

# Q1 2017 Orange Polska SA Earnings Call

Transcript of Orange Polska SA 1Q 2017 earnings conference call

Thursday, April 27, 2017 at 11:00am CET

=====

## Corporate Participants

=====

- Jean-Francois Fallacher - Orange Polska SA - President and CEO
- Maciej Nowohonski - Orange Polska SA - CFO
- Leszek Iwaszko - Orange Polska SA - Head of Investor Relations

=====

## Conference Call Participants – Q&A session

=====

- Pawel Puchalski - BZ WBK - Analyst
- Herve Drouet - HSBC - Analyst
- Pawel Szpigiel - mBank - Analyst
- Vera Sutedja - Erste Bank - Analyst
- Ondrej Cabejsek - Berenberg - Analyst
- Anna Kazaryan - VTB Capital - Analyst

=====

## Presentation

-----

Leszek Iwaszko - Orange Polska SA - Head of Investor Relations [1]

-----

Good morning, ladies and gentlemen. Welcome to our Results Conference for the First Quarter of 2017. Today we have with us Jean-Francois Fallacher, CEO Orange Polska and Maciej Nowohonski, CFO. Our results have been published yesterday and are available on our IR website. So now I had the floor to Jean-Francois to begin the presentation.

-----

Jean-Francois Fallacher, Orange Polska SA - President and CEO [2]

-----

Thank you very much, Leszek. Dzień Dobry. Good morning to everyone. So we are going to present our first quarter results that we have indeed published yesterday. So as you can see in the first slide, first of all, I can say that our first quarter financial results are absolutely in line with actually the commitments that we presented for this year. So that's the first thing it would like to say. First of all, you can see that our revenues are slightly growing if we compare them to the first quarter of last year.

Actually, I want to warn everyone that this is of course good, but this is principally due to the fact that we account our customers' offers especially on mobile differently than last year and also the fact that we had a good ICT quarter. So, I would cautiously look at this growth as this is unfortunately not yet, due to I would say, they're sustained by business growth, but rather to accounting principle of devices and handsets that we are selling to the market. You can see there that year-on-year the EBITDA decline was quite sharp, this is largely due to the fact that last year, both in percentage and in absolute value. Last year we had actually quite an important provision release in our labour costs of PLN94 million that is explaining this -- actually a pretty larger drop year-on-year. In terms of CapEx, you see that it is absolutely -- these spendings are absolutely in line with our plans. And the quarter is also, I would say stressed by the fact that the organic cash flow is actually not that good, linked principally to payments that are due to our strong performance in the Q4. These handsets that we sold to customers have been actually had to be paid this quarter. And also the high level of CapEx are explaining this -- I would say not that good cash flow results for the first quarter. Maciej Nowohonski, will later explain you more about that and what plans we are doing to reverse this trend obviously. Now I would like to go to the second page where I have, I would say a little bit more to comment and share. This is about the commercial performance this first quarter. I think we are having a strong quarter from a commercial point of view. I would like to start actually to comment our results on convergence, so you know that we have launched a new offer actually in the middle of February called 'Orange Love' and that offer is obviously to increase penetration of Orange services in the Polish households and to differentiate ourselves on the market. So, we are now really executing this strategy with the launch of Orange Love and the first results are really very encouraging. So a week ago, we just exceeded 100,000 individual customers on this offer. This is representing in almost a quarter a 5% of our B2C broadband base. So we are extremely pleased with this first results, around 80% of the activations of Orange Love it's actually consisting of an upsell of the new service. So 80% of these customers are customers that are or taking the new mobile, or taking the new broadband, or both new mobile and new broadband, which really means that the strategy is working and it's creating value and generating value for our company. In addition, I would like to pinpoint, the fact that actually 50% of these new sales are actually what we called 4P. So, it's,-- these are customers that are taking the 4 services fixed broadband, fixed telephony, mobile and TV. So, that's also very positive news.

I want to also to stress the fact that this offer Orange Love sales not only with fixed technologies, but also with LTE for fixed. So, that's the product that we now call wireless for fix and that by the way, we are now reporting as part of the broadband numbers. So we have also with the launch of Orange Love modified the definition of what we call convergent customer, it is now reflecting only a combination of the fixed broadband customer in any technology and a customer having as well a mobile handset offer. So with this actually what you see there is that in the first quarter, we have added more than 100,000 new convergent offers, which is a 12% increase and you can see that actually our fixed broadband on the right box, which is in green, you can see that the fixed broadband approaches actually 38% of our fixed base and the mobile has reached 27%.

If we benchmark ourselves to other geographies like France, in France, the penetration of convergence in the fixed business is 57% where we see that we are 38%. So, there is quite a room for us to maneuver and there is big room for growth. And in Spain, this amounts up to 80%, so showing actually the potential growth for us in this convergent strategy.

