

# Orange Polska

## 4Q'15 and FY'15 results

16 February 2016



## 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.

### Notice on pro forma comparison

All comparisons up to EBITDA unless otherwise stated are presented on the pro forma basis as presented in appendix (slide #39)

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# Highlights

**Bruno Duthoit**  
Chief executive officer

## 2015 commitments achieved

### Organic Cash Flow\* guidance

2015 OCF  
around PLN 900m  
(including cash capex for fibre access network project)  
excluding one-offs:

- acquisition of any new spectrum
- potential payment of the EC fine
- certain other claims and litigations

✓ PLN 952m  
generated in 2015  
- incl. PLN 162m cash capex on fibre rollout

### Capital expenditures

including fibre access network project, capex was anticipated below PLN 2bn (excluding new spectrum)

- we planned to invest up to PLN450m in fibre rollout in 2015

✓ PLN 1,998m  
spent in 2015  
- o/w PLN 311m on fibre rollout

## Satisfactory 4Q financial results impacted by high marketing spending

### 4Q2015 financial results

**PLN 2.93bn**  
group revenue,  
-5.1% yoy\*  
(+0.8% yoy in mobile)

**PLN 673m**  
restated EBITDA,  
-21.7% yoy\*  
(driven by revenue trend  
and commercial push)

**23.0%**  
restated EBITDA margin,  
-4.9 pp yoy\*

**PLN 860m**  
capex  
+38% yoy\*

**PLN 119m**  
organic cash flow\*\*  
(FY target reached)

## Outstanding commercial momentum

4Q2015  
commercial  
performance

+9%

yoy mobile post-paid customer base, +274k net adds in 4Q, the best in more than 10 years

+32%

yoy mobile broadband customers, +199k net adds in 4Q

+82%

yoy VHBB clients, +45k net adds in 4Q (ADSL base under pressure, with 60k net losses partly due to migration to VHBB and LTE)

+35%

yoy convergent customers, +61k net adds in 4Q

+5%

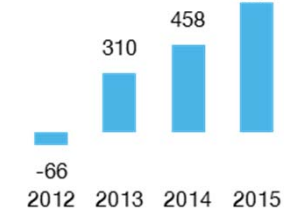
yoy TV base, +13k net adds in 4Q

# Improving performance in mobile versus competitors

Mobile post-paid market share in customer base\* (in %)

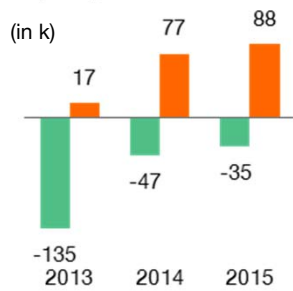
26.6 26.5 26.6 27.1

Mobile postpaid net adds (in k)



2015 post-paid net additions the highest since 2007

Total mobile number portability balance (in k)  
Mobile number portability in post-paid

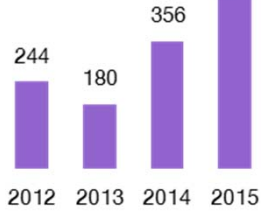


Improving mobile number portability balance

Mobile broadband base % of total SIM cards

7% 8% 10% 13%

Mobile BB net adds (in k)

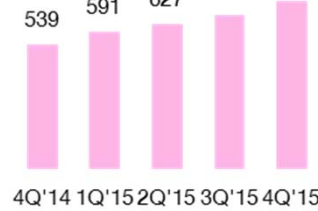


Demand for data reflects growing popularity of mobile broadband

Convergent base % of total fixed broadband base

24% 27% 29% 31% 35%

convergent base (in k)



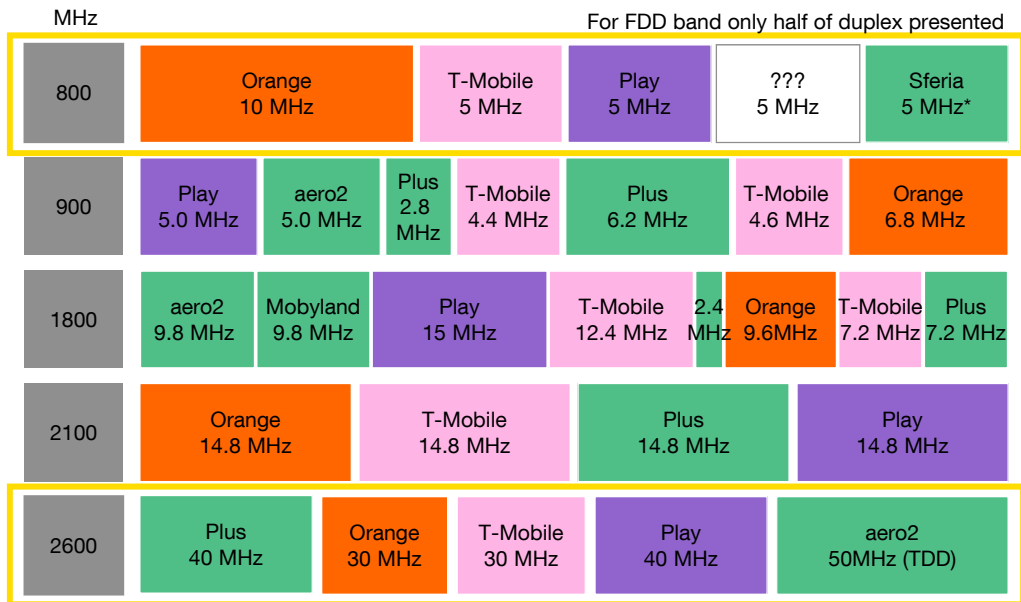
Customers gradually recognise benefits of convergence

## Further progress in connectivity and new optimisation initiatives

4Q2015  
operational  
performance

- **LTE auction finalised**
- **EC fine** – decision made to appeal from the Court verdict
- **New Social Plan** for 2016-2017 signed
- **2,046k LTE unique active users** in Dec 2015, up 3.3x yoy
- **59.4% smartphone penetration** in post-paid voice (vs 50.5% in 4Q'14)
- **ca. 130% yoy growth** of post-paid mobile data traffic per user
- **716k HH connectable in fibre technology**, +319k in Q4, FY target achieved at lower cost

# Acquisition of LTE spectrum finalised

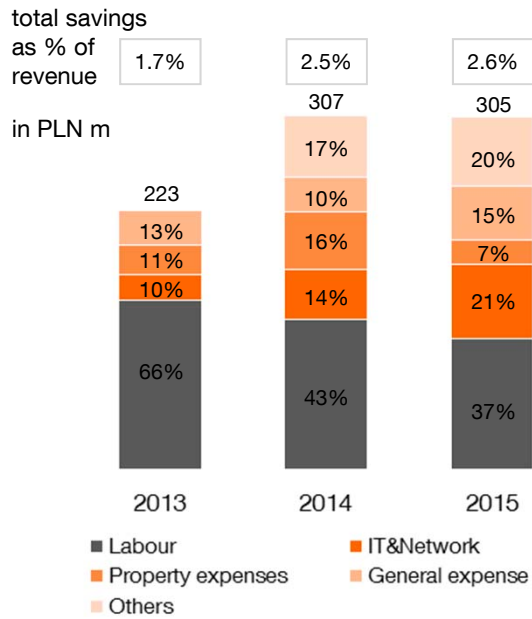


- Orange Polska received the licenses of the two duplex blocks of 5 MHz each in the 800 MHz band and three duplex blocks of 5 MHz each in the 2600 MHz band
- Licenses valid for 15 years
- PLN 3.15bn paid in February (PLN 3.17bn net of the bid bond paid before the auction)
- Service based on 800MHz to be launched before the end of Q1 2016

