on the quarterly front, we are pleased again today to put on the table results, which are very strong. Revenue trends in the main categories were maintained, and EBITDAaL was strongly supported by cost optimizations. EBITDAaL grew 3%, but as

much as 15% if we exclude the gains on the asset disposals. So this also translated into good cash generation in the quarter.

And now I propose to focus on revenue review. That's Page 16. So revenue went up by 2.6% in the quarter, and it's broadly in line with our full year growth rate that we have recorded. I would like to mention the following highlights. Firstly, there is further improvement in the evolution of mobile-only revenues. They were down only 3% versus a decline of around 5% over the first nine months. So there is a consecutive progress here on that front. This improvement is also visible in the trend of the postpaid ARPO, which Mariusz presented. Our value pricing gradually filters to revenue, in line with our expectations. And here, we expect further progress in 2020 on that front.

Secondly, Bozena mentioned that IT and integration revenues were up 20% year-on-year in quarter, and main contributor for this was BlueSoft, which added PLN38 million. Excluding BlueSoft, growth was smaller, was 3%, but please take a look at Q4 2018, and the base, the comparable base, was very, very strong.

Thirdly, equipment revenues advanced here in quarter as much as 17% year-on-year, and this was the highest growth in all quarters in 2019 and resulted from our very good traction of the Christmas campaign.

Now, let's take a look at the profitability, EBITDAaL, Page 17. So the EBITDAaL exceeded PLN700 million in the quarter and increased 3% despite much lower gains on asset disposals. If we exclude this factor, EBITDAaL was up by 15%. Driver of this exceptionally strong performance were the cost savings, and I talked a lot about that before. So it delivered overall around PLN110 million year-over-year in the quarter.

Now, in this quarter, we have also some exceptional performance that is a bit difficult to extrapolate for the future, like, for example, we see less of different provisions including legal and litigation, we see also some non-repeatable labor costs.

Overall, looking into the future performance on the quarterly basis, please take into account that around PLN20 million to PLN30 million of savings achieved in Q4 could not easily extrapolate to the quarters to come. So this robust growth of the EBITDAaL rate in Q4 should not be fully extrapolated to the future, at least with factor of PLN20 million to PLN30 million exceptional result in Q4.

Let me comment also on the direct margin. In 2019, we have significantly contained decline. When you take a look at the broader perspective of the yearly evolutions, not particularly only quarterly, here, we have very clear achievements. So we are able to now better compensate structural declines in legacy areas through the value-driven commercial activity and monetization of the fiber that my colleagues were talking about before. So here, on that front, in the direct margin, we also plan to make further improvements in the evolution in 2020.

Now, let's take a look at the bottom line, that's Page 19. So here, I propose to take a look at the full year rather than quarter. Net income in 2019 amounted to a bit more than PLN90 million versus PLN10 million in 2018. It improved despite -- it was impacted by around PLN180 million of provisions from employment termination programs.

And please note that we signed a new social plan in December, covering 2020 and 2021, and we booked all of these costs in provisions for severance payments for the whole plan in Q4, that was booked in Q4. The improvement was driven by growth of EBITDAaL and lower depreciation, mainly as a result of the extension of the useful life of the certain assets.

Total level of the financial costs year-over-year was almost stable.

Now, let's go to CapEx on Page 19. So here, we see a stable situation year-over-year. The structure is very similar. In fiber, network CapEx was a bit lower, which was offset by acceleration in POPC project which encompassed not only households but also schools. Decreasing network CapEx was a consequence of lower number of households connectable in our own production and we used more the third-party infrastructure households here as well.

So CapEx per household increase only slightly, and this is mainly the result of the structure. So we are connecting building more single-family houses versus the previous situation. Gross fiber additions were higher so obviously, we spent more on customer connections and customer equipment. On the mobile front, mobile CapEx was slightly down after growth in 2018. And here, we continued investing in spectrum refarming, basically as scheduled, which allows us to invest less in network capacity. We increased slightly CapEx for transmission network to better reflect growing traffic, both in fixed and mobile, Mariusz talked about that item quite extensively.