Now if we look at and if we zoom and look at mobile, so this is the bottom left chart that you see there. You can see there, that the results of the first quarter have been extremely good, that even though the total I would say, net additions were a bit lower year-on-year. This is mainly due to mobile broadband, that's what you see there in white in the graph.

What I want to really to stress there is that actually if we really look to what we call mobile handset, the net adds are extremely strong within Q1, 150,000 -- 158,000 customers added. So, this is, I would say performance, which we are quite proud of.

On the mobile broadband, you might wonder what is actually happening. We believe that actually this category is losing appeal on the Polish market, due, I would say two reasons. The two reasons I would like to quote is that, home users are increasingly choosing these fixed broadband offers, the fixed LTE offers, that I was just talking about before.

That's one, and second, the fact that the data allowance in the bundles we are offering on the classical handset data packages are becoming so, I say, abundant that probably there is less interest of people in the market in just buying a SIM for data usage.

That's about mobile, and finally, if we look at the fixed broadband performance, so again this year we have reclassified our wireless for fixed customers in this category. So, we will not see them reported in the mobile but on the fixed part of our business. So, you see that the results are also very strong and especially in the category of very high broadband.

And I would like to report that on fibre as you see there, we are having now 117,000 fibre customers and we have added actually in the first quarter 29,000 customers, which is almost as high as in the fourth quarter. This is a good result because as you all know in the telecom sector Q4 usually a very, very strong commercial quarter. So, we are very happy and absolutely on track with these results on the fibre front. So, we are now reaching 117,000 fibre customers so as we were planning. So that's it for me. To conclude, very strong commercial quarter, this Q1 quarter. And I will pass the floor to Maciej Nowohonski.

-----  
Maciej Nowohonski, Orange Polska SA - CFO [3]  
-----

Thank you very much, Jean-Francois. So, let's go to the financial review of our Q1 results. We start with the slide number nine. So the overall revenue first, as Jean-Francois mentioned already, we see a slight growth year-over-year. It is too early probably to say that this is a sustainable level because that depends mainly on the level of the equipment revenue that we see today, that we have seen also in Q4. This is a very strong level. That's around PLN300 million per quarter and we would like to continue with that level in the future. But from the year-over-year perspective, you should not expect that such a dynamic growth as in Q1 or Q4, PLN160 million, PLN120 million year-over-year equipment revenue increase will be visible in the future, it will be much smaller increase. So this will be evidently with us in the quarters to come. Then we see also some other trends that support the revenue performance. First of all, better revenue trend in overall fixed, I will come back to that when discussing the broadband situation. And again in B2B markets, there is an increase of the ICT activity, thanks to the contracts, new contracts that we have concluded in 2016. Clearly, here we are entering into new areas

of cooperation; one of the examples of those areas is cooperation with the Microsoft on the software and ICT area, overall.

Now, let's take a look at the mobile revenue on the next page. I have already mentioned the equipment sales and there is one more comment to add on that, apart from the shift to installment offers revenue growth here was also supported by more selective approach to handset subsidies. And it is important because in line with our commercial focus, we maintain very attractive handset prices in convergent offers like Orange Love. But in mono products, mono services, we now aim to be much more value-oriented, and it is bringing a better value for the company. It is basically in certain examples even allowing us to earn good profit on the handsets that we are dispatching to our customers.

Turning to service revenue; here we see deterioration year-over-year, 6.6% and this is slightly more than in the previous quarters and the pre-paid here plays its role. So, there was end of the registration process and within Q1, there was a number of customers, much higher number that we have anticipated, who have used the promotions that we offered to the customers. So, that was the first effect that we see here.

Secondly in prepaid; we also see certain number of one-time users that are not reappearing into our base. So, there is a certain effect on that measured in small millions of zloty, which is also detrimental from the year-over-year comparison on the service front. The first effect was stronger, the second effect much smaller. And now bonuses are gone for the pre-paid, so we expect here in pre-paid more favourable evolution of the pre-paid revenue. Just to remind you, the trend in the service revenues also reflects the ongoing shift to instalment offers, higher share of the SIM only customers and growing convergent discounts.

And these factors, all of them are affecting the ARPU, so just to give you a couple of interesting figures, today around 45% of our post-paid base is on the SIMO and this is nearly nine percentage points increase. Then around 27% is on the subsidized offers, so still this is the past offer that we had and around 28% is on the instalment offer.

And if we look on the ARPU from the cash perspective, we see the -- so that we include the handset instalment into the bill evolution. The retail post-paid service revenues are slightly up and this is increasing, thanks to the higher customer base that we see and that Jean-Francois commented before.