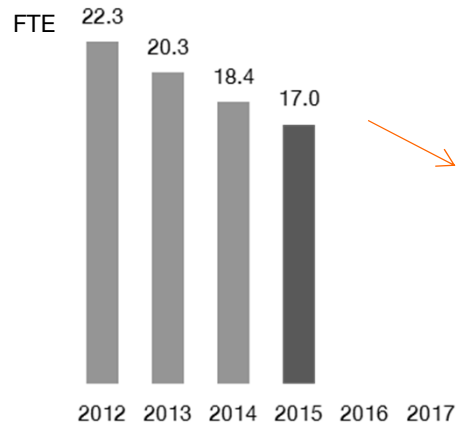
\* As the result of agreement with government

# Cost savings continues to top our agenda

Increasing savings from non-labour areas



24% lower employment since 2012



- Social plan of 2,950 voluntary departures in 2014-2015 executed
- 12% cut in underlying labour costs since 2012
- New Social Plan signed for 2016-2017, with up to 2,050 voluntary leaves planned

# Financial review

**Maciej Nowohoński**  
Chief financial officer

## 4Q/FY financial results

in PLNm	FY'15	% yoy	4Q'15	% yoy	key points
revenues	11,840	-2.9**	2,926	-5.1**	<ul style="list-style-type: none"> <li>▪ Very low regulatory impact</li> <li>▪ Further improvement in mobile</li> <li>▪ Affected by lack of revenues from infrastructure projects</li> </ul>
excl. regulations		-2.5		-4.9	
restated EBITDA*	3,521	-10.1**	673	-21.7**	<ul style="list-style-type: none"> <li>▪ Marketing focus drives sales acts up 23% yoy resulting in direct commercial costs higher 9% yoy</li> <li>▪ Impacted by unfavourable change in risk provisions</li> <li>▪ Different timing of real estate gains</li> </ul>
% of revenues	29.7	-2.4 pp	23.0	-4.9pp	
CAPEX	1,998	+12.6**	860	+38.5**	<ul style="list-style-type: none"> <li>▪ FY outlook achieved</li> <li>▪ Fibre unit cost lower than expected</li> </ul>
in % of revenues	16.9	+2.4 pp	29.4	+9.3 pp	
organic cash flow***	952	-17.1	119	-60.1	<ul style="list-style-type: none"> <li>▪ FY guidance delivered</li> </ul>

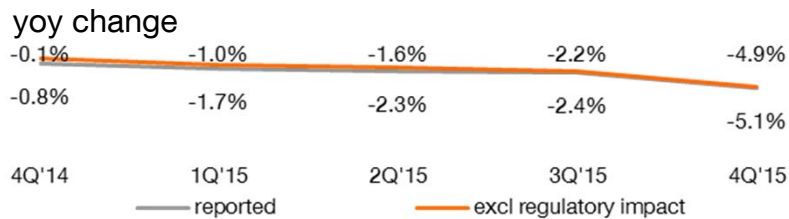
13 \* restated as presented in appendix (slide #39)

\*\* change calculated based on restated figures (slide #39)

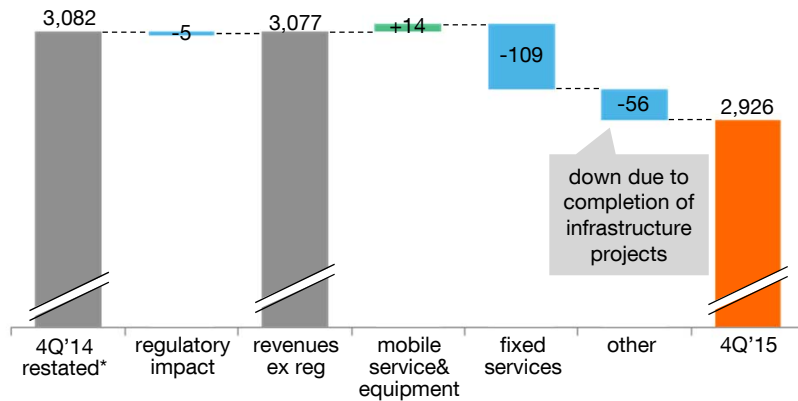
\*\*\* as defined on slide #21

# 4Q revenue trend affected by completion of infrastructure projects

## Group revenue evolution



## Group revenue evolution breakdown in PLNm

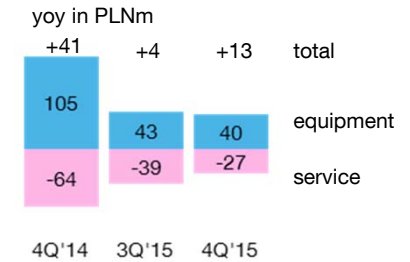


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\* restated as presented in appendix (slide #39)

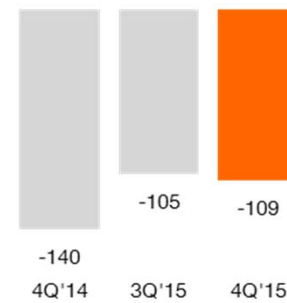
## Mobile revenue, ex reg

- service revenues benefit from customer take-up and lower ARPU erosion
- growth of equipment sales reflects intensive marketing push

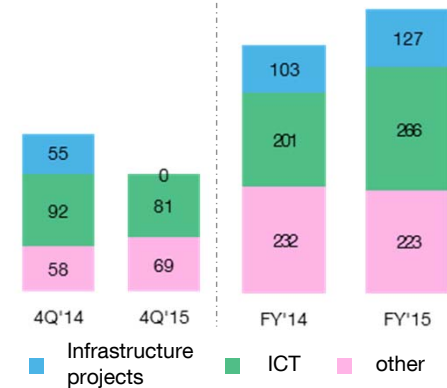


## Fixed revenue, ex reg

key trends unchanged (yoy in PLNm)

