

TRANSCRIPT

OPL.WA - Orange Polska SA Strategy Presentation

DATE/TIME: SEPTEMBER 04, 2017 / 12:00PM GMT

ORANGE POLSKA ATTENDEES:

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

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

Bożena Lesniewska Orange Polska S.A. - VP of the Management Board and Chief Commercial Officer

Mariusz Gaca Orange Polska S.A. - VP of the Management Board and Chief Commercial Officer

Piotr Muszyński, Orange Polska S.A. - VP of the Management Board in charge of Strategy and Transformation

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

CONFERENCE CALL PARTICIPANTS

Dominik Niszcz Raiffeisen CENTROBANK AG, Research Division - Financial Analyst

Ivan Kim VTB Capital, Research Division - Research Analyst

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

Ondrej Cabejšek Berenberg, Research Division – Analyst

Pawel Puchalski Dom Maklerski BZ WBK S.A., Research Division - Head of Equity Research

Przemyslaw Sawala-Uryasz- Pekao Investment Banking

PRESENTATION

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

Good afternoon. Good morning. Welcome to Orange Polska conference dedicated to strategy presentation. I would like to introduce management, board members we have today with us, starting with Jean-François Fallacher, Chief Executive Officer; on his right, Bożena Lesniewska, deputy CEO in charge of business markets; Maciej Nowohonski, CFO; Mariusz Gaca, deputy CEO in charge of consumer markets; and Piotr Muszynski, deputy CEO in charge of strategy; and Jacek Kowalski who is responsible for HR.

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

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

Thank you very much, Leszek. Welcome to all of you in this emblematic place. I'm very pleased to welcome you with my colleagues from the management board of Orange Polska. We are very excited actually today to be able to unveil the start of a new phase in the development of our company. I would call it a new momentum for Orange Polska that we will present you right now.

Last February, as you will probably remember, I was explaining to you that it was time for myself and the management of Orange Polska to work on a more long-term plan. This is what we have done. So since February, we have not only been designing a strategic plan but also starting to focus on the detailed plans, ensuring that everything will be in place to have a successful implementation. And let me upfront say that obviously this plan has been done with the full support of the supervisory board of Orange Polska, and we are going to share it with you now.

So this is about our vision for 2020 because this plan is a 3-year plan, and I would like to project myself 3 years from now. So we are -- in 2020, our fiber and 4G investments are allowing us actually to be with our network everywhere where our customers need with our convergent network, both fixed and mobile.

It's a fast and reliable network. It provides outstanding coverage in Poland. It is still using cutting-edge technology, fiber, 4G, and it is ready for 5G. We are actually providing the motorways of the digital revolution, and we are surfing what I call the data tsunami. This is absolutely essential for our customers, and this is and will remain, across this plan, the main driver of our investments, our CapEx.

We are -- in 2020, we have best perception from our customers. We are providing an unmatched customer experience, and over the past years, we have already been making steady progress in this respect. A few years ago, we were down the charts. Now we are on the podium, and by the end of the decade, our ambition is to be clearly the #1.

We are -- in 2020, for our customers, both consumers and businesses, life is more digital than ever. The large majority of us and old businesses are managing their life through mobile applications and connected devices. We will boost the use of digital. This will help us reaching our leading customer experience ambition but as well boost our efficiency and reduce our costs.

Last but not least, we know what to do. We will focus on value creation for the company, for all our stakeholders, for our shareholders, customers and employees.

So you understood it. Through this plan, we want to take our strategy to the next level. We want to achieve more than a turnaround in the medium term. We want to establish a new business model that will help us win and to create value over the long term. This means that this plan is about intensifying our existing plan and adapting our goals to reflect our long-term aspirations that I just described.

We are absolutely determined to improve our operational efficiencies, and this is something that is essential for us to invest in growth in the long term without sacrificing profitability. And only this way we will be able to establish the sustainable business model for value creation.

We call this strategy .one. What is Orange.one? And why is it called .one? It just stands for O like Orange and new. So you see the outline of this plan with the square with 5 sections. These are the 5 pillars of this strategy.

Firstly, the plan is about returning to top line growth. The 2 solid orange sections that you see on the top represent our externally facing business units, which new focuses described as Orange new home and Orange new enterprise, respectively. This is about our B2C and our B2B business. This does not change our earlier goal to be the leader in convergence and connectivity. Actually, it makes it more important and articulates how these leadership positions will translate into our long-term customer-oriented plans.

In essence, the key change in the B2C plan is using convergence to operate a shift from volume to value, and our new B2B approach is the ambition to become a trusted partner in the digital transformation of the Polish business. And my colleagues here around the table will explain in a minute more in detail.

Secondly, these 3 other sections of the plan are representing what we are doing inside the company to reach this long-term goal. The one we call Orange new customer experience is about providing an unmatched digital end-to-end journey for our customers. Orange network excellence goes without necessity to explain. This is about providing the fastest, the most reliable and cost-efficient network in this country. And the final one, Orange new efficiency is about creating a simpler, a leaner and more agile organization and process. With Orange.one, we are framing these actions together in a long-term context, raising the bar and ensuring that the appropriate structures and means are in place to achieve the goals.

The name .one also is there for another reason. Obviously, one is the meaning of being together, one board. And we are all aligned with the board that you see here. Our management team, all our teams are fully aligned, working as one team single mindedly towards this goal, creating #1 integrated telecom operator in this country.

As you see here, we have actually categorized our businesses in 3 activities with different growth rates. This way, we believe we will create sustainable value. We will focus on and invest on market segments that obviously are growing and that are profitable. Actually, this doesn't mean that we will neglect the first segment, which is fixed telephony, because we believe there is still value to be extracted from these services, but we will simply be more selective and more focused in terms of how we spend our cash.