Now, let's turn to fixed broadband; these are the next two slides on that topic. So, first on slide 11; we have prepared a bit different presentation this time with more trends because it's interesting how the trends evolve here in this business. And you can clearly see how strongly our broadband business is transforming. ADSL base is shrinking quite rapidly as a result of the churn and migration to some other technologies. There is a leakage, this leakage is being increasingly offset by the fibre and fixed wireless, and these two are the key drivers for the future. Over the past 12 months, the share of the growth categories increased quite considerably. Today, it's more than one-third of the base, it's 35%, last year it was 20% only. So rapid changes in that category. And on top of the changes in the structure, what you see is a good thing, which is the increase of the overall customer base, 7% increase year-over-year.

And in Q1, our fixed broadband revenues were up year-on-year for the first time in a long time and this is supported by the base. Of course, there is a second effect which is with us, which is the ARPU

evolution. Here the ARPU is down and this is also down due to the fact that we sell more and more LTE for fixed, and the overall ARPU for LTE for fixed is lower than the average for the category, it's around PLN40 for fixed LTE.

Now, let's zoom on the fibre on the next slide. Here on both fronts, on the production and on the customer take-up, we are in line with the full-year expectation. Customer net additions were almost as good as in the commercial peak, Jean- Francois, already discussed that. We continue to gain market share, which is very good because this is the market share in the area, the big agglomerations that we were traditionally since many years weaker than in other zones in the country. 80% of our sales on the fibre are new broadband customers. So this is a continuation of the good trends that we already have seen. And half of the uptake on the net adds front, these are the convergent packages. And convergent packages are obviously very, very important, strategically important for us. But in the Polish context, this is also important to have a very good mono offer on the broadband front, on the fibre front, because this is a door opener, and this is something that we can build in the future a convergent base on. As you can imagine in many households, the timing of the different contracts, mobile and fixed is differing from one from each other, because these are the different providers. So, it's very difficult to sell a convergent offer, which is perfectly matching the timing of the -- end of the contract for different other products in the household. So, fibre treated as a door opener, is a very good entry point for the future.

Looking forward for Q2, we should be aware that Q2 will be from the calendar perspective a specific period. In almost each month, we will see the shorter number of working days. It is valid for April, it is valid also for May and it will be valid also for June. So, calendarization will have the impact on the customer base uptake of the fibre for Q2. So, we should take that into account.

As far as the network rollout is concerned, this quarter, around 20% of the uptake and the uptake is more than 200,000 new households connectable, the 20% came from the other operators and this is a very rational approach that we took where, the fibre network exists and there is a possibility to cooperate with such networks, we use that. And we enter into reverse BSA deals, like we have announced the ones with Netia, with Inea. But not only with them, with lots of smaller operators that serve a city or serve a number of streets in the city. And that is something that we are trying to build on in order not to overlap the production that we do in areas where it is necessary because fibre does not exist, but where it exists, we use this opportunity and we have quite successful commercial entry into those areas. So, we plan also to go for that in the future. You should expect also considerable uptake of the fibre reach in the future from such deal wherever it will be possible. In terms of the rollout plans beyond 2017, please be patient and let's wait another quarter. End of Q2, we will be more talkative, what are the plans for the fibre beyond 2017.

So, going through the broadband, now it's time to go to EBITDA, which is the next slide. And here again, we have decided to present you the evolution of the EBITDA in a slightly different way versus what you have seen previously. We have disaggregated the direct margin into separate business lines. In order to see the evolution of the value, from the perspective of the business line. And direct margin what it is? It is a difference between revenues and direct costs, which are mainly interconnect customer acquisition costs and customer retention costs, content costs, and these costs unlike indirect expenses can be directly attributed to the corresponding revenues of the business lines. So, we do not present exact figures for each segment and the direct margin of each segment, but the proportion

matters here, and you can see that the loss of PLN87 million at the direct margin front from the year-over-year perspective was to large extent attributed to the legacy business that this with us, which is the old PSTN and the wholesale access revenue.

We have commented many times before that revenue decline here is coming from the legacy. So, this is not a surprise, but this is just a good demonstration, what are the proportions here. You can also see that direct margin of the fixed broadband is down slightly year-on-year, that's a consequence of our heavy commercial activity. We see the commercial costs now, revenue is divided into 24 months as is in the typical contract. When it comes to the indirect costs evolution, here optically you see the deterioration, the 33 million, that's the optics. Jean-Francois, mentioned a reversal of the labor cost provision, which was done in Q1 of 2015. So, this reversal of PLN90 million plus is evidently impacting the year-over-year evolution. When we take that apart out, of course, you will see that the savings and that's the reality of the Company. So, we proceed with the optimization of the different resources, including the headcount, including the advertising and promotion and different other categories. We also contain what is very important. We also contain the growth of the labor cost, which is coming from the change in the legal regulations in Poland, the minimum salary increase to PLN12 per hour, that's also part of the containment that you don't see here. There is no increase, although it happened.