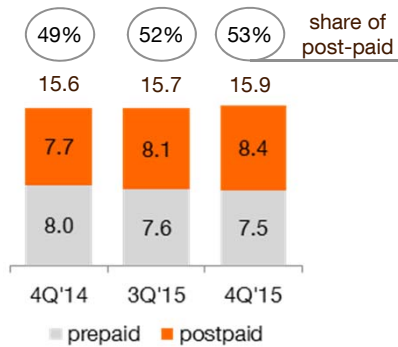


## Other revenue reflect completion of infrastructure projects (in PLNm)

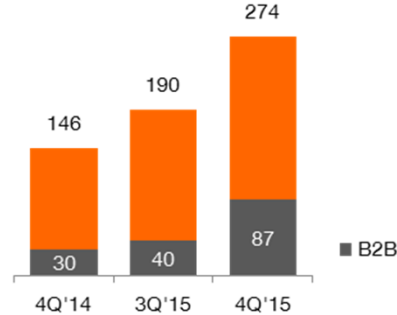


# Intensive marketing push paid off

**Mobile customers**  
in millions

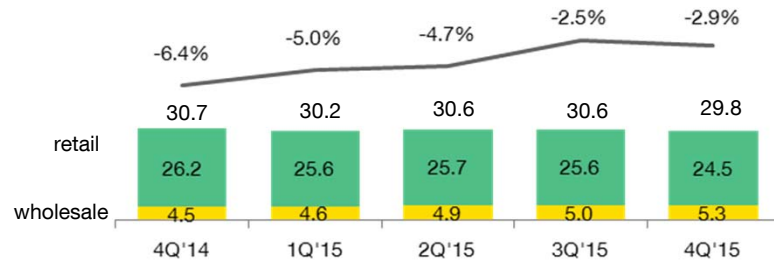


**Post-paid net adds**  
in k

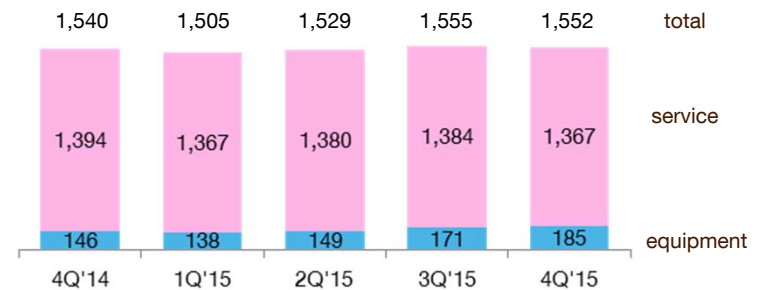


- Q4 post-paid net adds the highest in many years well balanced between all segments:
  - B2C:** good reception of new multi-SIM Family offers and refreshed MBB offer
  - B2B:** success driven by simplification of offers, anti-churn actions and good performance in key accounts

**Blended ARPU trend**  
(PLN/month) and yoy % change



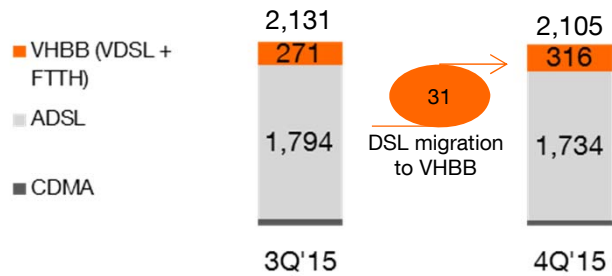
**Mobile revenue**  
(PLNm)



# Fixed broadband benefits from commercial actions and bundling

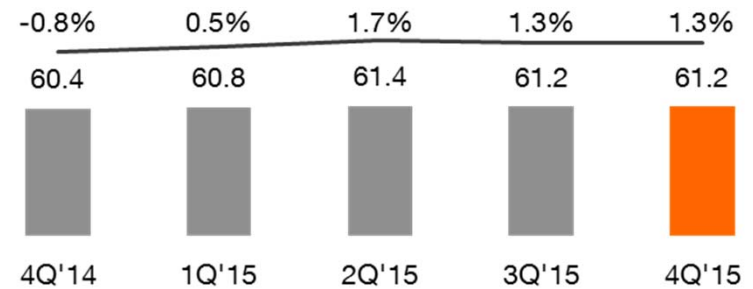
## Retail broadband accesses

(in k)



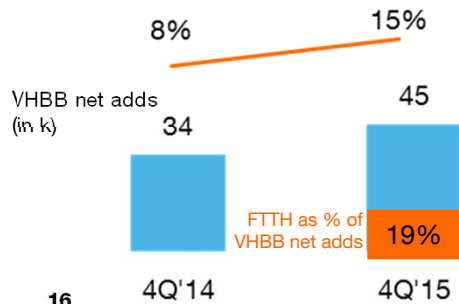
## ARPU (broadband, TV, VoIP) evolution

in PLN/month and yoy % change

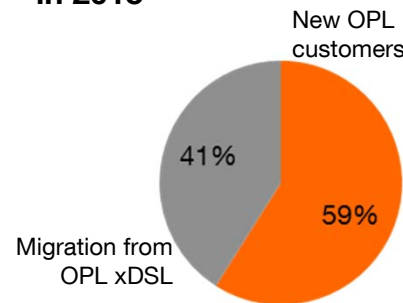


## VHBB (VDSL+FTTH) customers

VHBB customers as % of FBB ex CDMA



## FTTH sources of gross adds in 2015



- Total loss of lines the lowest in four quarters but competition in mobile for fixed substitution remains high
- 17k fibre customers at year end of which 59% are new customers
- Stable ARPU (despite price cuts in June) reflects increased 3P bundling and shift from PSTN to VoIP

