# Orange Polska (TPSA)
results for 2Q 2013

Warsaw
July 24th, 2013

# forward looking statement

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

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# 1 highlights

Maciej Witucki
president of the board and CEO

# the new strategy starts to benefit our performance

- improving commercial performance
  - 125,000 of Orange Open clients underscore the success of convergence
  - 80,000 customers of nju mobile demonstrate the attractiveness of the offer for price-sensitive clients
  - growth of multi-product bundles curbs fixed voice subscriber net churn to 96,000 lines in 2Q versus 159,000 a year ago
  - data monetization emerging, as +7.5% year-on-year growth of the fixed broadband ARPU is coupled with a +29% increase in the data ARPU in mobile post-paid

- financial results in line with the guidance, despite a challenging environment
  - 2Q revenue (excl. regulatory impact) decreased by 5.5% year-on-year reflecting price pressure in mobile and a high base of comparison in 2Q 2012
  - 2Q opex is 3.0% down year-on-year, maintaining the EBITDA margin above 30%
  - Organic Cash Flow at PLN 399mn in 1H, in line with the 'above PLN 800mn*' guidance for 2013
  - financial strength preserved for upcoming capital requirements, with net debt at 1.0x EBITDA

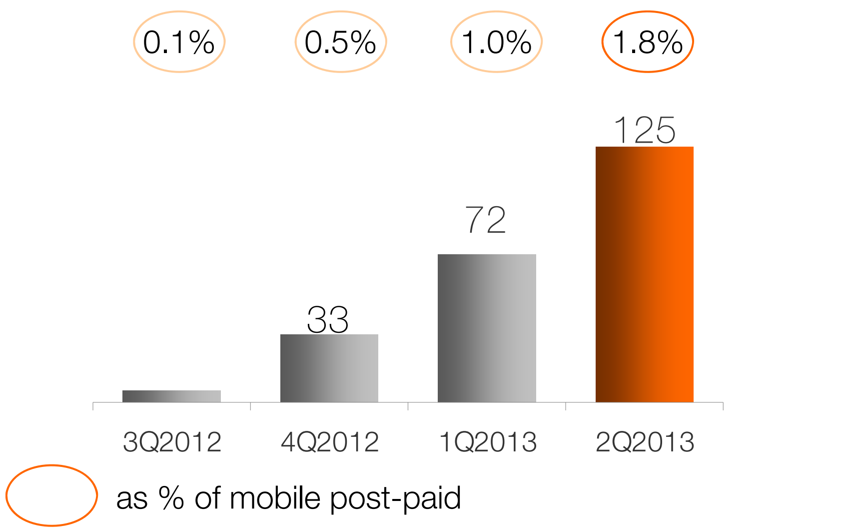


* excluding spectrum acquisition, change in consolidation scope and impact of risk and litigation

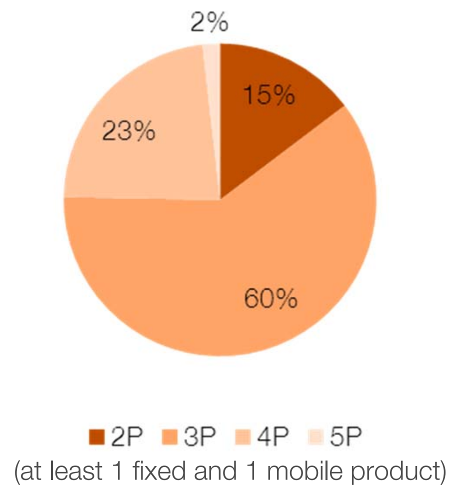
# 125,000 clients of Orange Open confirm the demand for convergence

**convergence ambition:** from <1% of base in 2012 to ~50% of post-paid clients

## orange open customers (in '000)

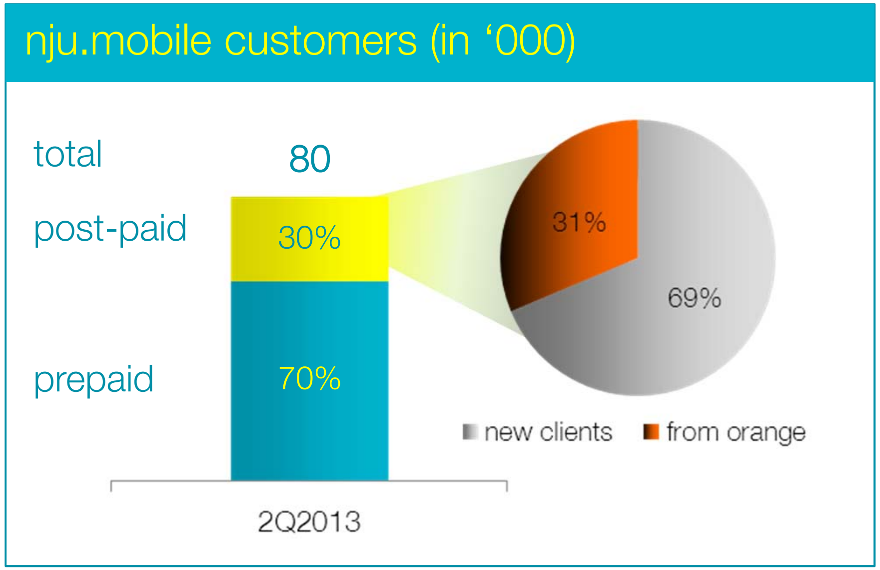



## orange open customers by number of products




- the **number of Orange Open customers is up by 74% since 1Q**
- **85% of clients took the option of 3P or more** products
  - Orange Open ARPU from private customers at PLN155 per month in 2Q, preserving customer value
  - high number of services in a bundle increases customer loyalty
- Orange recognised as brand of high reputation in PremiumBrand research