Now, cash generation on the next page. So 2019 was another year of strong improvement in cash generation. It was driven by growing EBITDAaL, better working capital and obviously, much higher proceeds from the sale of assets, especially Nowogrodzka transaction. So the working capital was supported by sale of installment receivables, which we have initiated around mid of 2019, and that brought to the company PLN290 million. So this was the first year.

We will continue this program further. We are especially proud of this program because this is really a novelty instrument, which is not yet used, not only in Poland, except of us, but we believe also in the region. And now we are -for the cash CapEx in 2019, it was around PLN100 million higher year-on-year. This was just the phasing of the investments that we have been doing in 2019, and we intend to keep this phasing as in '19, also in 2020.

So to conclude the financial review, I propose to go to the leverage on Slide 21. The leverage stood at 2.0 at the end of the year, and it strongly decreased over the past 12 months. I believe that this is the lowest level in some time. It reflects improving business fundamentals and the balance sheet optimization that we are doing. So our cost of debt is lower than in 2018. It's pretty much going forward to be stable. We believe it's going to be around 3%.

And before I hand the floor back to Jean-Francois, let me present the changes in our reporting that we plan to introduce starting from 2020. So over the past few years, the company has rapidly transforming from the legacy to a modern integrated telecom operator. We are heavily investing in the fiber network. We have invested already almost PLN2.5 billion since 2016 in that technology, and this will create the value for many years to come.

We constantly upgrade also our mobile network. After 2020, we will be investing in 5G technology on that front. We continue to modernize our business model and systems for front office and back office in order to increase customer satisfaction and explore benefits of automation and digitization. I talked a lot about that previously.

So this transformation is including also the disposal of assets, mainly resulting from our legacy status in the past. And this has recently strongly accelerated. Since 2016, we sold assets with a market value of close to PLN1 billion. We have still at least PLN1 billion to monetize on that front. So so far, the benefits of this fixed asset base transformation were presented in EBITDAaL. However, gain on asset disposal was capturing on the accounting impact.

From 2020, our EBITDAaL will exclude these gains. Instead, we decided to transfer presentation of benefits of asset disposals to CapEx in order to capture the cash impact. So from 2020, CapEx will be presented net of proceeds from asset disposal, and we will call it economic CapEx, eCapex.

On the slide, we show these APMs in old and new definitions to avoid any doubt, what is changing and how these elements are impacting the alternative performance measures that I talked about. And I am aware that this is another change to the reporting. It is probably not fully convenient. However, our business is changing, and we need to take this into account into our reporting.

That's all from my side. Thank you for your attention, and I hand the floor back to Jean-Francois to present our guidance and expectations for 2020.

### **Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

Thank you, Maciej. And to come back on this change of the APM, it is also a way to align with our majority shareholder, the Orange Group, which is reporting exactly on that way, that probably you have noticed.

So now let's look at our guidance. This is not going to be a surprise to you. This is fully consistent with our strategic ambitions. We want to sustain both the growth of our revenues and our EBITDAaL, and we are working very hard and confident that this would be another year of growth for Orange Polska 2020.

So how do we want to achieve this? Obviously, we will continue to execute on all the areas that we discussed today. Growth drivers would be unchanged. There are convergence, mono service revenues that will be supported further by our more-for-more strategy.

In ICT, we will continue to work to grow organically further. And we will, of course, monetize our acquisition of BlueSoft. We know that the Polish macroeconomic situation is slightly going down. But however, we see it as extremely favorable still. And 2020 is actually a year of challenges. They are coming. These changes are coming mainly from the external inflationary environment, which is actually motivating us to implement more efficiencies and more improvement to boost our growth capacity base.