Then, let's go to the next page, which is the net profit. Here we see the PLN39 million for the quarter and this is a decrease evident impact of the EBITDA, but much slower than EBITDA. And this is thanks to, first of all, the effect of the extension of the useful lives for the assets impacting the depreciation. Secondly, the net financial costs this quarter are slightly smaller, thanks to the positive evolution of zloty versus Euro in the last days of the quarter which discount the decrease the discount expense. And the 3rd element is the, the taxes benefited from the non-taxable FX impact and the release of some provisions.

On the next slide, slide 15, we review the cash flow and cash generation for the quarter. As it was said already, there is a negative cash flow in the absolute terms PLN250 million and year-over-year it is PLN200.

The impact comes from the EBITDA and from the higher working capital. And there are 2 key factors behind the year-on-year evolution. First of all, the working capital requirement was higher by PLN215 million. Mainly as a result of the three factors. First, since we are continuing with the instalment receivables and this offer is getting a very good traction. As I mentioned, around PLN300 million per quarter in terms of the equipment sale, that's visible in our balance sheet. So the growth of receivables is related to that. Then after very heavy Q4 that was visible in our acts and as a consequence of a very high level of acts of the handset front, our warehouses where basically very empty at the beginning of the quarter. So we had to restock and we see the effect of this restock right now. Second of all, third of third of all, our receivables balance that we have presented to you a year ago were exceptionally positive following different timing of the settlements with one of the carrier customers. We have commented that to you a year ago. So all of these 3 impacts fall down to close to PLN200 million and each of these impacts is around 1/3 of that. So, these are the equal repartition of the effects.

Going forward, of course, we are working on the critical elements that should improve the cash flow performance in the future. So first thing and this is rather long-term thing is to improve the cash EBITDA. And so we are heavily working on that and we would like to be more talkative on that front in the future, because these are the savings which are important here. But here in cash EBITDA, it is

also the level of the subsidy, which is important for the handset in the future. We would like to continue the successful strategy that we took to subsidize more the convergence and to subsidize much less if anything in the mono products area. Then cash EBITDA is not only the one factor, second is the working capital and here we are working on additional factoring tools that would allow us to enter into new factoring arrangements with some additional suppliers. It is at our hand, we have proven big success in handsets area for the factoring, but there are some other areas that we would like to tackle also in the future, this is at our reach. Then in terms of sales of receivables just to anticipate some questions. Here, I would not expect in the quarters to come a very stronger effect from any type of sale of receivables. Our discussions with the banks are not yet over, but I wouldn't be overheating you here on that front since I was mentioning the difficulties on the economies of such deals and those difficulties are still with us. And then when it comes to Q2, I guess, we can say, we will go away from the negative territory that we've been in the cash flow generation in Q1 in an absolute terms. However, from the year-over-year perspective, you should not expect a significant improvement. So the deterioration year-over-year may still be with us. This is structurally driven by the fact that cash EBITDA is under pressure. But on the real estate front, I hope we will be able to post to you better results in Q2 than in Q1.

So now the last information is on slide 16. And this is the net debt evolution. So at the end of the quarter, net debt to EBITDA stood at 2.3x EBITDA, so much lower than the maximum that we have designed for ourselves for this year, 2.6x EBITDA. But here, the big question mark is still on the finalization of the European Commission fine. On that front, you can read in our financial statements that in March, we were notified by the Court of Justice, that it plans to issue judgment in another case before ours. This means that the verdict may come somewhat later. However, we continue to expect the payment to be made in 2017.

So, that's all from my side. Thank you very much for your attention and I hand the floor back to Jean-Francois for the conclusion.

-----  
Jean-Francois Fallacher, Orange Polska SA - President and CEO [4]  
-----

Thank you, Maciej. Let me give you some wrap-up of these results presentation. So, as you've seen in Q1, where we decided to focus, our results have been strong. For Q2, we will continue to work along these priorities. So, we will continue to push our Orange Love offers, which is our flagship alongside with fibre to the Polish households. So, please note as a side comment that the Polish market is still extremely competitive, especially on the mobile front.

I will not name them but one of our competitor is very aggressive in terms of prices both on pre-paid and post-paid. And obviously as you can imagine, cable companies are strongly defending their base. However, we will continue to fight and despite the fact that there are less working days in the second quarter than the first quarter, you've seen the months of April, lots of holidays. Same with the very long weekend that is upcoming in Poland. So, from this perspective, it will be, I would say, a bit more tough, because of less opening days. But nevertheless, this is going to be the focus for the second quarter. As you know, we are also very actively, as a management team, working on the strategy and

the future execution improvements. So, I confirm that alongside with our H1 results in July, we will come back to you and we will be more precise and more talkative about our longer term plans. And last but not least, I would like to reiterate in front of you, actually our full year guidance for EBITDA in the range of -- PLN2.8 billion to PLN3 billion. And our net debt to EBITDA ratio that we will not actually go higher than 2.6. And this is how I would like to conclude this presentation. And we are ready for your questions. Thank you very much for your attention.