# successful launch of the low-cost offer underscored by 80,000 clients of nju.mobile

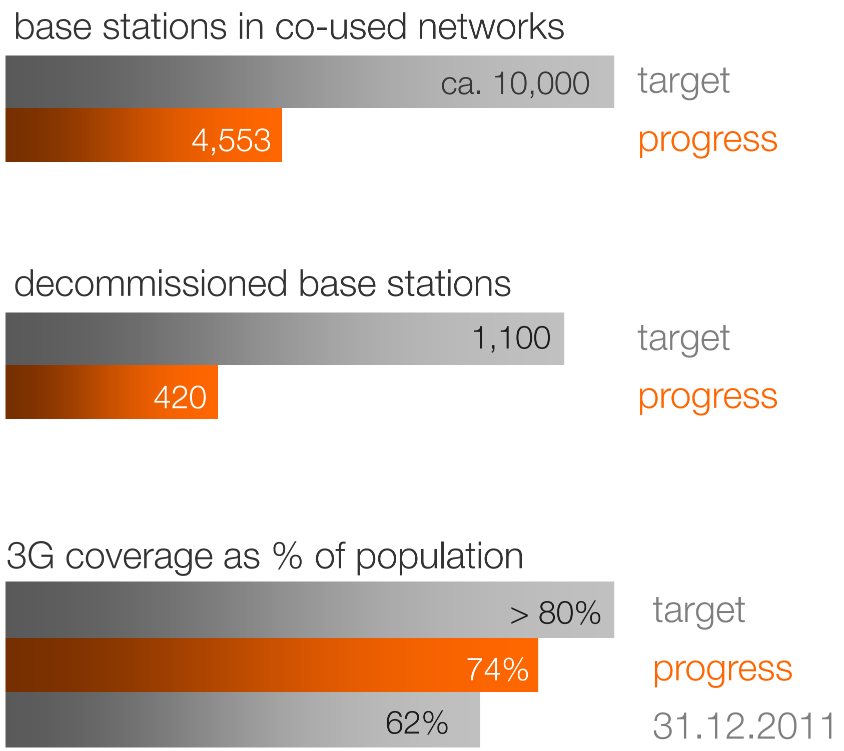



## insight

- 80,000 customers in two months since the product launch
  - including 24,000 post-paid clients
- more than 2/3 post-paid clients new to Orange
- nju mobile is cost effective:
  - there is no handset subsidies
  - sales are made online, not generating agent provisions
- offer has not been fully matched by competition

# network co-operation with T-Mobile positively impacts our results, network quality and coverage

## achievements to-date




## expected further benefits

- 5,400 more base stations to be included in the co-used networks
- 3G coverage to exceed 80% of population
    - 3G coverage increased by +12% since project launch
    - 3G indoor coverage is up by 7.1%
- enhanced network quality
- the co-used network is prepared for easy 4G implementation

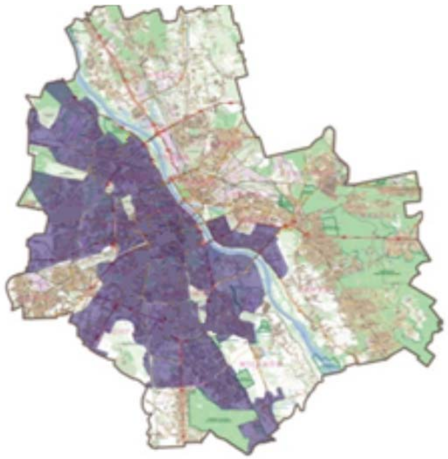
# FTTH trials launched in Warsaw

## FTTH trials ...

- tests launched in Warsaw, with possibility to develop the service elsewhere
- 12,500 households to be ready for FTTH sale till the end 2013
- included in the capex guidance

the offer


availability



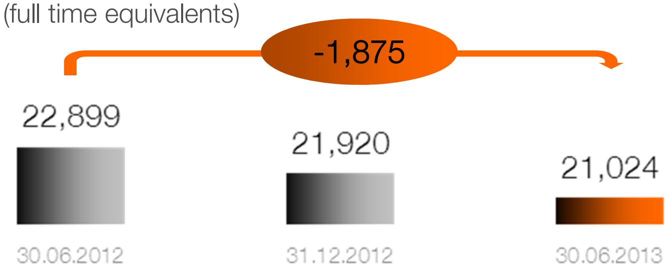
Addressable – fiber to the building, potential for sale

## ... to secure our future on the broadband market

- best-in-class technology for entertainment and high-throughput broadband
- guaranteed speed of 200Mb/s
- enables effective competition with CATV
- reduction of maintenance costs in all-IP areas

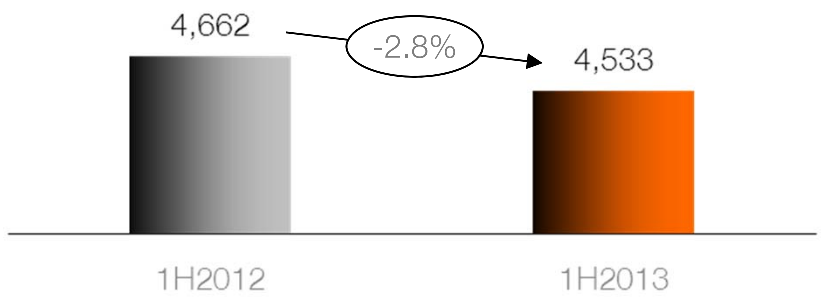
# we evolve towards a leaner and more flexible organisation

- ongoing employment optimisation
  (full time equivalents)




- new headquarters ready for the move in 3Q
  - ✓ PLN 19mn annual savings from 4Q 2013 onwards
- number of Points-of-Sale reduced by 57 shops year-on-year in 1H
- B2C online sales share at 12.1% vs. 11.2% a year ago and further increase is planned in 2H
- co-used network project delivering savings and to further lower our cost base in the future
- funding from Orange (France Telecom)
- ORE disposal for PLN 16mn

total costs up to EBITDA (PLN mn)