We will continue in 2020 to reinvest our operating cash flow into the company's future, namely fiber and 5G, as we strongly believe that this is the best choice for long-term shareholder value of Orange Polska. As I was saying, 2020 will be a significant year for 5G, it would be the year of the spectrum auction. You know that the regulator is preparing actually a so called C band auction.

We are in the middle of the second consultancy process, which runs until 27th of February. The plan of the government is to allocate the spectrum actually mid of this year. And you know very well, in the past two years, we've been running a

number of 5G tests, which were successful. So we are ready now for the rollout of the 5G network soon after we obtain the frequency. So stay tuned.

To conclude this presentation, let's go to the last slide, Page 25. So you will recognize this slide, as this is the one we presented in September 2017, showing our road map to turn around the company. Meeting 2020 objectives will fulfill this ambition. And this year will be the last year of our so called Orange.one strategy.

During this year, 2020, we will work on the new plan for the years 2023 to 2025, and we will return to you with the date at which we are going to present this new strategy. Probably we will return to you with the date in the middle of this year.

So thank you very much. This concludes this presentation from us, and now we are ready for your questions.

## **Questions And Answers**

### **Leszek Iwaszko, Director of Investor Relations**

Thank you, Jean-Francois. So, as usual, we are starting with the questions from the room, from the floor, and usually starting with Pawel Puchalski from Santander. Pawel, floor is yours.

### **Pawel Puchalski, Analyst**

Hello? Can you hear me? Well, now we've got clarity on 4Q results. I would like to ask some questions about, well, not distant future, 2020. You are telling us there will be more savings to come. What is the scale of savings that you would expect because I saw delta at PLN110 million in fourth quarter year-on-year? And I understand this that it will be much smaller, but still, I would like to how much should I expect.

And on the other slide, you presented mobile ARPU -- ARPO. And after three quarters of tariffs, growth, et cetera, the whole market is aware of ARPU growth, and I'm still looking at minus 4% at your postpaid and blended ARPUs. So shall we expect Orange to report EBITDA -- sorry, mobile ARPU recovery in 2020? Or maybe it will be delayed until 2021, '22?

### **Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

I think maybe the first question for you, Maciej.

### **Maciej Nowohonski, Chief Financial Officer**

Thank you, Pawel, for the question. So for the scale of the savings of 2020, as I was saying, from Q4, PLN20 million to PLN30 million, this is probably difficult to be automatically translated into further quarters. The initiatives that I spoke about quite extensively, these ones are of a sustainable nature. Of course, we have new initiatives in the plan to execute in 2020. There are some hurdles that, obviously, you are aware of and these are hurdles for the entire market, like, for example, energy pricing, which is increasing. So in 2020, the company will see some of that in the results. So it will be a drag on the results.

The second item, which is no surprise for you is the inflationary pressure on the labor costs front. That does not concern only the fact that we are increasing the salaries in the company, but basically, the services that we are buying from the market are also impacted by these trends. And so when you take that into account and the commercial plans that we have for 2020, we expect a continuation of the trend for the growth of profitability in absolute terms. So that gives us confidence that we can achieve it in 2020, as we have been achieving it in 2018 and 2019.

### **Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

Okay. On your question on the mobile ARPU, Mariusz?

### **Mariusz Gaca, Deputy Chief Executive Officer and Vice President of Consumer Market**

Looking at mobile ARPU, believe that this is going to be positive gradually in the course of 2020. This is because of retention and acquisition acts because we have not touched the base. That's the point number one. Point number two, the price changes that we have implemented were on the invoice base, not for Nju mobile, 1 million of customers. So there, I

would rather expect a stable trend. But in invoice, we actually see the upward trends. And there are no reasons to believe that's going to stop.

**Pawel Puchalski, Analyst**

Would you expect to see ARPU -- mobile ARPU growing in quarter four, 2020?

**Mariusz Gaca, Deputy Chief Executive Officer and Vice President of Consumer Market**

That's the bet. But rather, yes.

**Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

Other questions in the room?