And even on the growing segment, it's not just because a market segment is growing that we will simply throw money at it. In our half year results, you have seen that we already have started by reducing handset subsidies this semester, shifted a little bit to SIM-only offers, which resulted in reduced commercial expenses without actually changing the good and strong momentum we have on the market.

As concerned to the high-growth segment, the bottom one that you see there, obvious that our customers are now looking for more digital interactions everywhere with their service provider, and this is creating for us also new growth opportunities that we have decided to seize. So we want to stay ahead of the curve and constantly position ourself on these new fields, such as energy reselling and digital banking. You know that we have announced recently that we are boosting our energy and electricity resell by acquiring a subsidiary of Multimedia Energy as an example. So this new approach will be, obviously, for us, capture value whenever we find it reasonable and also boost these new business segments that are growing much faster than the rest of our business.

The reason we are actually convinced that this strategy is the right one is that we actually start to see the proof on our own eyes. These pictures that you see in the background are actually an extract of some of our Q2 results showing that we have started the journey to execute this strategy.

First thing, you see that 80% of our total revenue today are already well positioned because they are within these growth segments that I just described.

You can also see that we have significantly started to expand our network, with the two top graphs, with the coverage in 4G and the number of fiber households, that are now getting closer and closer to 2 million households. And as well you can see that our strategy -- our convergent number of customers is growing steadily, so are, actually, our customers in mobile postpaid and fixed broadband.

I am taking the opportunity to say a few words about the competitive environment. Even though we are seeing signs of increasing rationality in the behavior of the market players, we actually do not expect market competition to decrease. So obviously, to execute this plan, we believe we must most -- move, sorry, swiftly.

Another reason that is making us confident about this journey towards 2020 and beyond is that we have an excellent starting point, I believe, and I would say better than a couple of years ago. First of all, we are having a strong customer base, more than 14 million mobile customers, more than 2 million broadband customers and 800,000 TV customers. This is a very strong asset that will help us, by listening and responding to what these customers expect, to fuel this value-creation plan.

We have, I believe, excellent people in our teams, which are fully aligned with our objectives and have a passion for serving our customers. We are fortunate to operate under an incredibly powerful and loved brand, Orange, that we are feeding every day by our action and values of being friendly, honest, refreshing, so actually putting a human touch in everything we do.

Last but not least, the majority of our investments, as I was saying, is going into providing a state-of-the-art, reliable, fast fiber and 4G network that could be soon ready for 5G. So in a nutshell, we believe that we have all the ingredients to succeed and to reach this goal to become the preferred telecom provider in Poland. Now obviously, we just need to execute it and do it. So that is why -- easier said than done. Execution in the coming months and in the coming years will be absolutely key, and this will be our focus in the coming months.

And now let me hand over to my colleagues from the management board that will detail parts of this plan, and I will start to hand over to Mariusz Gaca. Mariusz? Thank you.

Mariusz Gaca - Orange Polska S.A. - VP of the Management Board and Chief Commercial Officer

Thank you, Jean-François. Good afternoon, everybody. So let me start with some key highlights of the market in Slide #11.

So as you know already, we are, in Orange, a big fan of convergence. And our flagship offer, Orange Love, that was launched in February is really doing well in the market, and you can follow that based on our quarterly results. And still, what is very important, the market potential for convergence is really, really huge.

Looking somehow horizontally in the market, you will see that there is 90% of Polish households that are still buying telco services or fixed broadband or TV services, not mentioning finance and energy, from different providers. So just 10% of Polish households are consolidating their invoices. Orange, although being #1 in this market, has an access today to 50% of the market, which means that another 50% is still a market potential for us for further acquisitions.

And finalizing with a vertical look. Even if we look into the family spending today or family structure today, you will see that the average household in Poland has 4.7 RGUs or revenue-generating units, where SIM card might be one of them. And even with those companies -- with those customers we are with, we reach only 50%, so still there's a lot of potential to penetrate within the families itself.

Let's go to Slide #12 and have a look at the market through the perspective of different segments. So Poland can be easily divided into 3 zones or 3 sub-segments which are more or less similar in terms of quantities. These are big cities, small cities and rural. Since 2014, we have been investing mainly in big cities. And if you take a look at our market position, especially in fixed broadband, you will understand that there was the urgent need because of the path of the regulatory, of our investment policies from the past and competitive level. We have just 15% or 16% market share while our mobile base was very strong.

Today, already from our quarterly results announcement, you know that 70% of fiber customers that are coming to Orange are customers that are completely new to Orange. So these are mainly customers that we took over from our competitors, mainly from cables.

In 2017, we started to invest much more actively in small cities in order to protect and to grow our base there, which you can see is importantly higher than in big cities. And finally, a couple of days ago, we have launched a new offer, which is the fixed LTE broadband together with DTH TV. That is mainly designed for customers in rural areas, where we know that deploying fiber would basically not be commercially viable. So that means that today, with our Love portfolio, we cover customers from all of those 3 important zones.

And we aim that 7 out of 10 fixed broadband customers in our base by 2020 will be convergent customers, meaning fixed and mobile customers.

And just to shoot you some numbers for comparison, it's already more than 80% in Spain and France currently is approaching 60% while Poland is at the level of 40%. Once again, the target is to be more than 70% by 2020.

Let's now have a look at our investment policy on Slide 13. So obviously, as a telco operator, we are legitimated by our network, in that case particularly by convergent network or fixed and mobile networks. Our fiber investment plan assumes that by 2020, we will reach at least 5 million Polish households, which means that we will more than double current reach of the fiber infrastructure that we have. If this ambition materialize, our fiber will cover around 40%, 4-0 percent of all Polish households that -- and majority of them, these are the households where it makes sense to build fiber.

But obviously, parallel to our fiber network investment, we are not slowing down our investments in mobile networks. By spectrum aggregation and grid densification, we aim to reach almost 90% of indoor LTE coverage. And mobile network, obviously, is essential to our convergence offer and offensive in rural areas where fixed connectivity options are already limited. And last but not least, we still keep in mind that all the investments that we do in fiber and in mobile network are fully in line with expected evolution of 5G networks that are expecting to come on year 2020.