**going forward**

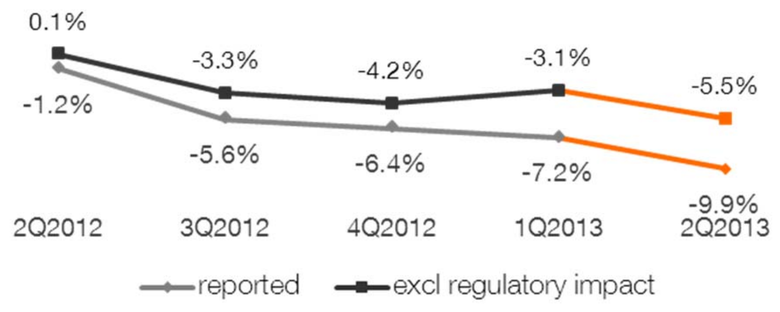
- most key initiatives, like headcount optimisation, to be continued or accelerated
  - 560 employees still to leave the Group in 2H 2013
- 680 more base stations to be decommissioned
- IT transformation project to enter a decision phase in 2H
- disposal of Wirtualna Polska is progressing
- TPSA/PTK merger is being prepared

# 2 financial review

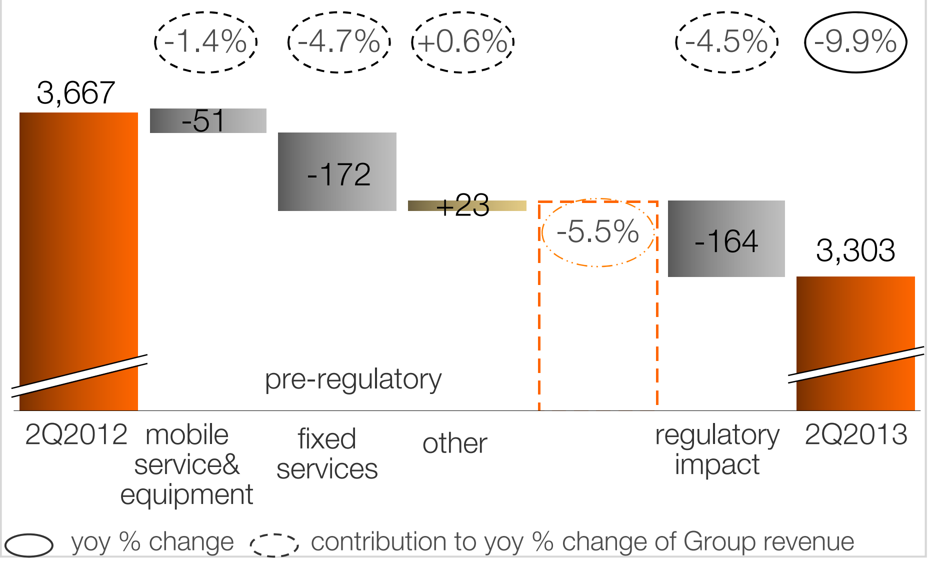
Jacques de Galzain
chief financial officer

# Group top-line evolution driven by regulatory impact and a high comparable base in 2012

## Group revenue evolution (year-on-year)




## Group revenue evolution (in PLN mn)

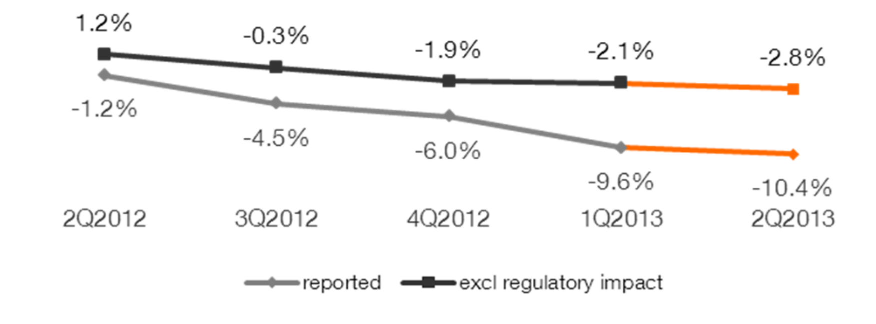



## insight

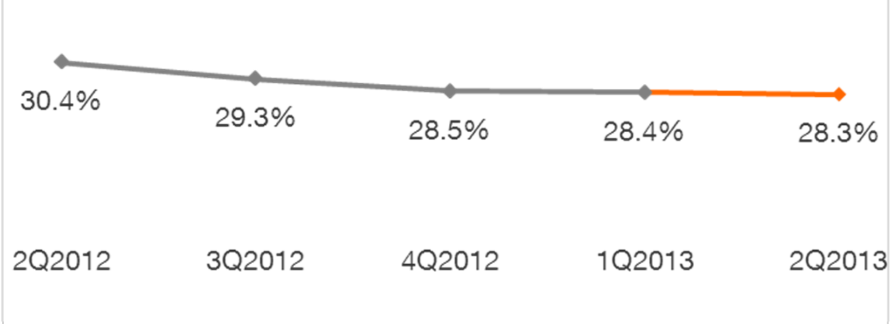
- 2Q revenue down by 9.9% year-on-year, o/w -4.5% is due to regulations:
  - PLN -129mn due to MTR cuts
  - PLN -35mn due to EU roaming rate cut and others (inc F2M)
- revenue from mobile services and equipment PLN -51mn down since 2Q 2012 (excl. regulatory), due to price pressure
  - customer base +1.3% year-on-year, but
  - retail ARPU lower by 6.9% year-on-year
- fixed services sales decreased by PLN-172mn year-on-year (excl. regulatory), due to:
  - comparable base effect, as 2012 was boosted by ICT revenues for the UEFA EURO 2012
  - losses in fixed voice sales, partly offset by growth of broadband, TV and VoIP