**Pawel Puchalski, Analyst**

May I have two more? Okay. So in one of the interviews, you suggested that you will keep spending some amounts on FTTH project, it will not stop in 2020. So I would like to know what amounts are we talking about.

And the second question would be, well, dividends. Nothing in 2020 in line with your suggestions. But I would like to know, would it be rational for me to expect that there will be certain net debt-to-EBITDA level and those dividends would be linked to this level?

**Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

So on the two questions -- on the first question, on the investment in fiber, we are planning similar investments in fiber in 2020 than the ones we had in 2019. So --

**Pawel Puchalski, Analyst**

Yes. My question was about beyond 2020.

**Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

Sorry, beyond 2020. Beyond 2020, we are working on that. This is what was explained actually by Mariusz and what our group has announced. So this is what also we are going to be a bit more specific on -- during the famous plan that we're working on for 2021- 2023. So we will come back to you. We'll tell you probably mid of this year when we'll explain a bit more in detail what this plan will be.

Specifically on fiber, this is the reason why we are looking for a potential investor. And we are looking for creating such a FiberCo, where we will invite an investor to lower the burden of a future build. So we are currently working on the scope of this. So it's a bit premature to tell you more details about that. But be aware that looking at appetite on fiber, looking at the way our fiber project is progressing now, we are really seeking for some solutions to continue further deployment. Probably, the scale will not be the same than it used to be, clearly. But we would like not to completely stop deploying the fiber basically in the future, three years to come. So that is the first topic.

The dividend, I confirm we are not planning to pay a dividend in 2020. To your question, is it linked to a certain amount of leverage? This is part of the equation, of course, the leverage, but not only. I repeat that, first of all, there is a big question mark on the spectrum price, we are at the eve of the auction on the C band.

So let's -- first, the big question mark is how much will we have to pay for the spectrum. You know very well that the reserve price of this has been set in the second round of this consultation to PLN450 million per block. Operators are in this second consultation allowed to bid on one block, but this is an auction. So this is the first question mark we are having.



And you know that we are planning to go back to dividend, pending that the turnaround of the company is really sustainable. Obviously, I mean, this 2019 results are showing you that we are really on the track to reach the sustainability because this is the second year in a row that we are growing our profitability and even, Pawel, to answer some of your questions over the last meetings, without real estate sales, showing that this is a recovery of the core business of Orange Polska.

So this is the first criteria, which would enable us to return to dividend, obviously, and then our leverage, our cash situation. Again, let's see and wait for the auction that should conclude mid of this year. We will be in, let's say, a better stand to be more precise on this topic at the end of this year, 2020.

**Pawel Puchalski, Analyst**

Thank you very much.

**Leszek Iwaszko, Director of Investor Relations**

Do we have any other questions from the floor? Not that I see. So let's just -- let's switch to our -- to our teleconference listeners. Hello?

**Operator**

Thank you very much, Leszek. (Operator Instructions) Okay. We have the first question from Mr. Piotr Raciborski from Wood. Please go ahead, sir.

**Piotr Raciborski, Analyst**

Good morning, Piotr Raciborski from Wood and Company here. I have one question considering this upcoming 5G auction. I've seen statements from CEO of Orange Polska, considering the idea of allowing the operators to bid for more than one block of the C band frequency. My question is, what's your strategy considering the auction? Why would you like to bid for more than one block? And don't you think that it might considerably impact the final prices achieved in the auction?

**Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

I'm very happy that you asked this question because it's an opportunity for me to clarify this topic. So I've been asked by one journalist in the Polish market, what would be the position of Orange if there would be two blocks for sale. And I said, if there would be two blocks for sale, we would consider this. This is the precise answer I gave.

So we are obviously not in favor of having the possibility for operators to bid on two blocks. So we are very much in favor of us and other operators to have the possibility to bid on one block. As I was saying, we received the rules of the auction for a second consultation from the UKE, which is our regulator. In this second round of rules that they have sent, the possibility for the operators are still to bid for one block, and we are very happy with this.