# Fixed voice revenue decline sequentially lower due to better ARPU trend

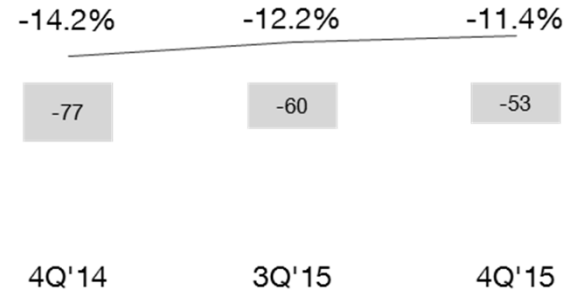
## Retail fixed voice ARPU\* evolution

in PLN/month and yoy % change



## Unchanged revenue trend

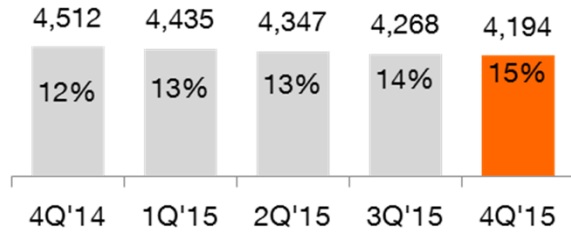
yoy change in PLNm and %



## Retail fixed voice lines evolution

in k

VoIP as % of total

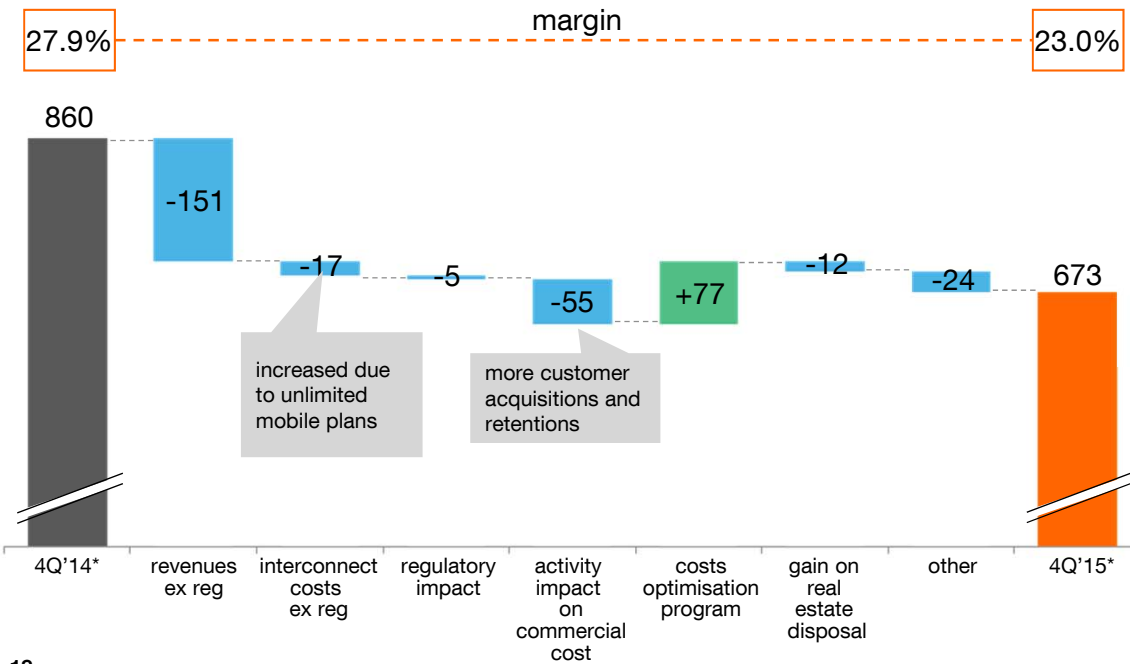


- Lines losses have stabilised
- Much lower ARPU erosion yoy; versus Q3 ARPU affected by lower seasonal traffic in B2B
- Slightly lower sequential revenue decline

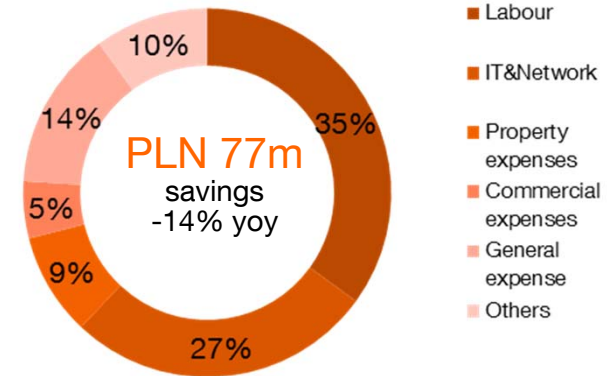
# 4Q EBITDA reflects lower revenues and higher marketing investments

## Group restated EBITDA\* evolution

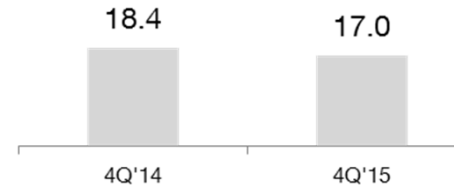
yoy change in PLNm



## split of cost savings



employment down 8.0% yoy  
(in kFTE end of period)



\* restated as presented in appendix (slide #39)

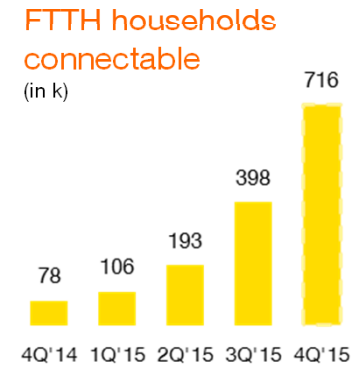
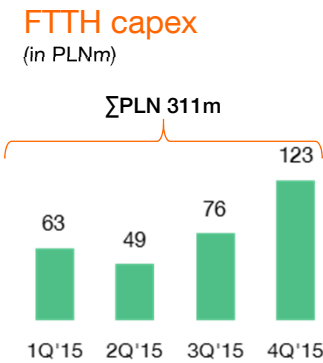
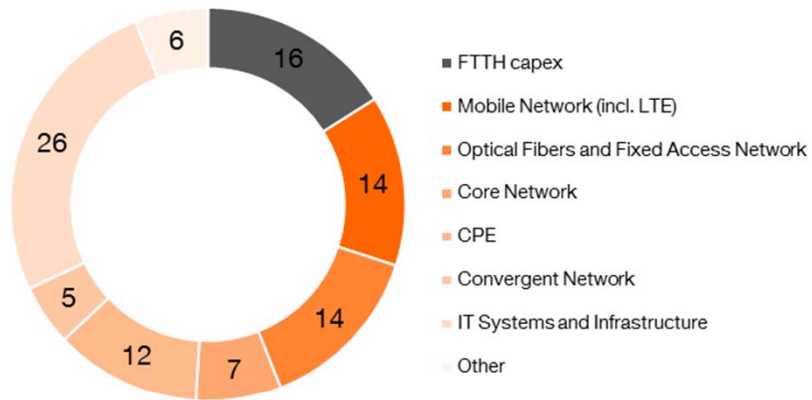
## Net income affected by provisioning for the new Social Plan

in PLNm	FY'14	FY'15	4Q'14	4Q'15	change
reported EBITDA	4,076	3,431	898	584	-314
depreciation and amortization	-3,073	-2,871	-770	-712	+58
impairment of non-current assets	-17	12	-10	10	20
reported operating income	986	572	118	-118	-236
net financial costs	-405	-291	-83	-81	+2
income tax	-46	-27	-5	+46	+51
reported net income	535	254	30	-153	-183

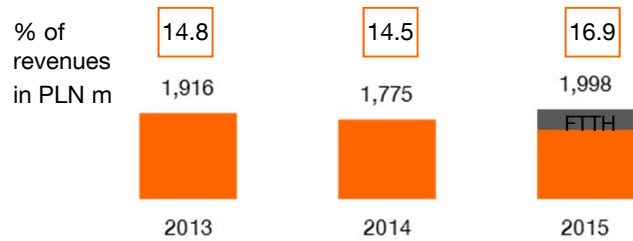
Reported EBITDA reflects PLN 89m of net impact of employment termination expenses

# Better FTTH capex efficiency

2015 key investment areas\* (in %)



Capital expenditure\* evolution



- Network FTTH capex per connectable household c.30% lower than expected
- Capex ex-FTTH down 5% yoy (at 14.3% of revenues) driven by lower spending on mobile market after network modernisation completion in 2014

\* Excluding spectrum acquisition

## Full-year cash flow guidance of around PLN 0.9bn\*\* delivered

in PLNm	FY'14	FY'15	change	4Q'14	4Q'15	change
Net cash flow from operating activities before income tax paid and change in working capital	3,073	3,001	-72	572	573	+1
Change in working capital	-255	-388	-133	-29	-62	-33
CAPEX ex spectrum*	-1,790	-1,990	-200	-620	-854	-234
900MHz spectrum renewal fee	-358	-	+358	-	-	-
Change in CAPEX payables	-59	262	+321	198	463	+265
Auction deposits and bid bond for LTE	-20	-	+20	-20	741	+761
Income tax received/(paid)	-65	-76	-11	-23	-40	-17
Sales of assets	100	143	+43	55	39	-16
<b>Reported organic cash flow</b>	<b>626</b>	<b>952</b>	<b>+326</b>	<b>133</b>	<b>860</b>	<b>+727</b>
900MHz spectrum renewal fee	+358	-	-358	-	-	-
Auction deposits and bid bond for LTE	+20	-	-20	+20	-741	-761
Settlement with Netia	+145	-	-145	+145	-	-145
<b>Organic cash flow (guidance definition)**</b>	<b>1,149</b>	<b>952</b>	<b>-197</b>	<b>298</b>	<b>119</b>	<b>-179</b>