# mobile revenue decrease limited to PLN 51mn year-on-year, excluding regulatory impact

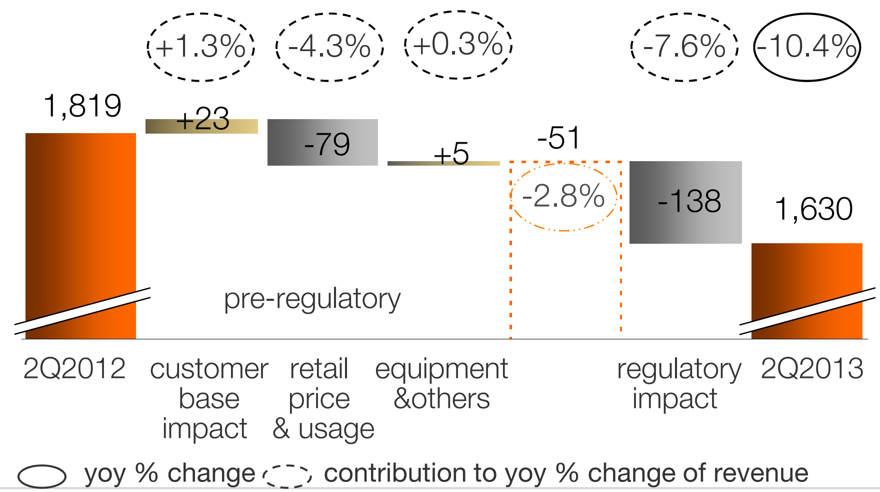
## mobile services & equipment revenue evolution (year-on-year)




## Orange value market share*




## mobile services & equipment revenue evolution (in PLN mn)




## insight

- value market share at 28.3%
- excluding regulatory impact, revenue down by PLN 51mn year-on-year, due to price pressure
- regulatory impact of PLN 138mn, caused mostly by the decrease of voice MTR to PLN 0.0826
  - MTR at PLN 0.0429 from July 1



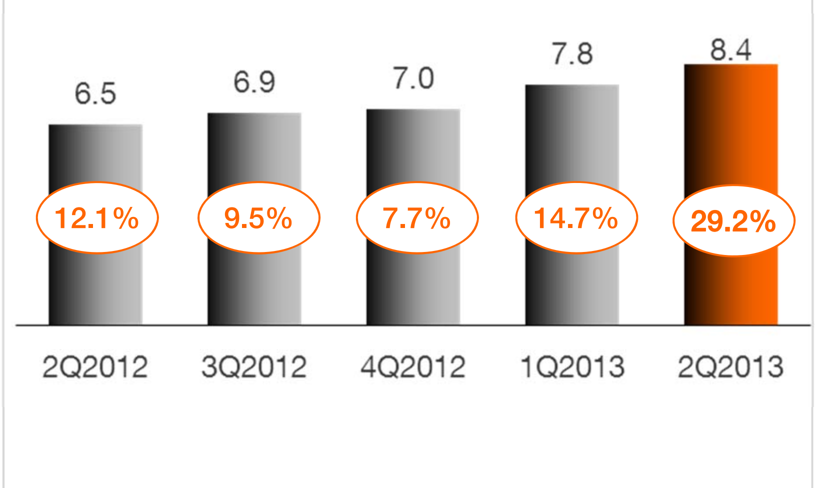
*company's estimation, taking into account total turnover of the Polish mobile operators