**Piotr Raciborski, Analyst**

That's clear. Thank you.

**Operator**

Thank you very much. (Operator Instructions)

**Leszek Iwaszko, Director of Investor Relations**

There are no questions from our conference listeners. I have two questions that were asked online. Let me read the first question. What is management attitude towards separation of infrastructure assets, towers, fiber in the light of the Orange France strategy?

**Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

We are absolutely aligned with our mother company strategy. So there are two topics. The first one is the famous potential creation of a FiberCo. Here, very clearly, we are of the opinion that we should not lose control of these strategic assets. And we are, again, seeking for a potential financial partner to lower the financial burden of investments in fiber for the plan 2021- 2023. And we are currently working on the scope of this, and we'll get out it to the financial investors, probably in the Q2 of this year with this project. That's one.

On the TowerCo possibilities, the possibility to monetize our towers, we have a very specific situation in Poland linked to the network sharing deal we are having with T-Mobile in this country, therefore, there is rather a big optimization already of our towers and we believe that the priority should be set on the Fiberco and the fiber assets, not that we are not going to do anything in the future with our towers. But we set for 2020, the priority for ourselves to work on the future build of fiber.

**Leszek Iwaszko, Director of Investor Relations**

I learned that we have another question on the call.

**Operator**

Yeah. That's right. We have one more question here from Ms. Anna Kazaryan from VTB Capital. Please go ahead, Anna.

**Anna Kazaryan, Analyst**

Thank you for taking my questions. I would like just to clarify your plans about the cash flow for 2020. Specifically, I would like to clarify what might be the impact of the real estate sales and maybe sales of receivables? Can we expect the same effect as we saw in 2019? Or we should expect a lower amount? Thank you.

**Maciej Nowohonski, Chief Financial Officer**

Thank you, Anna, for the question. So for the cash flow of 2020, obviously, we have -- we do have the plans to continue the real estate sale activity. Well, if you take a look at our eCapEx guidance or expectation that we are presenting, you could probably conclude that we are aiming for PLN200 million to PLN400 million for the real estate sales in proceeds.

Now in terms of the sale of the receivables, well, since we are continuing this program, and we have already started in 2019, so the effect that we expect in 2020 will still be incremental and positive. However, it could be smaller than PLN290 million achieved in the first year, where the, I would say, fully blown effect is very clear because we haven't been doing it in 2018. So in 2020, there will be increment, but not as high as PLN290 million achieved in 2019.

**Anna Kazaryan, Analyst**

Okay. Thank you.

**Maciej Nowohonski, Chief Financial Officer**

You're welcome.

**Operator**

Thank you very much. We have no further questions on the line. I'll pass over the call back to Leszek.

**Leszek Iwaszko, Director of Investor Relations**

Yes. We have one more question asked online about the potential for further price -- increases on price of services -- or prices of our services because we have a record inflation, and in the opinion of the person who is asking, inflation that may go up even further in the future.

**Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

I mean obviously, we are not going to reveal any plans because this is not a practice to do so. But this, let's say, new mobile environment in Poland that has started mid of last year, we believe it's favorable, and we are obviously going to have further developments in that direction, which is actually to offer more to our customers for a little bit more.

**Leszek Iwaszko, Director of Investor Relations**

We have one more follow-up from the floor, Marcin

**Marcin Nowak, Analyst**

Good morning. Marcin Nowak, IPOPEMA Securities. Two questions. First, regarding potential one-offs that were recognized in fourth quarter. It seems that there were some, at least. And the second is, what is your estimates regarding potential negative effect of cancellation of surcharges in roaming, international roaming in 2020?

**Maciej Nowohonski, Chief Financial Officer**

So for the first question, thank you, Marcin. As I was saying, in Q4, all in all, we have around PLN20 million to PLN30 million, which are not so easy to be repeated in the quarters to come. So that's -- to cut the story short, everything which should not easily flow through into 2020 results. Now about -- the second question was about --

**Marcin Nowak, Analyst**

Surcharges.