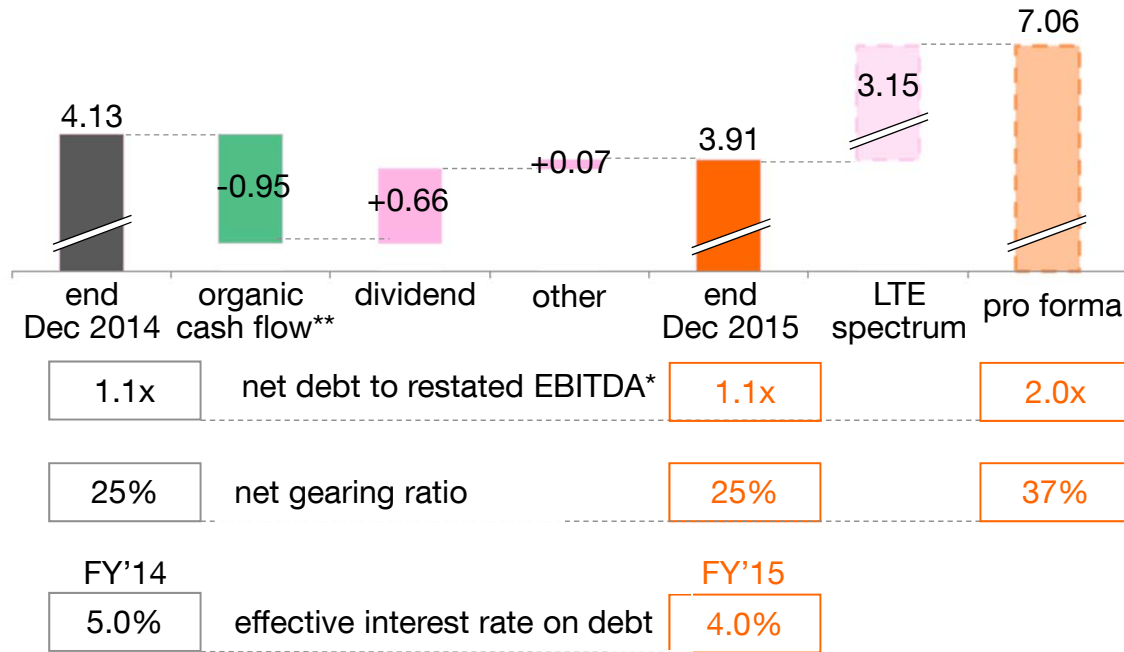
21 \* including exchange rate effect on derivatives economically hedging capital expenditures, net

\*\* including cash capex for fibre access network project and excluding one-offs: acquisition of any new spectrum, potential payment of the EC fine and certain other claims and litigations

# After payment for spectrum financial leverage at 2.0x

## net debt evolution

change in PLN bn



available liquidity end of Dec 2015:

- PLN 0.27bn cash
- PLN 1.97bn unused credit lines
- PLN 1.75bn back-up lines

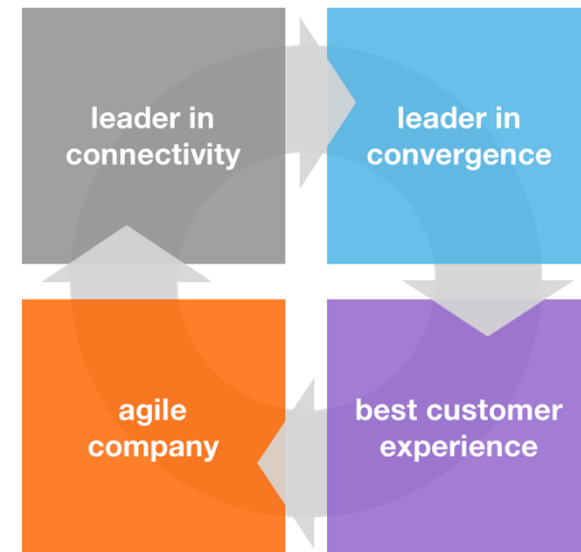
new spectrum financed out of existing and new borrowing facilities from Orange Group

\* restated as presented in appendix (slide #39)

\*\* as defined on slide #21

# Action plan 2016-2018

1. Market
2. Our assets
3. Commercial strategy
4. Fibre investments
5. Financial outlook

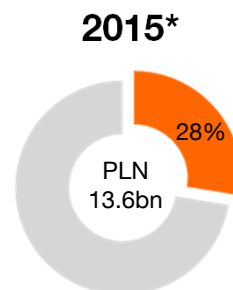
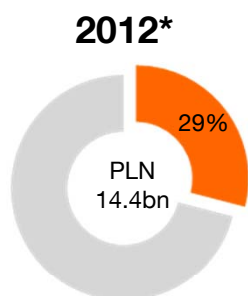


1. Market

## Market evolution for key segments

Total market and Orange Polska market share

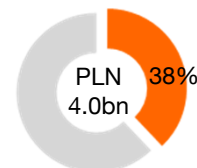
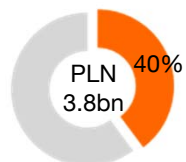
mobile post-paid voice (retail)



estimated CAGR 2015-2018\*

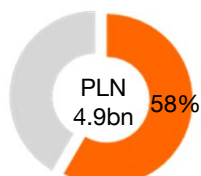
stable to low single digit growth

fixed broadband



low single digit growth

fixed voice



similar like for 2012-2015

mobile post-paid broadband



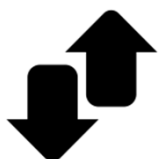
slightly accelerating vs. 2012-2015

24

\* Company's estimations

## 1. Market

# Customer needs are evolving and market is full of opportunities



66% CAGR  
mobile\*  
29% CAGR  
fixed data\*\*  
traffic in Poland  
2014-2019



Almost 50%  
of streaming in  
total mobile  
usage and  
growing



Convergence  
driven by  
growing  
number of  
connected  
devices per  
household



Surge in Internet  
of Things  
>58% CAGR  
wearables  
market\*\*\* in  
Poland 2014-  
2018