Let's come back to the value proposition on Slide #14. Today, in the market, if you ask somebody what is Orange about, probably more than 9 out of 10 people will tell you this is a strong mobile player. Probably 6 out of 10 would say that this is a fiber provider, #1 fiber provider. But only 4 out of 10 would tell you that Orange provides a decent TV content, and this is something we put a lot of investment -- a lot of commercial investment to change.

And already today, we are fully back to the game. We aggregate content from almost all content providers in the market, and we already offer it on 3 screens with Orange TV Go offer. And recently, as I mentioned before, we have significantly improved our TV proposal for those customers living in rural areas with Orange Love packages. With all of that, we are well prepared to double our market share by 2020.

So to summarize, on Slide #15, those commercial ambitions in consumer markets. So by 2020, we plan to add up to 1.5 million Love customers, reach up to 850,000 fiber customers and cross 1 million of TV customer base.

But obviously, we are not giving up mobile or non-convergent customers, and there will always be customers that for some reasons will not go for convergent offer. And for those customers, we already have and will continue to have mobile only, including family plans with variety of terminals available. We believe that there is a potential, from our perspective, of 300,000 SIM cards for those customers that will come on top of convergence where each customer is coming on that area with 1 SIM card.

But once again, I want to stress that our primary strategy is value driven. And when it comes to customers, we see the biggest value in convergence, and this is, by far, more important for us today than chasing just basically more stand-alone mobile volumes.

Let's go to Slide 17. This is a bit of an inside look for, call it, commercial activity and commercial efficiency. We all know and we are experiencing that every day, that digitalization of different providers is increasing. And based on our researches, there are 55% of Poles that are already buying online out of those that are using Internet, obviously. And this will even continue because based on different researches that are widely available, 86% of millennials or the young generation today are equipped with smartphone, and already half of them is using their smartphone or apps on their smartphones to make different online purchases.

And that's basically will not stop. It's something, that will accelerate.

And we know that our channel mix strategy will change by 2020. We do assume today that online will be #2 distribution channel after physical shops, and every fourth customer of Orange Polska will come from the web, from the app or from the online, which is from the Internet. And that is a good point as online sales, and this is already proven by our experience, will also help us to optimize important part of our commercial cost.

Staying for a while inside and going to Slide 18. There are 3 important rules that will describe -- or describe the way we act. So firstly, we believe that simplification or simplicity is good for customers, for us, our cost base and for value creation. Just to give you a couple of numbers to illustrate, we just revamped our offers in mobile postpaid with decreased number of plans from 18 down to 4. In fixed broadband, we went down from 16 to 6. And in terms of different discount schemes, we moved down from 7 discount schemes to 2. That's the first, from the last week, proof of the simplicity.

Secondly, we believe that consistency of marketing message across all the customer touch points is really important. Therefore, you can see us being mainly promoting Love prepaid and new mobile, and this is something we want to continue. And last but not least, we are very much focused in our strategy, in our execution, on our results. And this result is mainly focused today on value.

I'm going to the last B2C slide, Slide #19. I will conclude with adjacent market. So first, Orange Finance and Orange Energy. These are services that have already proven to be an efficient base utilization, loyalization factor and, in many cases, the entry offer to some of the households.

In terms of devices sales, this is something that we are watching carefully today, and this is a market we want to explore more. And there are 2 subsegments, as you might realize, which is operator sales and nonoperator sales of smartphones. And we see that within the next 3.5 years, the nonoperator sales will increase by PLN 1 billion while operator sales will increase by PLN 100 million, so 10x more outside operators. And there is no reason for each operator should not come back

to this market, and this is something that we are investigating today.

And the third point is Orange Smart Care, and this is a service where, for a couple of zloty, you can insure -- we are getting insurance for your smartphone. And this is something that really makes sense if you take a look that the value of the Polish market in terms of smartphones will be PLN 9.6 billion in 2020, and all those devices are, to some extent, expensive and precious to their customers. And just to reiterate, both -- it's not only for the top line growth, and as you can see, we have some particular targets in terms of the revenue growth as well as for margin growth. This is not only important until 2020, but it's also very important looking beyond 2020, which is only a few years from now.

So to summarize my presentation of consumer markets, I would like to underline 3 points that are probably the most important, I would like you to remember of my few slides. So first of all, the strategy is about accelerating convergence. Second, the strategy is about focusing on value instead of pure volumes. And third, this is about boosting adjacent areas.

Thank you very much for your attention. I will now pass the floor to Bozena Lesniewska.

Bozena Lesniewska - Orange Polska S.A. - VP of the Management Board

Thank you, Mariusz. Welcome, everybody, and I invite you for a while to the B2B market.

As you know, Orange Polska is a leader across all the business segments, starting from SOHO, finishing in key accounts. We are working with about 1 million customers, which consist 50% of the markets here in Poland. While working with customers, we see and we witness every day that more and more companies in Poland reinvent themselves digitally.

What does it mean? It means that they are changing both their internal environment, being the employee experience more digital; and also, they are working on the new digital customer experience for their consumers. According to the surveys, 50% of the Polish companies say that they already are or within the next few years will be in their digital transformation, and the digital transformation will be the strategic topic of their agenda.

Regardless of segment they represent, they move their business to cloud. The data is in cloud more and more often, and they use different applications to run and manage the business. This is why the expenditure for cloud is projected to grow by 75% during next 3 years to 2020.

The more digital environment means more threats from the cyber attack. So it's why one of the hottest topics now in B2B becomes data security. Most companies already declared the increase of spending on cybersecurity. And next year, when we start to have the new European law, General Data Protection Regulation, it will even lay down some additional obligation in this area, and expansion of the cybersecurity needs will be really huge.