=====

**Questions and Answers**

-----

Leszek Iwaszko, Orange Polska SA - Head of Investor Relations [2]

-----

Thank you. So, we are waiting for the questions from the floor. Yes, person in white shirt in the back.

-----

Paweł Puchalski, BZ WBK - Analyst [3]

-----

Hello, Paweł Puchalski, BZ WBK. My question relates to changes in working CapEx. Should we expect significant negative working CapEx in coming quarters, or that was one-off and then you should get back to neutral territory?

-----

Maciej Nowohonski, Orange Polska SA - CFO [4]

-----

Actually just to correct, we do not see a lot of one-offs. This is just a consequence of the high commercial activity -- that commercial activity that we had in the past, then that the one-off element could be rather attributed to maybe one-third of this impact. But to answer directly your question Paweł, we should not see a radical deterioration of the working capital in the future. It should be rather -- should rather remain flat in Q2, in terms of further evolution. And as I said, the absolute value of the cash flow should come back to the positive ranges. Not that high as in Q2 of last year, because last year we have generated around PLN340 million in Q2, but this will be positive in absolute amount.

-----

Paweł Puchalski, BZ WBK - Analyst [5]

-----

Let me double check, if I got it right. You expect working capital in negative territory, while net cash flow should turn --

-----

Maciej Nowohonski, Orange Polska SA - CFO [6]

-----



Change over the working capital, which this quarter is around minus PLN200 million, should not be materially different from more or less zero in Q2.

---

Pawel Puchalski, BZ WBK - Analyst [7]

---

Thank you. And another question, could you guide me on the potential impact on your top-line and EBITDA from European changes to mobile roaming. How will it affect Orange Polska top-line and EBITDA?

---

Maciej Nowohonski, Orange Polska SA - CFO [8]

---

Okay. So, here I'll recall to you what I have been saying a quarter ago, when we've discussed the topic. Nothing is really changing here. We're expecting the roaming prices to drop down a couple of times versus the current pricing. So, it's inevitably impacting the revenue, it's inevitably impacting the margin here. And I, as I was saying there will be in the future also the effect of the growing usage. But I cannot expect that this growing usage will dramatically offset in 2017 the drop of the revenue coming from the reduction of the unitary revenue coming from, from the roaming. So that's embedded in our EBITDA guidance and this is what we expect to happen.

---

Pawel Puchalski, BZ WBK - Analyst [9]

---

And coming back to figures, shall we expect negative impact in the range of 50 million EBITDA in the Q3 vs Q2 ceteris paribus?

---

Maciej Nowohonski, Orange Polska SA - CFO [10]

---

We have been rather mentioning the impact other than quarterly. So. So, these figures are correct for the yearly affect year-over-year.

---

Pawel Puchalski, BZ WBK - Analyst

---

Thank you very much.

-----  
Leszek Iwaszko, Orange Polska SA - Head of Investor Relations [11]  
-----

Do we have any more questions from the floor? I cannot see so if not let's switch to teleconference listeners. Operator?

-----  
Operator [12]  
-----

(Operator instructions) Herve Drouet from HSBC. Please go ahead.

-----  
Herve Drouet, HSBC - Analyst [13]  
-----

Yes, good morning. Two question on my side. The first one on the competition, especially in mobile. How do you see it evolving in the next quarters and there have been some comments done. I think by Deutsche telecom that may consider the selling the Polish unit, If things don't improve on that. I mean do you think that could be we could see a bit, a bit more rational things happening in, in the Polish mobile market all not or do you think it's still continue to be pretty aggressive looking forward and do you see any change on the ground in some of the promotions campaign that may lead to one way or the other? And second question is again back to the impact of the European, European mobile a roaming impact but not really on the impact of what you received from wholesale from the European roaming, but more on the possibility of migrants to take some of your package and use it in all the countries where they work, how confident you are the, I mean you would have fair usage of that, so basically not too many people on migrants, takes your package to be used outside and especially in countries where the data wholesale price could be higher than what is implied price, especially for mobile data. Thank you.

-----  
Jean-François Fallacher, Orange Polska SA - CEO [14]  
-----

So, let me get back to your first question, so on the mobile markets are to be very clear on the mobile front we see outside some aggressiveness of the market on the so called Family offers, so there are, bundles with is multiple SIMs so I think this a place where prices proposed markets are still very aggressive. So this is valid for all operators. If we look at the behavior in the first quarter of two of our competitors, I can name them Polkomtel and Play, I think they are behaving quite okay. As you were quoting, there was a change of management in T-Mobile and T-Mobile behaving very aggressively on the market currently, I mean they are really aggressive in terms of pricing, in terms of handset subsidies. How is this going to evolve, obviously we don't know, what I can tell you is that we at Orange, are not going to enter in any aggressive price strategy that's absolutely clear. So we obviously hope that the competition will become let's say a more reasonable especially one of them,

looking at the very high prices, we paid for the 4G licenses, rationality would imply that people would be I would say a bit less aggressive on price. But as obviously we are not deciding what our competitors are doing, I would not comment much more. On the second question you are raising, we are honestly not expecting to have wide effect of people taking Polish SIM cards and going permanently roam in other countries, we rather believe that this is going to be -- I would say very small number of people that might have this type of behaviours, we are going to monitor very closely and there are obviously some fair usage policies that I guess we would be able to have people respecting. So we are not worried about the potential effect.