Simplicity  
customers  
appreciate  
simple  
solutions



Security  
emerges  
as top  
customer  
need

## It is time for us to go on the offensive

25 \* Cisco  
\*\* analysys mason  
\*\*\* Company's estimations

## 2. Our assets

# We are uniquely positioned and equipped to win the market



**powerful brand**  
Orange and innovative B-brand (nju.mobile)



**Convergent network**  
Largest coverage of fixed and mobile network in Poland



**Convergent offers**  
Broadest portfolio of convergent mobile and fixed services



**Unique presence in mass and business segment**



**Developing omnichannel distribution**  
POS, online, telesales

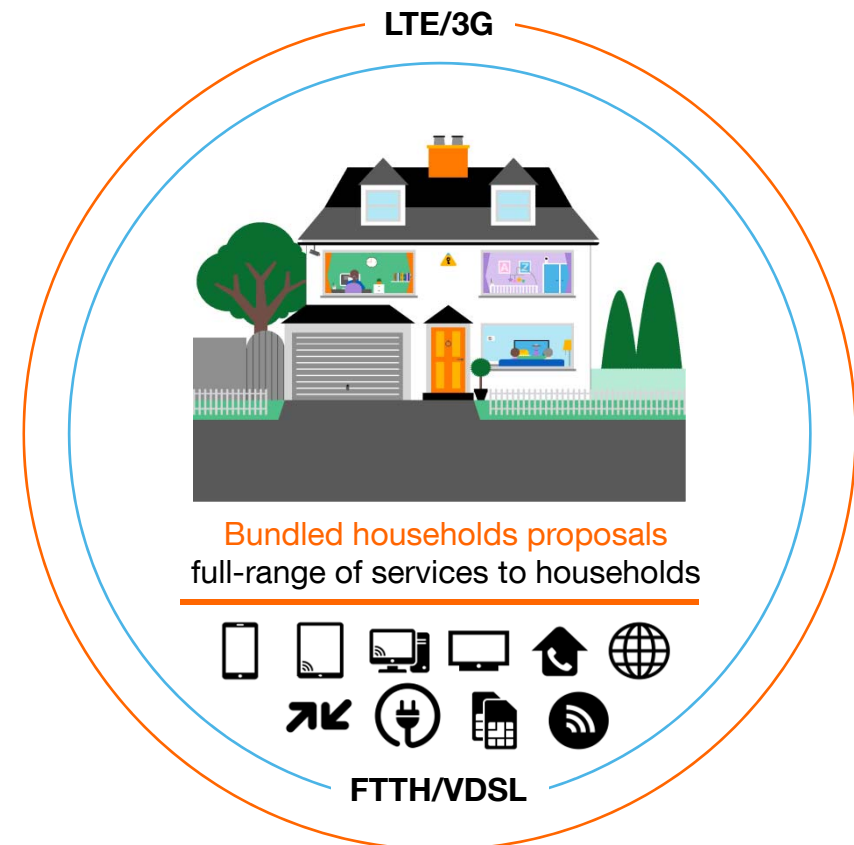


**Improving customer perception**

### 3. Commercial strategy

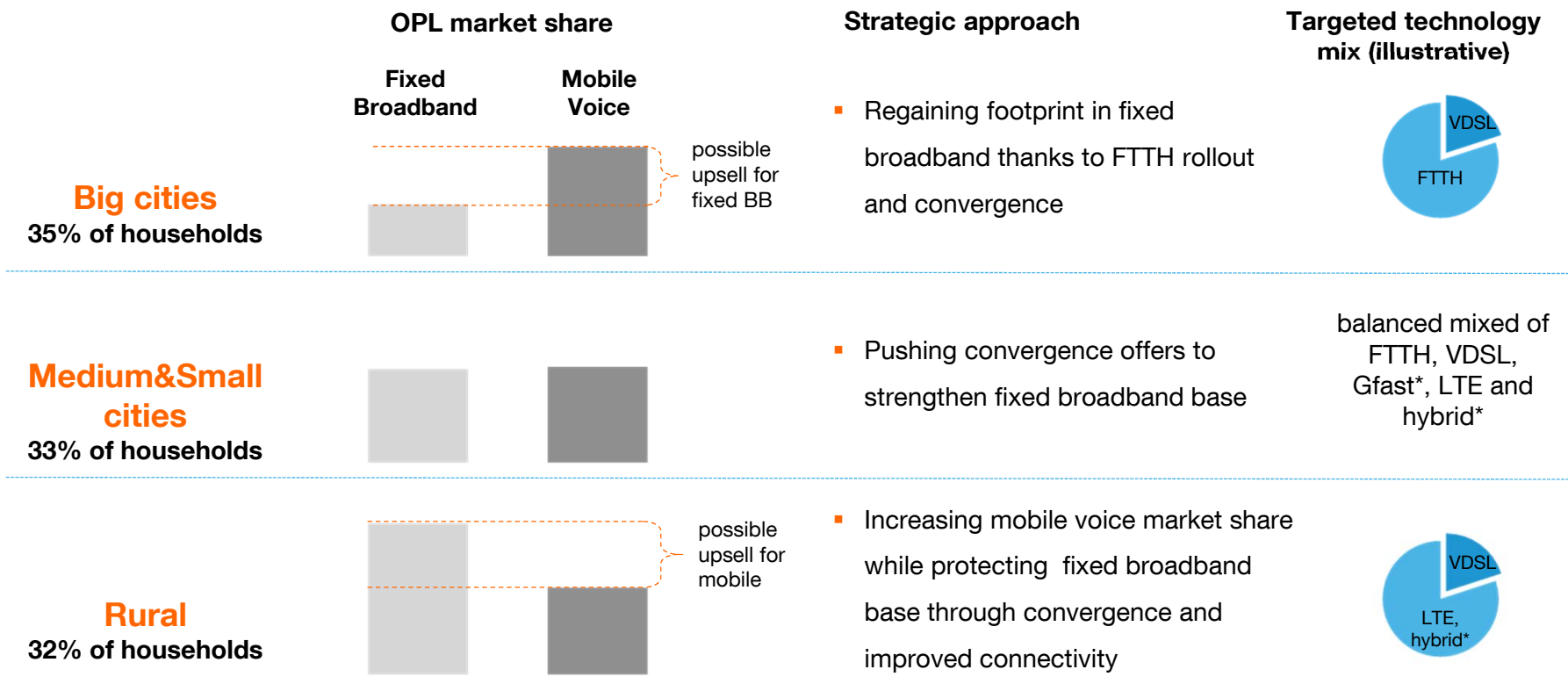
## Consumer market: strategy centred around household

- Best connectivity experience through LTE, VDSL and FTTH
- Differentiated geographical approach
- Competitive offers for households, including
  - benefits of upsell
  - best deals on telecom devices
  - and enriched by non-telco products
- Appealing content for all screens
- Best customer care in all channels