The change of business model obviously requires one very basic thing, which is reliable, high-speed, large-capacity network. We expect that data transmission in our networks will increase by 6x during these years. So all these changes mean that the companies require a partner, a partner who will support them in digital transformation, a partner like we are.

So when we look at our situation and our development, being this trusted partner in digital transformation by providing the best telco and ICT solution for business segment is quite natural consequence of what we did for years. I call it that we are entering the third wave of our development. We started historically from providing the connectivity, both fixed and mobile, and we've built our position on it.

Then we add another layer, being the convergent and being the integrator. We entered the ICT market. 6 years ago, we created the integrated solutions subsidiary, which now, after 6 years, is one of the top 5 integrators in Poland.

So now it's time to build another -- third layer. Apart from the focus on connectivity, convergence and integration, we will also add digital solutions for our customers. All these 3 layers, all this vision is followed by very high ambition in all 3 areas.

I will start with connectivity. Connectivity is a base for the journey -- digital journey of our customers. So we think we see the growing number of data that companies use, storing them in cloud instead of the physical servers, analyzing online, necessity to respond to consumer needs in real time. This is the reality of today's business. It imposes the necessity of high-speed and ultrareliable Internet access.

To meet these requirements, we will continue to invest in FTTH and 2 programs for B2B. One is for medium and small companies, very high broadband; and another one dedicated for enterprises, business network acceleration, which is dedicated for the big companies and institutions. Our target is to achieve 40% of companies in the range of FTTH access in 2020.

We also see that our customers, together with the changes they are ongoing, require more flexible network and IT systems. It's why step by step, we will offer our clients fully programmable and highly automated software-based network. Due to the virtualization of the network functions, the customer will be able to control the design, security and performance of their network. This is how we are going to help to solve one of the biggest issue, biggest challenge for the CIO in the companies at the moment.

Now let's look at the convergence. We are in the strategy of convergence since a few years, and this business market already brings very good results. We want to continue it and selling the bundles, decreasing the churn. We will go in the direction of having 55% of the SOHO and SME customers in convergent offers.

Convergent bundles will be also the engine for growing the mobile base. We expect to grow by 600,000 customers in 2020, both due to the new acquisition and decrease of the churn. We'll focus on the value coming from the entire account, not looking specifically at each business line but looking at the value generated by the customer. We will add also to our convergence packages also for lower segment, the ICT components which will be tailored, respectively, to the branches and ready to use, easy to sell not at the project approach.

And for a longer while, I will focus on the third wave, on the wave which we are entering, on the digital solutions and integration in ICT markets. Here, our ambition is to grow and double our revenues. In 2020, ICT market in Poland will represent 3x higher value than B2B telco market. Now our ICT revenue is around PLN 350 million. It represents around 9% of the B2B revenues, and our ambition is to double this ICT revenue.

I may worry that these are very high ambitions, very big targets, but I believe, basing on our last year's development on the position of the integrated solutions at the market, that we are able to do it, especially when we add the new services and new offers to the mid- and small market. We'll focus on 2 areas: cloud and security. Demand for public cloud in Poland will grow 5x faster than demand for traditional IT solutions. So that is why we already became the strategic partner and reseller of the biggest cloud providers in Poland, which is Microsoft, Oracle, EMC Dell (sic) [Dell EMC].

Our customers will also benefit soon from the alliance with Orange Business Services. We'll provide them with the access to global Orange cloud called Flexible Engine. Our teams will advise and support them to migrate to the most adequate solution. And obviously, we are sure that some companies will be still interested more in the private cloud than public one, so we will offer them the modern data center in which to operate.

The other important revenue -- stream of the revenues for ICT will be security. Here, we will use our experience in the area of cybersecurity to protect our customers. Certification and professional security operations center make us a strong player at Polish market in this area. We are also working on increasing our the role -- the role of Orange Polska in overall Orange group cybersecurity. It means that the battlefield may go far beyond Polish borders.

Apart from the expertise and new product portfolio, we will also evolve our sales business model into consultative selling. Our account managers will become more familiar and more connected with the customers' businesses. Therefore, the solutions which we will create will be created in the mode business for business, not business to business anymore. It means together with customers, with the involvement of both parties and specific for particular verticals.

We also believe that during next years, Internet of Things will become important revenue stream in business markets. Following our leadership in machine-to-machine market, we will expand into IoT area. First, we will focus on the smart metering and in the branches which we already know and where we already started, so realized some projects, which is watering and lighting.

We are just preparing the open platform with the API for third parties to be able to add some partners in a very flexible way,

depending on the needs of the particular customers and building the very good smart cities approach.

This strategy for business customers will be realized in parallel with the internal digitization of our processes and offers. To make our salespeople more confident in offering advance digital services, we will transform our internal work environment into more simple and flexible through robotization and automation.

And last but not least, in business, people and relation matter. So we'll invest in sales competencies to have the top-class team of digitally skilled experts and consultants. All these mentioned, everything I described will lead us to the ultimate goal: being the most recommended partner in digital transformation of the business in Poland.

Thank you very much. And I pass to Maciej.

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

Thank you, Bozena. Good afternoon, everybody. So I will share with you how our value-oriented strategy is going to deliver on the financial front.

As Jean-François called already our strategy, he called it new momentum, and this is not without a reason. So I will refer several times to new momentum.

So let's start with the top line on Slide #29. There are 2 fundamentals of revenue growth for Orange Polska. The first one is convergent product, and the second is new business line. Convergent product together with mono offers of broadband and mobile are what we call growth services. We expect here low single-digit growth every year starting from 2018. This is going to be driven by convergent customer base, which will significantly increase, and by better broadband ARPU.