# mobile customer base up by 1.3% year-on-year, helped by nju.mobile

## mobile customer base (in '000)

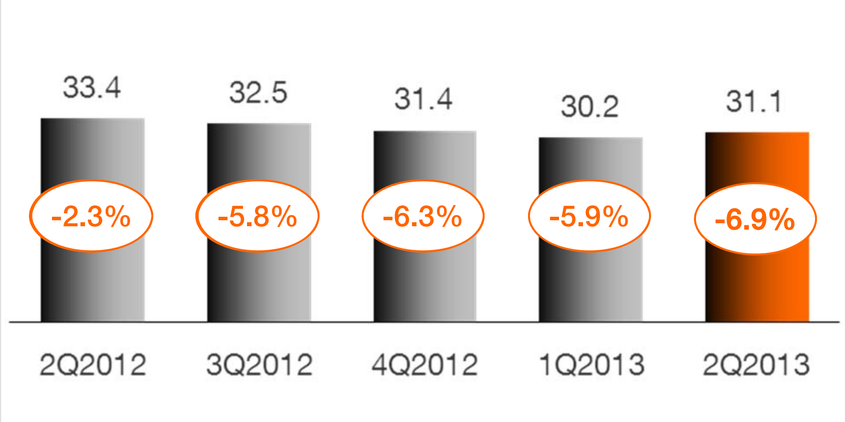

## post-paid data ARPU (PLN/month)

y-o-y




## retail mobile ARPU (PLN/month)

y-o-y



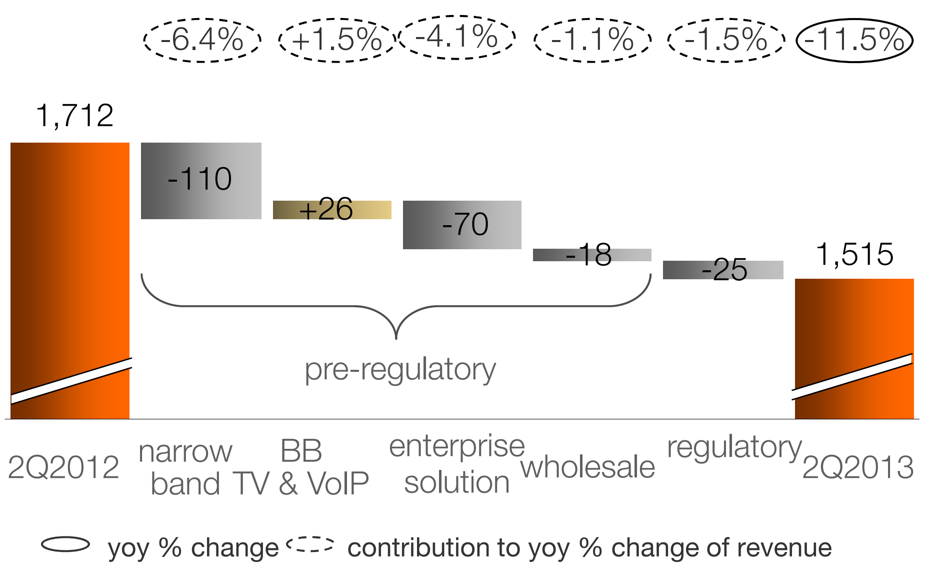

## insight

- post-paid customer base up 64,000 since 1Q
- total number of mobile customers increased by 190,000 year-on-year
- number of smartphones 37% up year-on-year, at 3.53mn
- post-paid data ARPU + 29.2% up year-on-year
- year-on-year evolution of retail ARPU still reflects the effect of unlimited tariff plans

# the year-on-year trend in fixed services revenue affected by a high basis of comparison in 2012

**fixed services revenue evolution y-o-y (in%)**


**fixed services revenue evolution** (in PLN mn)

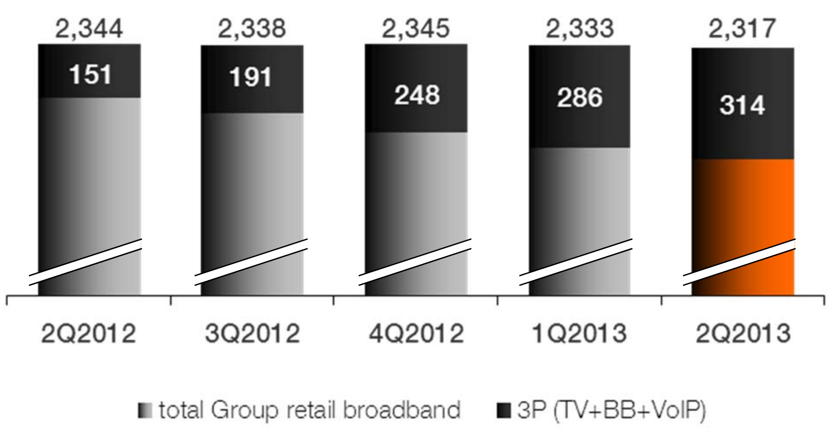



## insight

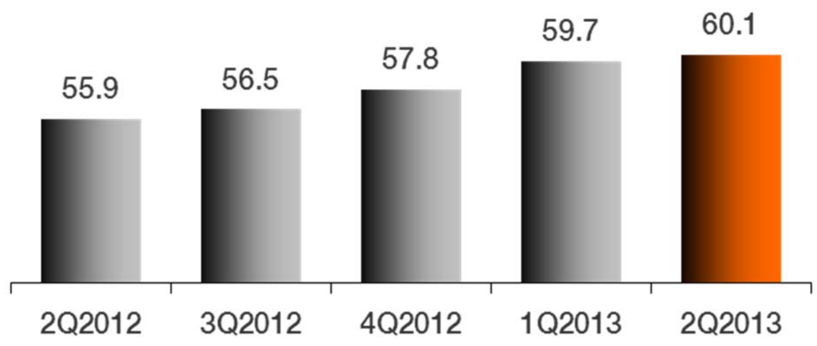
- 2Q revenue from fixed services fell by -11.5% year-on-year vs. -7.3% in 1Q
- revenues from enterprise solutions down by PLN 70mn mostly due to the UEFA EURO 2012
- losses in narrowband sales limited versus previous quarters
- broadband, TV & VoIP revenues up by PLN 26mn year-on-year, driven by growth in ARPU
- stronger adverse regulatory impact due to F2M price cuts made in May 2013

# dynamic growth of triple-play subscribers supports broadband ARPU

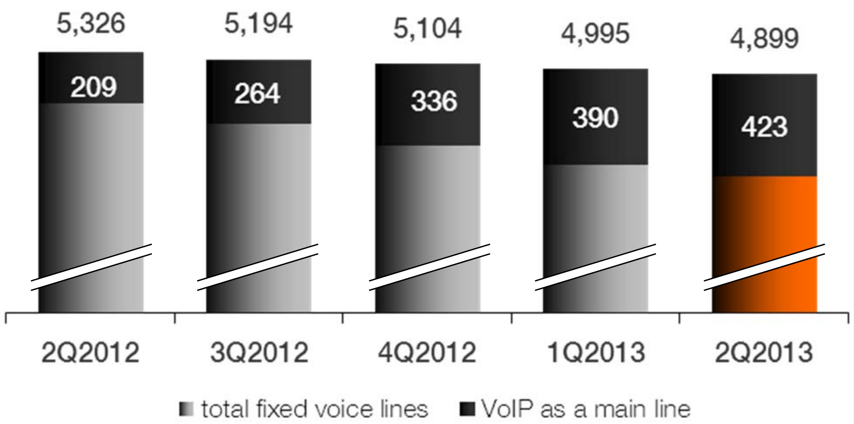
## Group retail broadband accesses (in '000)