3. Commercial strategy

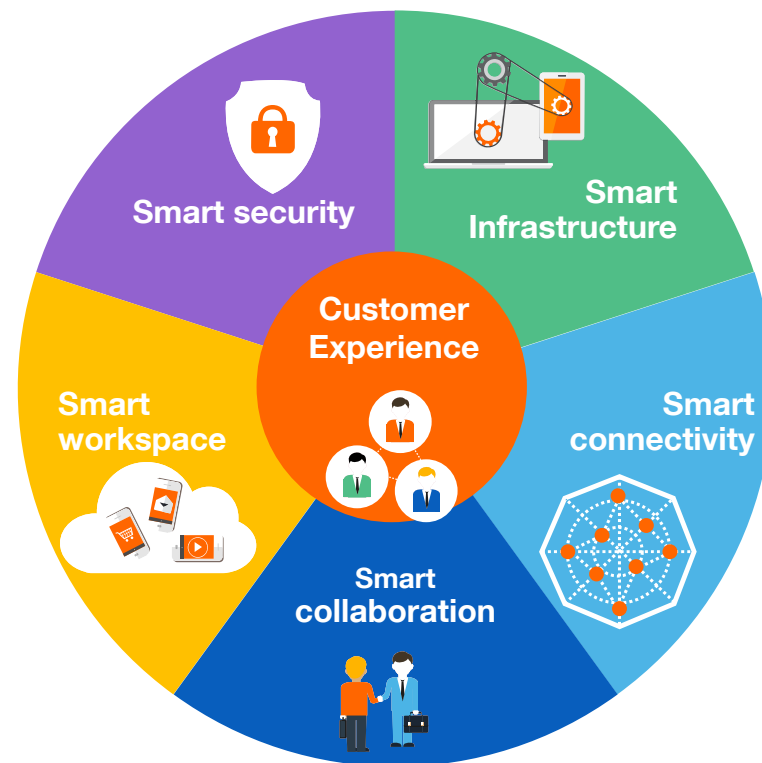
## Consumer market: to win we go local



### 3. Commercial strategy

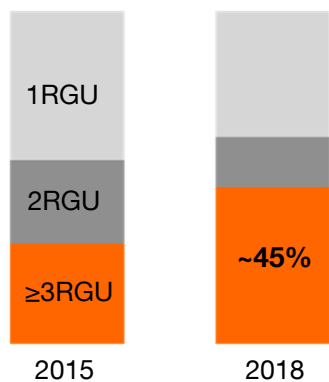
## Business market: push on quality and new services

- **Fibre and LTE** to offer new opportunities for fixed broadband and VPN customers
- **Convergence** as key differentiator for SME & SOHO customers
- Growing importance of **ICT** – cloud, outsourcing, security and fast accessibility to fuel demand for proper integration
- Accelerating **M2M** following growing connectivity needs of internet of things

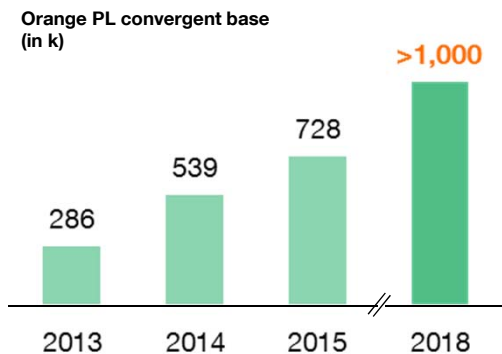


3. Commercial strategy

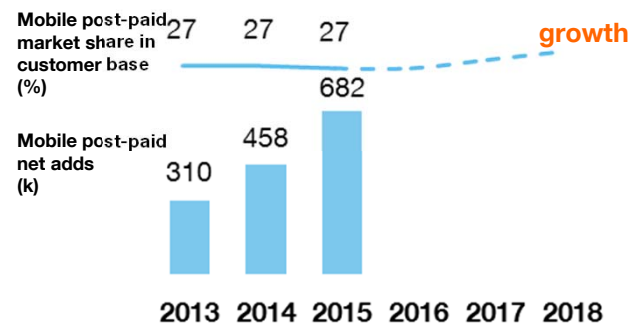
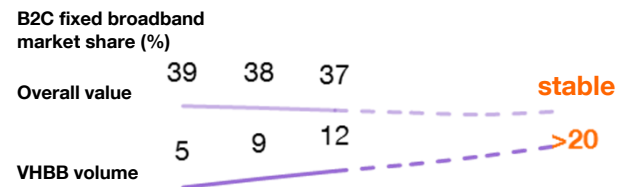
## Market shares: reconquest and increase



Growing number of RGUs and ARPU per household



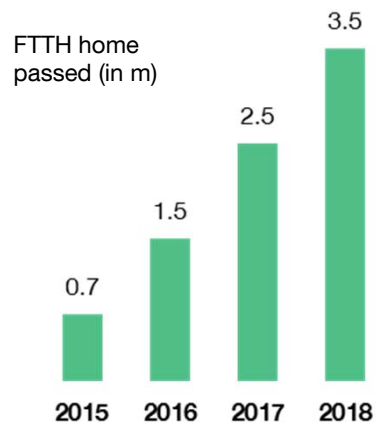
Raising convergent base



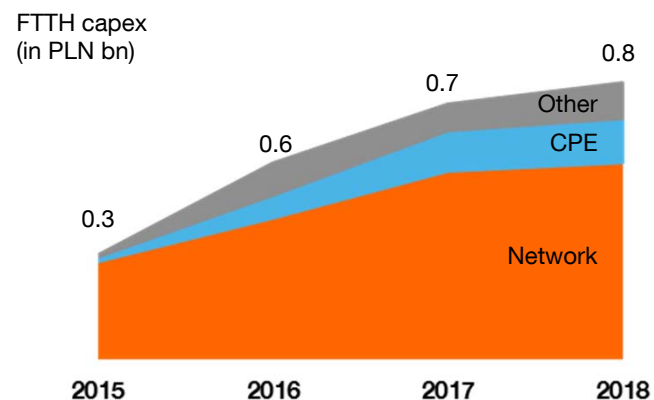
Mobile and fixed broadband market share to grow again

#### 4. Fibre investments

## Orange Polska fibre investments will support long term value



**Up to 1m households connectable per year, based on precise targeting**



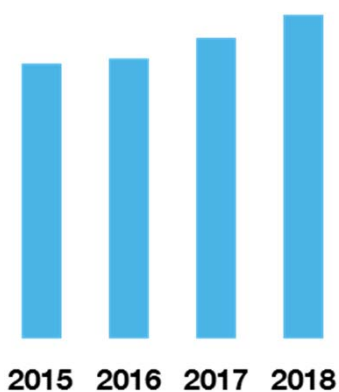
**FTTH capex scale conditional depending on commercial success and financial capacity**

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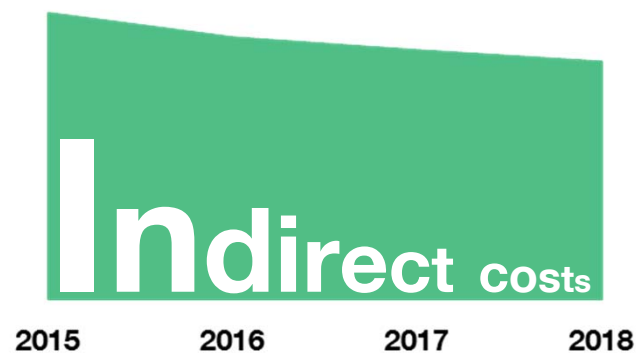
**Targeted IRR of FTTH capex significantly above WACC**

5. Financial outlook

## More commercial investments and transformation of fixed costs



Investments in customer acquisition and retention to defend and grow market shares



Constant transformation of indirect costs recently launched New Operating Model project aimed at delivering solutions for permanent reduction of operating costs