Mobile ARPU trends shall be still in decrease, thanks to convergent discounts, SIM-only category and competition. Legacy, like PSTN and wholesale access, is not going to stop decreasing, and we are prepared to do that. The share of legacy overall revenues shall significantly diminish. The adjacent and new areas are ICT, Orange Finance, Orange Energy, devices and Orange Smart Care. Here, the 2020 revenue in total shall increase by almost 3x versus 2016, as Mariusz and Bozena already commented.

So these trends assume unchanged and high level of competition with slight tendencies of market repair as in last years. It is overall a new momentum, not seen in the past, will stabilize the trends in 2019 and increase sustainably from 2020. Revenue growth together with cost-based optimization will be key trigger for sustainable value creation.

Now we are moving to profitability on the next slide. Another new momentum. We expect stabilization of EBITDA in 2018 before we grow it sustainably from 2019 onwards. How is it going to be achieved? There are 3 fundamental factors here.

Number one is operating leverage, improvement in direct margin. Number two is simplicity, automation and digitalization of our processes. And number three is continuation of our cost optimization. Growth services shall not only increase in revenue. There is very significant potential in direct profitability. Less subsidies where possible, strategy of more for more, value preferred over volume, less commissions through the shift of sales to online, all of these initiatives will be or already are implemented with strong consequence.

Now let's talk about processes, why improvements is strategically important here. Our business model, which is described on the top of this slide, is, in fact, a chain of interconnected processes that allow to render our services. Complexity is something often attributed to a former incumbent, not without a reason. A new momentum comes with comprehensive transformation program that we started for all our key business processes.

We expect improvements in simplicity, automation and digital areas. Ultimately, we expect savings in resource consumption, which means less OpEx and less CapEx.

In order to give you more feel, let's look at the 2 examples on the next slide. These 2 examples are part of much bigger list of actions and projects. Example number one is the automation of the fiber process in a network area deliver and repair. Significant cost reduction is expected here with first savings already next year, 2018. And example number two is the integrated platform, which is, in other words, IT system for sales and customer care. A customer when buying will be serviced 2x faster, and this is to be done through one and only one tool for all our key products. First savings again expected

here in 2018, and just from those 2 initiatives, we expect next year 5 to 10 million pln cost base less.

Now let's look at the after direct margin and process improvements on the indirect costs, and let's talk about expected savings here. The savings will be a result either from -- will result either from process improvements or from optimization decisions like sourcing gains, volume optimization, simplification of the back office and support functions. These savings will also be driven by our decisions to focus, to accelerate or to be more selective. We intend to continue the headcount optimization program, and more concrete news may come before the year-end, not today.

We will optimize outsourcing with the ambition to stay with around 60% of today's cost base here. It's really difficult to name one cost category, which is not going to be touched with the optimization action plan that we have. And overall, we show decrease -- the cost base in indirect costs versus 2016 by something like 12% to 15%. This is what we target. This is net of potential increases of related -- increases related to inflation, to new business development and to assumed pressure on labor costs.

Now let's look on the next slide. Our employees and their skills and expertise are a clear fundamentals of the value strategy that we took. We will systematically work on the evolution of their skills, develop agile and cooperative ways of working. We care as well about engagement and dedication, which is, obviously, critical for process turnaround and for customer satisfaction. We intend to stay listed as a top employer in the country, as we did in the past, despite the optimization effort achieved. And this successful optimization is a clear track record approved of what can be done in this area in the future.

Now let's look at the CapEx. By the end of 2018, we are going to reach 3.5 million households connectable in Poland with our fiber. Next year, we will also decide at what speed we shall continue deployment in 2019 and 2020. Our ambition or aspiration is to reach more than 5 million households connectable by 2020 end. POPC program is complementing our core fiber program, and shall deliver 360,000 households connectable by 2020 end, and this is included in the 5 million that I mentioned before.

Mobile CapEx will be driven mainly by growing capacity needs, but we will continue as well the deployment of BTS towers along new motorways and main railways. In other investments, we will put a focus on transformation projects, which require new IT solutions or automation. This means that all other CapEx will continue to be optimized.

So in summary, our plans show new momentum for the company. Value creation will increase in a balanced way through business development, but as well through strong savings. In order to achieve this plan, we will continue to invest in fiber next year, and we have a clear ambition to continue in 2019 and 2020. This plan is an investment into future sustainable value creation of the company. These investments are the best use of cash in the medium term. Value-creation strategy that we launched is the absolute top priority for all of us.

Thank you very much, and I hand the floor back to Jean-François.

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

Thank you, Maciej. So I would just like to say a few words to conclude. So we've set for ourselves a few, I would say, qualitative goals that you see there. In 2020, we will be loved by our customers, we will be preferred by our employees and valued by our shareholders. Why loved by our customers because this business, the telecom business, we believe, it's all about customers, it's all about anticipating their needs, doing before they know what they want themselves. We have always been responsive to our customers, and now we intend to be even more proactive and customer-driven than in the past. Preferred by our employees because in order to execute such a plan for us here, and this is very ambitious one, we need the best people. So we have to stay the employer of choice. This is not going to be by offering attractive compensation packages, but we need to constantly encourage our employees, to earn their respect and loyalty by providing an environment in which they can develop both professionally and as human beings. Last but not least, valued by our shareholder because we recognize the importance of our shareholders and the capital markets. Both are, obviously, looking for returns and you are looking for return on your investment. So obviously, this is driving our objective. This is driving this plan. We want to build a model where we will drive sustainable value creation.

I want to stress that we have aligned our Orange, Poland management with this objective of -- with objective of driving sustainable value by actually introducing today a new share price-based incentive, so OPL share price-based incentive scheme. And as we will deliver across the coming months, we hope, and we expect that this will, obviously, be reflected in

our share price. So you will understand historically, we have quite a comprehensive plan. We are just at the beginning of this journey today. We are confident that we are rightfully putting the right talent, the right structure, the right meaningful resources in place to achieve this plan. Again, this plan is ambitious. They have been put together by the team that is here with me, the executive team. They have the support of our Supervisory Board. I believe in this plan. We all believe in this plan, and we are really determined to succeed achieving it.