**Maciej Nowohonski, Chief Financial Officer**

Surcharges. Well, we are still expecting the decision. But if this decision is negative, obviously, we will see some effects of that. And these effects are factored in the guidance that we have.

**Marcin Nowak, Analyst**

Thank you.

**Leszek Iwaszko, Director of Investor Relations**

Please note that the surcharges, in our case, were only applied from prepaid, not postpaid. So -No other follow-ups? Oh, there is a follow-up.

**Pawel Puchalski, Analyst**

If I might. Coming back to the interview you mentioned. Well, the C block t's clear. And now there was also another topic mentioned by you. You were comparing quality of transfer between fiber and 5G mobile technology. Could you elaborate more how see the quality of data transfer, fiber versus 5G?

**Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

I guess your point is how does fiber compare to future mobile 5G.

**Pawel Puchalski, Analyst**

Precisely.

**Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

So we are clearly on the belief, at Orange, that fiber is for home usage linked with the Livebox, which is the router that we are providing together with our fiber. There are more and more devices in the home, not only smartphones but also connected TVs, tablets, laptops, so there are in average sometimes 10 to 30 devices which are connecting to your WiFi environment at home. And obviously, the way to access to Internet is fiber.

We believe a lot in fiber and in this investment because today, you know that we are providing speeds up to 1 gig. But this fiber, which is in the ground and which is the major part of the investment we have been conducting in the last five years, and we are still connecting, is going to be upgradable in the future. And very soon, we will be able to upgrade this 2.5 gig. There are already experiments that we are conducting in the B2B area to use this fiber with speed of 10 gigabit per second. So this fiber will allow us for the home environment to go very high in speed. That's one.

Obviously, 5G is a mobile technology, so with a lot of benefits linked to mobile. And I know very well, Pawel, your point of view of 5G, which is mobile use, and 5G will indeed bring the performance of mobility to levels which are going to get closer to the ones we are having here now with fiber, which is fantastic. It will improve the customer experience. This is why we are stating that we are ready for 5G.

We have experimented it in Warsaw, in Lublin, on a massive scale with more than 10 BTS in each cities, hundreds of devices and mobile phone. This has been performed by Nokia in the room. In Lublin, we have done that with Nokia. So we are believing technology for mobility. However, we are convinced and sure that both are complementary. And the results of our fiber investment with more than 520,000 customers using our fiber are really a proof, a concrete proof of this belief that we are having.

We also see and believe that giving, let's say, fixed broadband, very high broadband based on the mobile technology, is not the best suited network. Why are we saying that? Because we are having more than 400,000 customers which are using today, as we speak, our 4G network for their fixed services at home. So you know that we are delivering this box, which is using 4G on one side, which is WiFi on the other side, to emulate a fixed-WiFi termination using 4G. This is working. But this is putting a very heavy strain on our mobile infrastructure.

And we see in areas, where you have more than 10, 15 customers, huge congestion and the need to invest very heavily in our mobile network or to densify the mobile network. Therefore, again, we are of the belief that there will be these two usages, which are going to live together the fiber for the home, the mobile 5G for the mobility. And would, we, some actors in the telecom would like to use 5G for fixed?

Of course, this is going to be feasible. Of course, this is going to be a technology that will work, but this is going to be very expensive to render because of the need to invest, because of the need to densify this mobile architecture in the future, would we like to do so.

**Maciej Nowohonski, Chief Financial Officer**

I would like to supplement also from the economic perspective. Having both networks is really sustainable from the green economy for the future. The energy consumption for 1 gig transferred through the fiber, 7 times less costly than through the mobile network.

**Leszek Iwaszko, Director of Investor Relations**

I guess, we have no further questions. So thank you very much, ladies and gentlemen, and see you back in April for Q1 results. Thank you. Bye.

**Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board**

Thank you very much.