5. Financial outlook

# Strategy to turnaround the Company. Balance sheet under control

## REVENUES trends



**Back to growth in 2018**  
following success of FTTH and growth in number of mobile customers

## EBITDA trends



**Back to growth in 2018**  
driven by revenue improvement, operating leverage, business optimisations

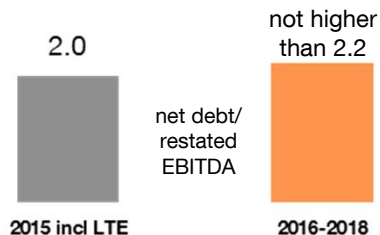
## CAPEX trends



**FTTH scale conditional**  
depending on commercial success and financial capacity up to 1m HH connectable per year

**Ex-FTTH down to PLN 1.3-1.4bn in 2018**  
mainly fixed and mobile network and IT

## LEVERAGE guidance



**Net debt to restated EBITDA not higher than 2.2x**

# Guidance and dividend

**Bruno Duthoit**  
Chief executive officer

## 2016 key anticipated trends and guidance

	2015	2016 expectations
top-line evolution	PLN 11.8bn -2.9% yoy	revenues to be under pressure – relatively benign outlook for mobile likely to be offset by ongoing negative trends in fixed and lack of infrastructure projects
capital expenditures	PLN 2.0bn 16.9% of revenue	around PLN 2bn, including up to PLN 600m on fibre rollout (excluding any spectrum licences)
<b>2016 guidance</b>		
restated EBITDA	PLN 3.52bn*	PLN 3.15bn – PLN 3.30bn
net debt to restated EBITDA	2.0x (incl LTE payment)**	not higher than 2.2x

35

\* restated as presented in appendix (slide #39)

\*\* end-2015 net debt increased by the payment for LTE spectrum divided by 2015 restated EBITDA as presented on slide #22

## Shareholders' remuneration

cash  
dividend  
to be paid in  
2016\*

PLN 0.25 per share

# Q&A

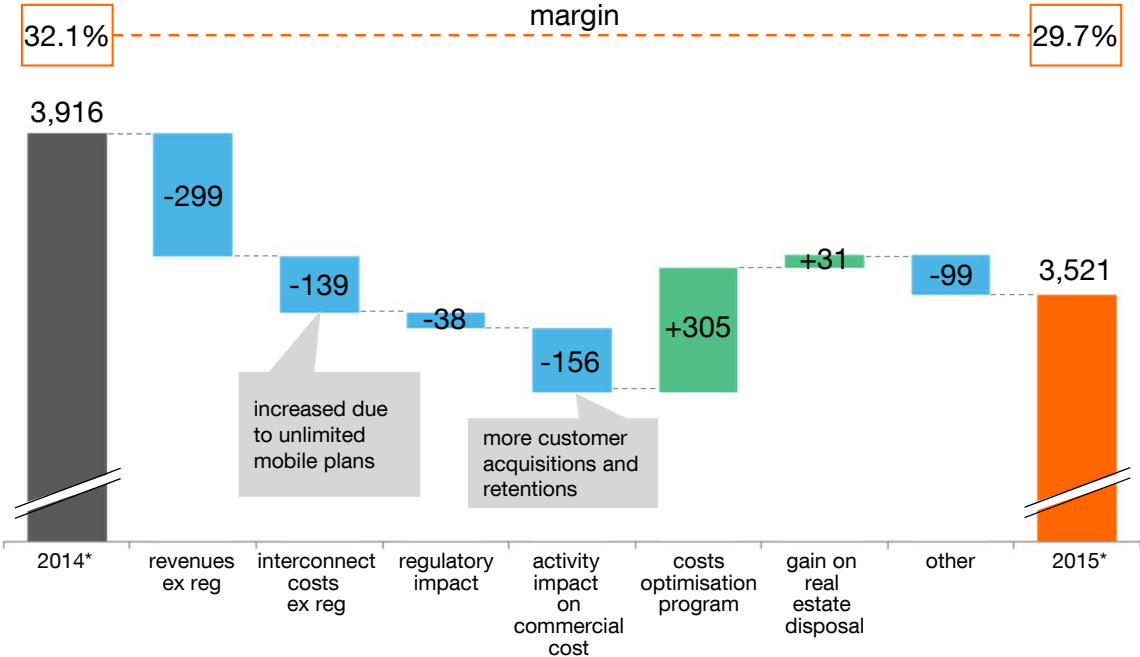
# Appendix

## Restatements to financial data

<i>in PLNm</i>	4Q'14	4Q'15	FY'14	FY'15
revenue	3,087	2,926	12,212	11,840
-revenue of Wirtualna Polska and Contact Center	-5	-	-21	-
restated revenue	3,082	2,926	12,191	11,840
EBITDA	898	584	4,076	3,431
-gain on disposal of Wirtualna Polska	-	-	-191	-
-EBITDA of Wirtualna Polska and Contact Center	-1	-	-5	-
-the impact of certain claims and litigations	-29	-	44	-
-employment termination expenses net of related curtailment of long-term employee benefits	-8	89	-8	90
restated EBITDA	860	673	3,916	3,521
capital expenditures	622	860	2,153	1,998
-acquisition of telecommunications licences	-1	-	-378	-
capital expenditures (outlook definition)	621	860	1,775	1,998

# FY restated EBITDA

**Group restated EBITDA\* evolution**  
yoy change in PLNm



\* restated as presented in appendix (slide #39)

## Glossary (1/4)

4G	fourth generation of mobile technology, sometimes called LTE (Long Term Evolution)
ARPU	Average Revenue per User
AUPU	Average Usage per User
BSA	Bit Stream Access
CATV	Cable Television
CDMA	Code Division Multiple Access, second generation wireless mobile network used also as a wireless local loop for locations where cable access is not economically justified
data user	a customer who used mobile data transmission in a given month
EBITDA	Operating income + depreciation and amortization + impairment of goodwill + impairment of non-current assets
F2M	Fixed to Mobile Calls
FBB	Fixed Broadband

## Glossary (2/4)

Fibre access network project	rollout of fixed broadband access network based on fibre technology which provides the end user with speed of above 100Mbps
FTE	Full time equivalent
FTTH	Fibre To The Home
Households (HH) connectable in fibre technology	Households where broadband access service based on fibre technology can be rendered
ICT	Information and Communication Technologies
Liquidity Ratio	Cash and unused credit lines divided by debt to be repaid in the next 18 months
LTE	Long Term Evolution, standard of data transmission on mobile networks (4G)
LTE user	a customer who used LTE service at least once in a given month
M2M	Machine to Machine, telemetry

## Glossary (3/4)

MVNO	Mobile Virtual Network Operator
Net Gearing	net gearing after hedging ratio = net debt after hedging / (net debt after hedging + shareholders' equity)
Organic Cash Flow	Organic Cash Flow = Net cash provided by Operating Activities – (CAPEX + CAPEX payables) + proceeds from sale of assets
Neotrada	Fixed broadband access service
POS	Point-Of-Sale
POTS	Plain Old Telephone Service
RAN agreement	agreement on reciprocal use of radio access networks
RGU	Revenue Generating Unit
SAC	Subscriber Acquisition Costs
SIMO	mobile SIM only offers without devices
SRC	Subscription Retention Costs
UKE	Office of Electronic Communications - Regulator

## Glossary (4/4)

UOKiK	Office for Competition and Consumer Protection
VDSL	Very-high-bit-rate Digital Subscriber Line
VHBB	Very high speed broadband above 30Mbps
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