Thank you very much for your attention. Now I will pass back the floor to you for questions. Thank you.

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

As usually, we start the questions from the floor.

QUESTIONS AND ANSWERS

Dominik Niszczyński - Raiffeisen CENTROBANK AG, Research Division - Financial Analyst

Dominik Niszczyński from Raiffeisen. So I have a question regarding these indirect cost savings because you say it's 12% to 15%. So maybe can you say in nominal terms, what's the value? And the second regarding net debt, you say it's going to decline starting from 2019. So what's your assumption about the dividend in the meantime before this?

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

Thank you for the question. So regarding the answer to the first question, the indirect costs in 2016 were not very far from PLN 4 billion in total amount. And regarding the second question, the dividend, you have probably noticed that our strategy is oriented towards growth. That's why we do not mention the dividend here. In the model that we have, there is a space for dividend to be paid in 2020 for the results of 2019. So that is in the model, but we do not commit today to that time, and we do not commit as well to any amount of the dividend, but that is how it looks from the current perspective.

Dominik Niszczyński - Raiffeisen CENTROBANK AG, Research Division - Financial Analyst

And one more question on this online sales. So you say 25% of clients' acquisitions is to be done via online. So what's now the proportion of costs -- of subscriber acquisition costs when you acquire clients by online? How much do you expect to save here in subscriber acquisition costs?

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

So actually we are talking here about the savings in outsourcing, which is working in the telesales. So that's mainly the effect that we are expecting. By moving sales to online, we will be naturally positioned to regroup our activity from telesales activity to online. So this is where it's going to be visible. And as I said before, there is a considerable objective to reduce the outsourcing activity by 40% to 60% of today's amounts.

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

Vera from Erste Bank. I have some question related to Page 13. It's your FTTH program. This assumption, this ambition of over 5 million households, do you intend to build it from scratch? Or do you have basically a whole sale reverse, extreme access, all kind of these like that in mind? And I was wondering we had the initial program, I think it was until 3.5 million households. The total amount for that was less than this additional 1.5 million households, the dedicated CapEx, I meant. Does that imply that the cost per household or the CapEx per household for this upcoming fiber rollout is going to be much higher? And why is that?

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

So maybe I will take these questions. First of all, thank you very much, Vera, for your questions. Regarding the CapEx costs, I think the CapEx, unitary CapEx is going to slightly increase. But majority of the increase of the CapEx that you see, it is just

a pure consequence of the fact that we are connecting customers. And there is a cost of the -- related to the set-top box and the router, which is recognized in CapEx. So volumes make also the additional CapEx. So unitary CapEx cost increase is not very significant. It's 5% to 10% maybe per category. Then, could you remind me the first question?

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

So how do you achieve these 5 million households? Do you going to do mainly rollout fiber by much...

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

So 5 million assumes already around 360,000 constructed in the POPC program, which is supported by European Union money. So that is one point. Second point, it is assuming also that we will use third party with certain success because we do not have 100% in that. But we are assuming that significant volume of households connectable will also be achieved through using third party. As of today, it's more than 100,000 households connectable.

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

Using third party?

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

Yes.

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

And if I may ask question on Page 36, you have -- it's obviously, related to CapEx still. So there are 2 little marks where you mentioned here as ambitions. Why is that?

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

Well, this is a natural notion. If I go back to 2016 and February of that year, where we said that the objectives for 3 years investment plan 2016, '17 and '18, and we said that before launching a new phase, we will have a good summary of what we have achieved in those 3 first years of the fiber investment plan, and this is going to happen next year. So what we present right now for 2019 and 2020 is a good extrapolation of the situation at which we are today. The business case is achieved with good approximation. So we are at a good place -- position for the final decision to be taken next year for those investments.

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

I mean, to be even clearer, this is not guidance. This is an indication where we see our CapEx going forward.

Przemyslaw Sawala-Uryasz

Przemek Sawala, Pekao Investment Banking. I have a question regarding the penetration of your FTTH network. It seems like your target for 2020 includes 5 million households, which are passed by the wire, but then you say you're going to increase by fivefold or sixfold the current number of users, which means that -- it would imply, at least, that you've got transition levels target of about 17%. It seems awful lot compared to what you have guided before. Is that really the target? Or is the penetration progressing...

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

The ultimate target is, obviously, higher, but we are going to be very close to the business case, which was assuming that in the fifth or sixth year of the plan, we are achieving 25% to 30% penetration. Since this picture taken at the end of 2020 will be with the households connectable produced in the last 2 years of the plan, 2019 and 2020, those cohorts will naturally decrease the average, but we are on the good path.

Przemyslaw Sawala-Uryasz

Okay, could you share with us the target that you would like to have or at least confirm what's the target for the penetration rate?

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

The penetration targets are not changing the original business case. There is no change here.

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

So I suggest to switch now to teleconference listeners. Operator, please?

Operator

(Operator Instructions) We will now take our first question from the phone from Ondrej Cabejšek from Berenberg.

Ondrej Cabejšek - Berenberg, Research Division - Analyst

A couple of questions from me, please. First is on B2B. So you provide this pyramid breakdown of your accounts on Slide 21. If you could be more precise in terms of RGUs and revenue split relative to this breakdown that you provide. And then second question is related to B2B. You're introducing this digital service layer. Do you think that this is something that's going to give you more power in terms of pricing, and that would give you more power to increase some of the very bad B2B pricing that we've seen in the market now? Second question, if you could give us a bit more perspective and couple of comments or examples in terms of cross-selling or upselling relative to your new pricing of Orange Love that you introduced and all the simplification, et cetera. I believe there's a couple of incentives in these plans. If you could relate them to your 2020 KPI targets? And if you could then perhaps break down for us the 5 million target in terms of the 3 geographic areas that you are currently looking at?