## ARPU (broadband, TV, VoIP) evolution (in PLN)




## retail voice subscribers evolution (in '000)

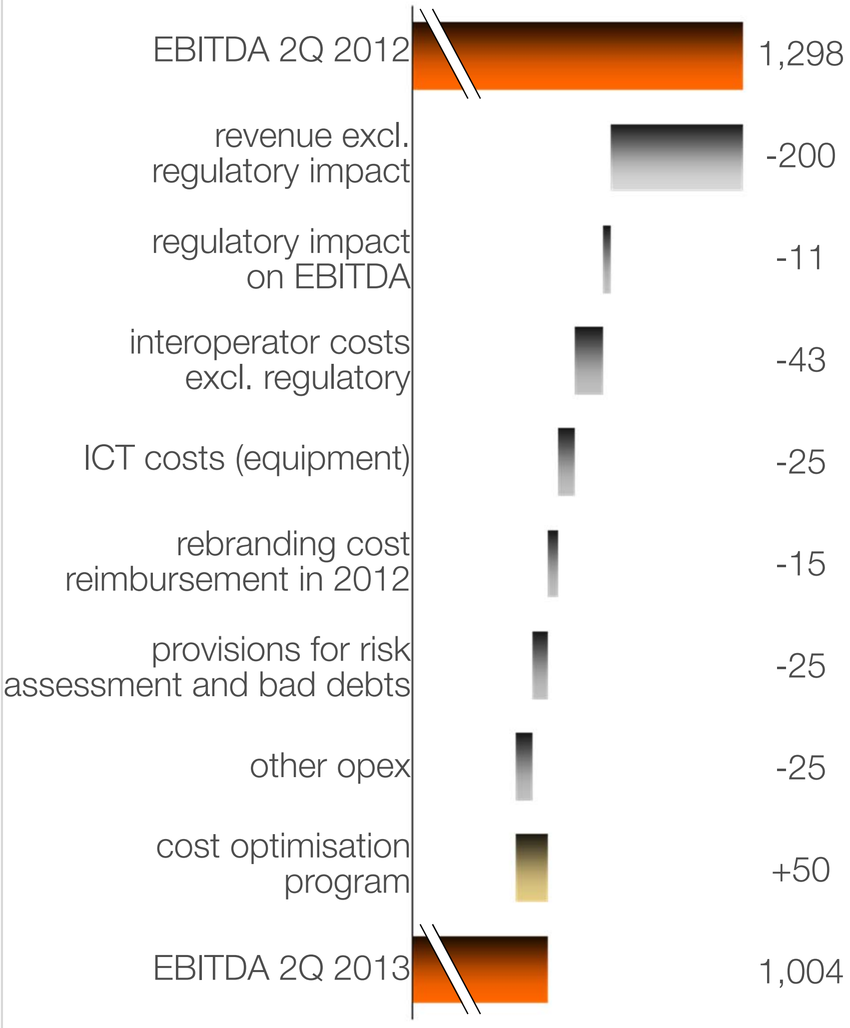



## insight

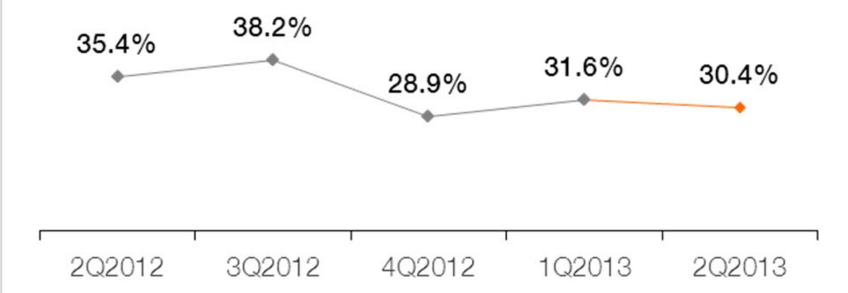
- broadband ARPU benefiting from 314,000 clients of the 3P bundle (BB+TV+VoIP)
  - Broadband, TV and VoIP ARPU up by 7.5% year-on-year
- 423,000 VoIP users help improve the evolution of fixed voice subscribers
  - customer base 96,000 down in 2Q, after -109,000 in 1Q and -159,000 a year ago

# 2Q EBITDA mainly reflects pressure on the revenues

## **Group EBITDA evolution** (in PLN mn)




## **Group EBITDA margin** (in %)




## insight

- declining revenues are the main factor pushing the EBITDA down
- regulatory impact on EBITDA due to price cuts in fixed-to-mobile and EU roaming
- interconnect costs (ex-MTR) driven up by unlimited mobile plans adoption
- other opex includes PLN -13mn due to brand fee
- PLN 50mn cost savings in 2Q bring the total for 1H to PLN 93mn