---

Herve Drouet, HSBC - Analyst [15]

---

Okay, all right, thank you.

---

Operator [16]

---

Pawel Szpigiel, mBank

---

Pawel Szpigiel, mBank - Analyst [17]

---

Hi, this is Pawel Szpigiel. Thank you very much for the presentation. Just one question from me. You spent PLN2.1 billion from labour expenses in the last 12 months. Could you give us a breakdown of that? I mean, I'm specifically interested in the expenses on employees working in so-called legacy business that is obviously declining.

---

Maciej Nowohonski, Orange Polska SA - CFO [18]

---

Thank you, Paweł for the question. We actually do not give such detail of the -- in precision about the labour costs division between the different business lines. Sometimes it's even not possible to allocate the people because the processes and the teams are interlinked within the Company. But we can fairly assume that the fixed business, which is the legacy plus the growing part is consuming majority of the resources on the labour front.

I don't know if that helps you a lot, but that's the level of the precision that we are ready to talk about today.

---

Operator [19]

---

Vera Sutedja, Erste Bank

---

Vera Sutedja, Erste Bank - Analyst [20]

---

Yes, good morning. My question is about the decision to extend useful life of fixed asset. Can you please explain which fixed asset this involves? And the driver of this extension of the useful life? The next question is regarding the EU fine as you mentioned before. Can you give us more information which case that should be -- that should be heard preceding the decision on the EU fine on your Company? And do you expect actually the amount of the EU fine would be also altered or lowered?

---

Maciej Nowohonski, Orange Polska SA - CFO [21]

---

Good morning Vera. Thank you for two questions. Answering the first question about the extension of the useful life of assets, that was related to two categories of assets that we have. The first one is IT software that we are using, we basically use the software longer certain categories of that software and the second is the equipment that we grant to the customers on the broadband front which are TV set-top-boxes and the routers for broadband. This equipment is also much longer with the customer than it was originally provision. As a consequence we see it with us longer. Then the second question was about the European Commission as I was mentioning already, the case in legal terms is 'in state' so we are waiting for another case that this potentially to be resolved before ours. We don't know exactly what this case is and we'll have to monitor the situation. We may guess that this case could be an Intel case. But this is not certain and regarding the potential for the reduction of the fine, it's absolutely too early to estimate, whether there is any potential or such potential exists. As I was explaining in the past, the track record of such cases is very, I would say narrow, so we cannot source our predictability from the past cases. Sorry for not being very precise, but that's the reality this case and we cannot be more precise at this stage.

---

Vera Sutedja, Erste Bank - Analyst [22]

---

Okay, thank you for the answers.

---

Operator [23]

---

(Operator Instructions) Ondrej Cabejsek, Berenberg

---

Ondrej Cabejsek, Berenberg - Analyst [24]

---

Hi, thanks for taking my questions. I'd like to ask on costs. So you had quite lower commercial expenses relative to those previous quarters, I was wondering why that is and how you see this throughout the rest of the year? And also your interconnection costs were seasonally quite high in this quarter. I was wondering whether that was a result of the pre-paid promotions or what's going on there? And then two questions on revenues, please. So, your fixed broadband is up year-over-year. And I would like to understand what part of this is driven by the LTE for fixed. So if we're looking at just at the fixed services revenue, what the trends would be excluding LTE for fixed? And also in mobile going forward, now that you said, I mean, that you expect the handset sales since a slowdown in terms of year-over-year trends, do you also expect that the service revenue trends and ARPU to stabilize. And what is the growth that we've seen in the past couple of quarters, you expect to sustain throughout the rest of the year? Thank you.

---

Maciej Nowohonski, Orange Polska SA - CFO [25]