Bozena Lesniewska - Orange Polska S.A. - VP of the Management Board

Thank you for the question. We will start from the questions allocated to B2B. Yes, we believe that this third layer with digital solutions will add us the power. It's in fact not only believed but already we tested in practice, we started to have the bigger and bigger portfolio of the solutions for verticals. You asked about the examples. Let's say, the retail is very nice example. We are cooperating with different partners at the market. And when we see the customer, who is interested in changing their business model, we look comprehensively at all the business model and the connectivity and what kind of integration we can offer, but also together with the partners we can bring some omnichannel solutions. We already have some execution of the, let's say, digital signage, for example, at the shop and airport here in Warsaw and some other places. It's -- the same refers to some other branches. We are able to do all this in the customer business and to see what kind of support we can do. Another example may be the robotization of the processes. We are also having interesting offers, which we test internally on ourselves, and to improve and automate the processes by robotization, but also we have it in the portfolio of our offers to the market to the customers. So there can be a lot of such examples, which show that having more end-to-end approach is very interesting for the customers. And, we are becoming to be perceived not only as a telecom operator but also as, in fact, IT company. Another example can be security coming to the company with our expertise and expertise in security, we can provide very professional audit to do the diagnosis where the problems from the cyberattacks may occur. Then offer the support of the security operations center for monitoring asset of protections against different kinds of cyberattacks. And looking from the perspective of the experience, which we gather while serving our customers, we also can build good advice, good recommendation, and we are becoming in this area the -- a consultant for the customers. So these covered 2 of your questions. You asked also at the beginning about the -- I'm not quite sure if I understood the question.

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

Could you please repeat, Ondrej, your first question, please?

Ondrej Cabejšek - Berenberg, Research Division - Analyst

I'm not sure which was the first question, but the 2 remaining ones are, if you could please breakdown the 5 million fiber target in terms of the 3 geographies that you have. And the second remaining question would be in terms of your Love

pricing? If you could just give us a bit of strategic insight into what made you change prices? How the instances are packaged in terms of cross-selling, upselling, et cetera? And how they're related to your 2020 KPIs, please?

Mariusz Gaca - Orange Polska S.A. - VP of the Management Board and Chief Commercial Officer

It's Mariusz Gaca speaking. So I'll take 2 of your consumer-market related questions. So the first one targeting per zone. Yes, obviously, we're doing targeting per zone. It's very disappointing we are not providing these targets outside, but we have a carpet-approach investment. And for each district, we have the carpets where we invest. And based on how many customers we currently have with different technologies and what is the competition level, we are setting our self targets, which are then reflected in something that finally, we call, the penetration curve. So answering yes, we have targets per zone, not until 2020. We're doing that in a rolling plan. So today, we have plans for 2018, and we have targets for 2018 and 2018, we will do for 2019 and so on because targeting, it's a more operational sales job than planning just investment. Your first question about Love price change, so that should not be probably a surprise. This is more-for-more strategy. So we give more value with slightly different pricing. And by the way, one pricing across all the duration of the contract with the customers. So consumer doesn't have to guess if he's in the first year or in the second year or he's in the regulated zone or nonregulated zone. And today, this is just 1 week we have been living with this offer and, I guess, it's premature to comment on that. It's only 1 week, so I'd not draw a conclusion yet.

Operator

(Operator Instructions) There are no further questions from the phone.

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

Yes, please, follow-up from the room. Pawel?

Pawel Puchalski - Dom Maklerski BZ WBK S.A., Research Division - Head of Equity Research

You just stated that you could expect the first dividend (inaudible). On one hand, you are saying that you could expect dividend in 2020. On the other hand, in 2020, you will be expecting PLN 1.5 billion to PLN 2 billion of extra CapEx on frequency on 700 megahertz tender. Is it too aggressive to assume there will be a dividend in 2020? Maybe you should conservatively assume the dividend could be 2 or 3 years later?

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

So we are not aware of the tender of 700 megahertz in 2020. So I mean, there is no indication at this stage that this tender will happen in this moment and maybe Piotr Muszyński could complete.

Piotr Muszyński, Orange Polska S.A. - VP of the Management Board in charge of Strategy and Transformation

All the assumptions we have today and everything what we know from the market shows that disposal of 700 megahertz is supposed to happen '22. There's no need to dispose faster, at least, from the operators' point of view.

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

And Vera, a follow-up.

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

I have another question regarding the incentive program. So if I'm not mistaken in understanding this, it's basically you're going to take an average share price in the third quarter of this year. And if any of the -- in 2021, the share price is higher, you're going to have this incentive programs paid. Why you set yourself the target so low? I mean, it's easy I think that you'll have the incentive being paid.

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

It's a little bit more than this. So we have set an incentive plan, actually, for two population. So roughly 150 managers in the company, so executive team and 150 managers in the company, whereby we'll buy the shares and the starting price will be

set at the average price in the quarter. But we made a calculation what should be the share price if we achieve our targets, as indicated in this plan, and the -- I'll say that the aim is much higher than the average price of this quarter, obviously. So there would be additional rewards for people, if we more than double, actually, the share price. So that's what we're targeting, actually. So I'm clear. I mean -- and people will lose actually if the share price is below what it is today.

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

Okay, I got it. But what I was meant, maybe, if you would have said if the share price in 2021 doubles, then you will release this incentive program that will be more exciting.

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

Well, to be clear again I mean, the maximum earn-out will be if the share price more than doubles in 2020, clearly.

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

I think we have follow-ups from the teleconference listeners.

Operator

We'll now take our next question from the phone, Ivan Kim from VTB Capital.