# net income reflecting the trend of EBITDA and declining depreciation

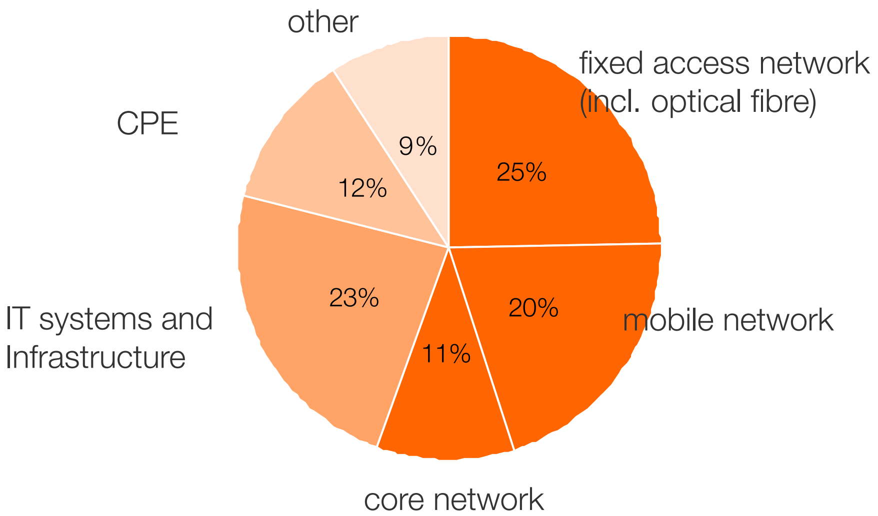
| in million PLN | 1H2012 | 1H2013 | 2Q2012 | 2Q2013 |
|---|---|---|---|---|
| EBITDA | 2,525 | 2,037 | 1,298 | 1,004 |
| *depreciation and amortization* | *-1,653* | *-1,574* | -834 | *-783* 1 |
| *impairment of non-current assets* | *-10* | *-4* | -6 | *-3* |
| operating income | 862 | 459 | 458 | 218 |
| *net financial costs* | *-235* | *-242* | -127 | *-108* 2 |
| of which foreign exchange gains / (losses) | 14 | 2 | 5 | 3 |
| *income tax* | *-130* | *-60* | -76 | *-34* |
| net income | 497 | 157 | 255 | 76 |
| as % of revenues | 6.9% | 2.4% | 7.0% | 2.3% |

1 underlying trend of declining depreciation

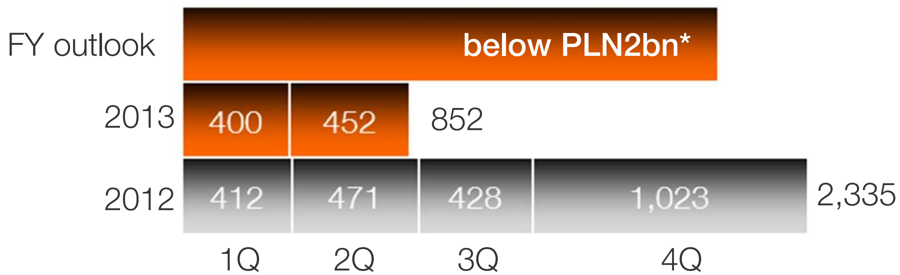
2 financial costs helped by lower interest rates

# capital expenditure in line with the outlook for 2013

key investment areas in 1H2013 (in %)




capital expenditure vs outlook (in PLN mn)




## insight

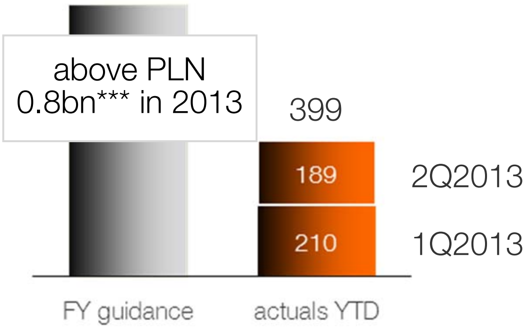
- 56% of capex in 1H 2013 spent on network related investments, versus 46% a year ago
- 20% of capex spent on mobile network, as the RAN co-use program with T-Mobile accelerates
- investments as part of the MOU with UKE have been completed
- capex in line with the guidance for 2013, more even phasing between quarters is expected versus 2012



* excluding spectrum acquisition, change in consolidation scope and impact of risk and litigation

# organic cash flow in line with the full year guidance

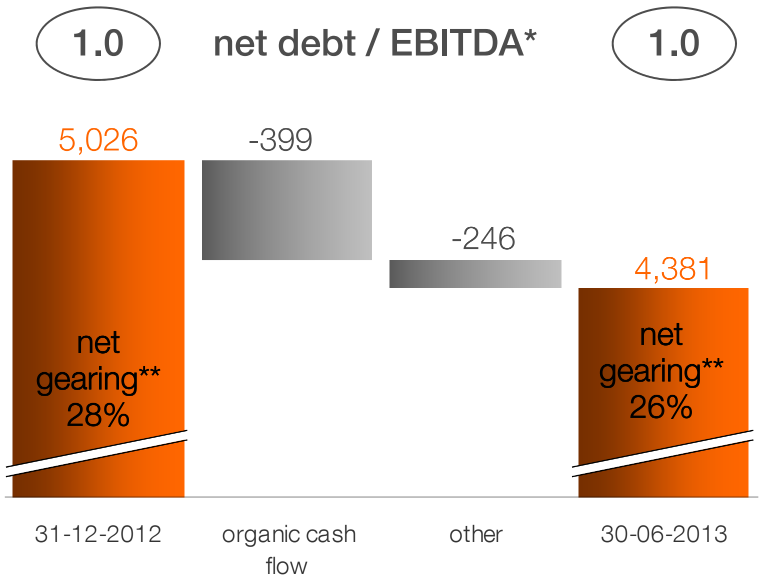
| in million PLN | 1H2012 excl. DPTG** | 1H2013 | change | 2Q2012 | 2Q2013 | change |
|---|---|---|---|---|---|---|
| net cash flow from operating activities before income tax paid and change in working capital | 2,302 | 1,589 | -713 | 1,095 | 725 | -370 |
| change in working capital | -177 | -36 | +141 | -107 | -124 | -17 |
| CAPEX* | -869 | -856 | +13 | -472 | -451 | +21 |
| CAPEX payables | -554 | -285 | +269 | -59 | -19 | +40 |
| income tax paid | 1 | -55 | -56 | 5 | 34 | +29 |
| sales of assets | 36 | 42 | +6 | 24 | 24 | - |
| **organic cash flow** | **739** | **399** | **-340** | **486** | **189** | **-297** |
| *as % of revenues* | *10.3%* | *6.1%* | *-4.2 ppts* | *13.3%* | *5.7%* | *-7.6 ppts* |