---

Okay, thank you. Ondrej, many questions, so I will try to tackle them one by one. Firstly, regarding the commercial, commercial cost evolution that should be clearly analysed together with the volumes of the equipment that we are selling to the, to the customers and this is the tipping point. This is the major element, which is variable. As I was saying about the instalment sales during the slides review, we expect the volumes of instalments, to be much more stable from quarter-to-quarter and this year-over-year effect will diminish, so you can expect based on pretty flat evolution of the commercial expenses because of that. Then the question mark will be for sure, the level of the subsidies that that we continue to optimize, of course, we will try to continue the very good trend that we have for them on products. But this is very much dependent on the temperature of the of the market and as Jean-Francois mentioned, we see quite aggressive movements from different sites from certain operators which were, which are clearly in the area of the subsidization. So very strong subsidies from one of the operators, so it will be the level of the commercial costs in the future will be also dependent on that. Then interconnect costs you should expect also to see that category growing. It is, first of all, pretty much neutral evolution from the overall EBITDA for the, for the national interconnect because the other part you see in the revenues. So as the revenue on from interconnect is increasing. Also, the costs are increasing because the level of the traffic exchange with other operators is following the pattern of the of the number of customers and usage per customer, so here pretty neutral effect although, you can see optically that that cost increase, the cost categories increasing. And then the second item is interconnect. This is the roaming. And the roaming, obviously, you should expect the increase of the roaming costs if data roaming will explode starting Q3 will be a decisive period because this is the seasonally high roaming period, Poles are going for vacation abroad. So, we will see how they start to use data roaming, not so much today, but we will see what is the reaction for the reduction of the roaming prices. Then there was a question about the revenue evolution of broadband.

Fixed LTE, without fixed LTE, this is -- I do not have the figure on top of my head, but as far as I know, yes, that revenue category would be going down.

---

Jean-Francois Fallacher, Orange Polska SA - President and CEO [26]

---

And absolutely -- and if you look at the presentation on the page 11, you will see that customer numbers are really going in the right direction even if we exclude LTE for fixed. Because, one year ago, I mean, we had a negative net adds of 26,000 customers. If we just look at broadband excluding fixed LTE, which is only minus [6%] this quarter. If we compare it at ceteris paribus the trends are really good even excluding LTE for fixed.

---

Leszek Iwaszko, Orange Polska SA - Head of Investor Relations [27]

---

And could you please, Ondrej, repeat your last question, about what, mobile service revenue?

---

Ondrej Cabejsek, Berenberg - Analyst [28]

---

Right. So, you mentioned that you expect subsidy -- growth subsidy to be -- the device sales to go up -- sorry, go down, from here now. So, I was wondering whether you expect underlying service revenues and ARPU trends to improve, so that we continue to see overall growth in mobile sales.

---

Maciej Nowohonski, Orange Polska SA - CFO [29]

---

The -- for the mobile ARPU and the service part especially, the four forces that we mention all the times, so SIM-only category growing, discounts on the convergent front, the instalment offers and the family offers. Those four forces are still going to work on the revenue per one SIM because that's the understanding of the ARPU that we are tracking. So, that revenue is going to still fall in the quarters to come. Level of competition is obviously also important for the future evolution, but we should not expect radical changes from quarter to quarter on that front.

---

Ondrej Cabejsek, Berenberg - Analyst [30]

---

But the overall revenues from mobile, do you expect them to sort of level out in terms of devices and service revenues and continue growing overall?

---

Maciej Nowohonski, Orange Polska SA - CFO [31]

---

On the mobile front, yes, at the level of the Group, the growth that we have seen in Q4, that the absolute growth of 1.9% increase in Q4 and half a percentage point in Q1. I'm not yet sure that this is a sustainable level of the year-over-year evolution for the future. This may not be the case in the quarters to come, because as I mentioned the instalment offers have a very good traction, but they have started to have a very good traction from Q2 of 2016. So, year-over-year situation will be much less positive on the revenue from equipment growth perspective in Q2 already. And then what is --

---

Ondrej Cabejsek, Berenberg - Analyst [32]

---

Okay. That's all clear. Thank you again.

---

Operator [33]

---

Vera Sutedja, Erste Bank.

---

Vera Sutedja, Erste Bank - Analyst [34]

---

Yes, sorry I was on mute. My question is related to what has you just mentioned on mobile equipment revenues. On the first quarter, we have approximately more than 60% growth. Is this something the growth rate that you expect to be further maintained throughout the year, or are we expecting from the second quarter onwards a slower growth?

---

Maciej Nowohonski, Orange Polska SA - CFO [35]

---

So, on that front Vera, we should expect that Q2, we will still be growing in terms of the year-over-year, but slower than in Q1. And then starting from Q2, you should expect much flat situation. So, we will be --

---

Vera Sutedja, Erste Bank - Analyst [36]

---

Sorry, say the last one.

---

Maciej Nowohonski, Orange Polska SA - CFO [37]

---

Okay. In Q1, basically we see PLN125 million year-over-year increase. That's on the first slide of the revenue. So, the increase of the revenue year-over-year in equipment PLN120 million with small plus. In Q2, you should see smaller increase year-over-year, but still increase and starting from Q3 and Q4 continuing, you should not see a strong increase because we are going to continue with more or less around PLN300 million instalments, that's what we plan - revenue in absolute terms each quarter.

---

Vera Sutedja, Erste Bank - Analyst [38]

---

I see. Okay. Did not you just said during the presentation that Instalment offers only 28% of post-paid subscriber, am I correct to hear that?