Ivan Kim - VTB Capital, Research Division - Research Analyst

Yes. I have 2 questions, please. Firstly, on the mobile competition. So you said that the environment has been more benign but, at the same time, you said that you don't expect the competitive environment to improve longer term. So I was just wondering kind of what are your concerns there, especially as you'd be a more convergent player, and you'd be focused more on value. So you have better toolbox to kind of compete and, probably, preserve value. And if you still think that the competition will be rough, what do you think will be the trigger, necessary trigger for them to improve? Thus, for example, the consolidation necessarily needs to happen for the competition to become better. And secondly, on fiber ARPU. So I was just wondering why do we see the upside to the fixed broadband ARPU because I think you said before that fiber -- it's hard to price fiber at a premium because the market is quite competitive. You also again said now that you don't really expect the competitive environment to improve much. So I was just wondering what kind of fixed broadband trends going forward do you expect and why?

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

Okay, maybe, I can take the first question. I mean, we obviously took the assumption that there would not be during this plan, during these 3 years crazy thing happening with our competition so that none of us would enter in a heavy price war. I mean, we were saying that competition is really tough on a daily basis. I mean, my colleagues can testify it around the table, I mean, both on the consumer market and on the business market. However, we believe that on the Polish market, there is -- I mean, what's happening around us should bring the market to be a bit more cautious about any upcoming price war. There are a few reasons for that. I mean, if you look on the mobile front, some of our competitors just got listed on the stock, first thing. We all have been (inaudible) on the Polish market by the roam-like-home initiative, which is obviously very good for the Polish consumers. But as I already explained during the last quarterly results, on the Polish market, this is costing all of us quite a lot simply because Polish people are traveling more than we receive people traveling in Poland. It's quite dissymmetric market. So this is going to cost the entire market quite some revenues and profit, this roam-like-home initiative. So all of us, I would say, naturally would have an incentive to not run into, I would say, some kind of heavy price war in the future. I mean, nonetheless, we never know. It's a very competitive market. On the fixed side, one of our major competitors engaged in an acquisition, as you know. So here as well, we see quite positively that the market is -- the fixed market is concentrating. So for all these reasons, we said that we believe competition is going to stabilize, but however it still appears competition is clearly on the Polish market. On the second question you were raising, I mean, obviously, this is true what you stated, and this is also what we stated at this current stage of fiber, we do not want to overprice fiber because, obviously, we want to sell fiber, which we are doing today. I can confirm to you that we are, actually, according to the plans, I mean, the summer was also pretty good in terms of sales. Our strategy is a bit different. Our strategy is about convergence. So it's actually using fiber with the famous Orange Love product, the convergent product, to acquire and attract more RGUs

in the single -- in the same household. So actually, it's using fiber or using mobile to attract more value from a given household, from a given customer. So that's where, actually, we believe that we are going to uplift and get to growth on this core business.

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

And just to complement what Jean-François said about the fiber ARPU evolution or more broadly the broadband ARPU, the new offer, which we have implemented just 2 weeks ago, is clearly supporting the, first of all, selection of higher bandwidth, 300 megs instead of 100 megs. Second of all, it's encouraging customers to migrate to higher bandwidth, and this will be one of the key elements of the fiber increase. More broader, the convergent ARPU is going to be better off because of the proliferation of the TV contracts that we are going to increase with our plan. So the TV will add additional convergent ARPU. Then, there will be also a significant improvement on the ARPU coming from the fact that current LTE for fixed offer is better priced from the value perspective than the previous one. So there is a lot of elements, which should work positively on better ARPU evolution on the fiber and on the broadband front overall.

Operator

We will now take a follow-up question from Ondrej Cabejšek from Berenberg.

Ondrej Cabejšek - Berenberg, Research Division - Analyst

One follow-up for me on TV, please. Your 2020 targets seem to be way below your, especially, convergent targets. So I was wondering what that -- I mean, how do you think about the TV market going forward, especially with some of the changes and likely changes going forward in ownership of content? And then second question, please, the internal model you set for dividend paid out 2019 profit. Does that model still follow your 1.5 net debt-to-EBITDA limit? Or do you think with bright outlook and then balance sheet repair expected, you would likely pay a dividend before you get to this? Or are you actually happy with being above 1.5?

Mariusz Gaca - Orange Polska S.A. - VP of the Management Board and Chief Commercial Officer

Mariusz Gaca speaking, Ondrej, will comment on the TV. If we take the assumption and there is 1 million, between 1 million and 1.5 million of convergent customers, and we have 0.3, 0.6, so we are probably quite conservative with TV, but we do it by purpose. We basically don't want to overshoot, but that would give presumably something around 60% of TV attachment rate when we do 1 million after the percent attachment rates when we do 1.5. So I personally believe that in TV, we can do more. But there is something as I mentioned to you during the presentation, our awareness is not there yet. We're trying to be rather conservative and cautious in terms of the acquisition assumptions. But there is, obviously, the potential for that. And your second question was about...

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

The second question was about the gearing assumptions for the dividend payment, Ondrej, yes?

Ondrej Cabejšek - Berenberg, Research Division - Analyst

Yes, exactly.

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

So here we do not guide precisely but, obviously, in front of us what is, is still a solution for the EC fine, which is not as of today. Just to recall you, the potential amount to be paid is around PLN 650 million. So that will, if materializing, will weigh on our balance sheet. Then after that, with our strategy with our value increase, both on the EBITDA front and then soon after 2020 proper CapEx levels, that would lead to considerable improvements of the net debt-to-EBITDA, as we said, starting from 2019, we believe. But will it be 1.5, will it be a higher level or lower? We would like to precisely guide you today at this stage.

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

If there are no follow-ups from the room, then I would like to thank all of you for the presence, for listening. And thank you,

good-bye. See you on the next Orange Polska Q3 results at the end of October. Thank you.

Jean-François Fallacher - Orange Polska S.A. - President of the Management Board and CEO Thank you very much.

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

Operator

That will conclude today's call. Thank you for participation, ladies and gentlemen. You may now disconnect.