* excluding capex financed by lease and including exchange rate effect on derivatives economically hedging capital expenditures, net
** According to the settlement signed Jan. 12, 2012, TP S.A. paid DPTG a total of €550mn (PLN 2,449mn o/w change in provisions PLN -2,167mn and change in working capital PLN -282mn)
*** excluding spectrum acquisition, change in consolidation scope and impact of risk and litigation

# net debt limited to 1.0 times EBITDA, preserving flexibility for future capital requirements

**net debt evolution** (in PLN mn)




## insight

- available liquidity as of June 30, 2013:
  - cash & equivalents at PLN 0.3bn
  - unused credit lines at PLN 1.6bn
  - unused back-up lines up to PLN 1.75bn
- Orange Group provides funding potential of:
  - revolving credit facility up to €250 mn available for 3 years
  - credit facility for up to €400 million, with maturity in 2016,
  - back-up liquidity funding possibility up to PLN 1.75 billion.
- PLN 656mn of dividend was paid in cash on July 11, 2013
- credit ratings at Baa1 / BBB+ with negative outlook

* EBITDA, sum of the last 4 quarters
** net gearing after hedging ratio = net debt after hedging / (net debt after hedging + shareholders' equity)

# 3 conclusion

Maciej Witucki
president of the board and CEO

# comments on outlook and guidance for 2013

| | | FY outlook and guidance reminder | 1H status | comments |
|---|---|---|---|---|
| outlook on trends | revenues | ▪ revenue will erode in 2013 due to steep MTR / F2M cuts and price pressure. Further on, it will be less affected by MTR cuts. | revenues -8.6% | ▪ more adverse regulatory pressure in 2H, as the MTR was reduced by 48% from July 1, 2013 |
| outlook on trends | intensified cost optimisation | ▪ costs will be continuously decreased, driven down by headcount reduction, business transformation and benefits from network sharing, with commercial costs contained at around 20% of sales | opex** -2.8% | ▪ savings program to bring opex* further down in 2H, despite seasonally higher commercial costs |
| outlook on trends | capex lighter business model | ▪ capital expenses decreased below PLN 2bn* in 2013. To be pushed further down in subsequent years, with the aim to drive capex to 12-13%* of sales | capex PLN 852mn | ▪ capex* expected below PLN 2bn in 2013 |
| guidance | Organic Cash Flow | ▪ above PLN 0.8bn* in 2013 | organic cash flow PLN 0.4bn | ▪ the floor OCF at PLN 0.8bn* confirmed |

* excluding spectrum acquisition, change in consolidation scope and impact of risk and litigation

** total costs up to EBITDA

# conclusions after the first half of 2013

- **our environment is still challenging**, as evidenced by price competition, market volatility and high prices paid for the 1800MHz spectrum

- **however, satisfactory commercial results in 1H confirm our adaptation, as the new strategy provides us with the right tools and tactics to fight this market battle**

- the future will be full of challenges and we have 3 years ahead of us that will require tight execution, but **we are confident that we will emerge stronger, more agile and in a better position to benefit from market rebound**

# 4 Q&A session

# glossary (1/3)

| | |
|---|---|
| 4G | fourth generation of mobile technology, sometimes called LTE or Long Term Evolution |
| ARPL | Average Revenue per Line |
| ARPU | Average Revenue per User |
| AUPU | Average Usage per User |
| BSA | Bit Stream Access |
| CATV | Cable Television |
| Catch-up | A type of VoD where broadcasters make programming available for streaming |
| CPE | Customer-premises equipment |
| DSLAM | Digital Subscriber Line Access Multiplexer |
| DTH | Direct To Home |
| DVB-T | Digital Video Broadcasting - Terrestrial |
| DVB-H | Digital Video Broadcast - Handheld |
| EBITDA | Operating income + depreciation and amortization + impairment of goodwill + impairment of non-current assets |
| F2M | Fixed to Mobile Calls |
| FTE | Full time equivalent |
| FTTH | Fiber To The Home |

# glossary (2/3)

| | |
|---|---|
| **HSPA** | High Speed Packet Access |
| **HSPA DC** | High Speed Packet Access Dual Carrier |
| **ICT** | Information and Communication Technologies |
| **IP TV** | TV over Internet Protocol |
| **IVR** | Interactive Voice Response |
| **Liquidity Ratio** | Cash and unused credit lines divided by debt to be repaid in the next 18 months |
| **LLU** | Local Loop Unbundling |
| **LTE** | Long Term Evolution *(4G )* |
| **LTO** | Local Telecommunication Operator |
| **MoU wth UKE** | Memorandum of Understanding signed with UKE |
| **MTR** | Mobile Termination Rates |
| **MVNO** | Mobile Virtual Network Operator |
| **Net gearing** | net gearing after hedging ratio = net debt after hedging / (net debt after hedging + shareholders' equity) |
| **NGA** | Next Generation Access |
| **NGN** | Next Generation Network |

# glossary (3/3)

| | |
|---|---|
| **Organic Cash Flow** | Organic Cash Flow =<br>Net cash provided by Operating Activities – (CAPEX + CAPEX payables) + proceeds from sale of assets |
| **POS** | Point-Of-Sale |
| **POTS** | Plain Old Telephone Service |
| **PVR** | Personal Video Recorder |
| **RIO** | Reference Interconnection Offer |
| **RLLO** | Reference Leased Line Offer |
| **SAC** | Subscriber Acquisition Costs |
| **SARC** | Subscription Acquisition and Retention Costs |
| **SMP** | Significant Market Power |
| **USO** | Universal Service Offer |
| **UKE** | Office of Electronic Communications - Regulator |
| **VAS** | Value Added Services |
| **VoIP** | Voice over Internet Protocol |
| **WLL** | Wireless Local Loop - a term for the use of a wireless communications, the "first mile" |
| **WLR** | Wholesale Line Rental |