---

Maciej Nowohonski, Orange Polska SA - CFO [39]

---

Yes. I would say, I would say, not only because this is more than half of the contracts that we have with the handset so, the other half is related to the SIM-only 45% of our base is SIM-only base and 55% is a base which bought together with us a handset. With the offer on instalment it is already 28% of the total, which is half of the base, which took the handset.

---

Vera Sutedja, Erste Bank - Analyst [40]

---

But you do not expect this, I mean 28% to grow much, much higher than the current state

---

Maciej Nowohonski, Orange Polska SA - CFO [41]

---

Well, assuming that every quarter we will sell the value of equipment of around PLN300 million. I'm still expecting a couple of quarters of increase both in terms of an absolute amount in the balance sheet for the receivables and the further increase of the instalment offers in the structure of our post-paid base. Today, we basically do not -- do not use the subsidized offer actively in our day-to-day operations. So all the gross adds and retentions that we are doing for the mobile activity they are basically instalments. So you should expect increase of that category.



---

Vera Sutedja, Erste Bank - Analyst

---

Ok, thank you for the answers.

---

Operator [42]

---

Anna Kazaryan from VTB Capital please go ahead.

---

Anna Kazaryan, VTB Cap - Analyst [43]

---

Hello. Thank you for taking my question. I would like to ask a short one also about costs. There was also an 18% decline of other operating income and expenses. I would like to understand what the behind this decline. Could you explain?

---

Maciej Nowohonski, Orange Polska SA - CFO [44]

---

Thank you Anna for the question. That category is fluctuating from quarter-to-quarter. It contains also the elements related with our claims and litigations. And when we see the change of the position of the Company for certain claims and litigations, that category is going up or down in the quarter, and this time we see a positive movement and that's all what I can say. So we should not expect the trend here, it's not a category that we see a lot of trends.

---

Anna Kazaryan, VTB Cap - Analyst

---

Ok, thank you.

---

Operator [45]

---

There are no further questions over the telephone at this time. I would like to hand the call back for any additional or closing remarks.

---

Leszek Iwaszko, Orange Polska SA - Head of Investor Relations [46]

---

We have space for one more follow-up from the floor. Yes.  
Yes, of course.

---

Piotr Raciborski, Wood & Co [48]

---

I have one question concerning the subsidies, because this week you were granted like PLN190 million subsidies from the Digital Poland program. And there was decision for the 12 areas, I believe, and is this the volume that you've expected? What volume do you expect in total from this program? And what CapEx, you'll have to spend next year's in connection with this NGA rollout?

---

Jean-Francois Fallacher, Orange Polska SA - President and CEO [49]

---

So what I can tell you is that we have been bidding for 21, actually regions. So we've got just a few days ago indeed positive feedback for six of them. So, we are obviously extremely pleased with this first results and we're expecting the decisions for the remaining 21 regions that should be given by the Ministry before the end of the second quarter, before end of June.

If we would get the total 21 regions just to give an order of the magnitude, that would represent a PLN100 million CapEx overall, the coming three years 2018,2019,2020 that is, if we would get the total number of regions we have been applying for actually.

---

Maciej Nowohonski, Orange Polska SA - CFO [50]

---

So that's the Company CapEx out of the subsidy. The subsidy is the other CapEx that we would take to go for such investments.

---

Piotr Raciborski Wood & Co [51]

---

Okay, so as for now we're granted PLN190 million subsidies and you'll spend in total only PLN100 million?

---

Maciej Nowohonski, Orange Polska SA - CFO [52]

---

I wouldn't -- I don't know where this PLN190 comes from, this is probably the total for all granted areas.

-----  
Jean-Francois Fallacher, Orange Polska SA - President and CEO [53]  
-----

It probably total granted for the whole market because some areas were also granted to Inea - if I remember well, to Toya and to other providers so that's probably total subsidiary located by Europe.

-----  
Piotr Raciborski Wood & Co - Analyst [54]  
-----

Okay. So this is 190m is likely would be divided for next few years and that's.

-----  
Maciej Nowohonski, Orange Polska SA - CFO [55]  
-----

That is, there is if we would get the 21 regions.

-----  
Piotr Raciborski Wood & Co - Analyst [56]  
-----

Okay, thank you.

-----  
Maciej Nowohonski, Orange Polska SA - CFO [57]  
-----

Yes. As Jean-Francois mentioned here, we estimate that would be around PLN100 million of CapEx per three years so each year around PLN100 million to deploy the fibre for those areas. If we are successful in all of the 21.

-----  
Leszek Iwaszko, Orange Polska SA - Head of Investor Relations [58]  
-----

Thank you very much. That summarizes our call so thank you for attention will be coming back in July with Q2 results. Bye

-----  
Maciej Nowohonski, Orange Polska SA - CFO [59]  
-----

Thanks a lot.

-----  
Operator [60]

-----  
Thank you. This will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.