ORANGE POLSKA Q2 2016 RESULTS CONFERENCE CALL
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Chairperson: Leszek Iwaszko

Leszek Iwaszko, Orange Polska SA - Head of IR [1]

Welcome to Orange Polska results conference for the second quarter of 2016. My name is Leszek Iwaszko. I'm the Head of Investor Relations.

Today I would like to have the pleasure to introduce our new CEO, Jean-Francois Fallacher. Also with us today are Maciej Nowohonski, CFO; and Mariusz Gaca, responsible for the business market; Jolanta Dudek, responsible for customer care; and Jacek Kowalski, who is responsible for HR.

Our results have been published yesterday and they are available on our IR website.

So I hand the floor to Jean-Francois to have the presentation.

Jean-Francois Fallacher - Orange Polska SA - CEO [2]

Thank you very much, Leszek. Good morning, ladies and gentlemen. Happy to see so many of you despite we are in the middle of the summer and it's so warm outside. So thank you for coming and joining this conference this morning.

So I will start introducing this presentation, then pass the floor to Maciej Nowohonski for more in-depth presentation of our financial results. And later on I will conclude before the Q&A session.

So let me start with the highlights of this morning. So as you have seen, our financial results in the second quarter are in line with our plans. The top line, despite still being in decrease, is improving slightly due to our -- thanks, I would say, to our good mobile revenues. Our EBITDA is on track. We can reiterate the guidance, the full guidance. And the cash flow generation was, I think, quite decent, helped by the better working capital.

So now if I go to the next slide because I would like to spend a little bit more time now commenting our commercial results. What you can see on this chart is that in Q2 we continued with strong on mobile results. The first thing that you will notice is that the customer net additions were quite good and strong. And I would like to stress that on a year-to-year basis, if you look at the full year, I think this Company can be proud that we have added and increased our customer base by more than 1 million, of which actually 80% is coming from postpaid services, and the growth is coming from all segments, from B2C and as well from B2B segments, which is doing pretty well.

We have quite attractive offers. You can see on one of the charts that for the fifth consecutive quarter we are attracting positively -- we are net positive on the portability balance, so we are for five quarters attracting actually more customers from competitors than we have -- than we are losing to competitors, which is of course extremely positive.

If you look also in this chart, you can see the convergent customer numbers. So you see that we are now close to 800,000 convergent customers. If you go and zoom in the details, you will see that it's however slightly lower than the growth in the previous quarter. I want to stress your attention on one of the charts, the blue chart, concerning our mobile broadband customers. You will see a little red line in the bottom, which is actually number of customers we're adding to a technology that is called fixed LTE. Fixed LTE is a substitute to fixed, so it's actually a box which enables us to give fixed access to customers using our 4G network. And if we would add these fixed customers to the convergent one, which is not the case, you will see actually that the numbers -- the convergent growth is higher than in Q2, which as well, I think, is quite a good news.

On the side of the fixed customers, actually we need to improve the performance, and that's what I'm going to comment in the next slide. So next slide, please.

You will see that one way we are wishing to improve our fixed business is actually to push on conversion. We have taken here an example of one of the offers we are proposing to the market, whereby actually choosing fixed access by Orange, you can get very nice discount for your mobile. It's actually 100% discount for the first year or 50% for the duration of your contract, two years. So with such offers we definitely, as you can imagine, encourage customers actually to switch from cable companies back to Orange on our fixed services and actually to take more services by us, so namely fixed TV and mobile.

Another item that I would like to comment on the next slide is what we've been doing to prepare ourselves for pre-paid registration. As you know very well, there has been a new law published in Poland whereby we -- mobile operators will be actually needing to register our pre-paid customers. We usually do not comment so much pre-paid in this business reviews. But nonetheless, this is an important business for us.

And as you know, before the date of yesterday, actually a pre-paid phone was free of registration so you could go in any of the 4,000 distribution chains we having in this country, buy a prepaid card, put it in your phone and it was working. Since actually yesterday you will need to show actually your ID before you will be able to place phones. This is for the new customers. And on February 1, 2017, the entire base, and this is of course valid for all the operators, the entire base will need to be registered, else we will need actually to stop providing services to the pre-paid cards that will not be registered on the date of February 1, 2017.

So you understand that the next semester will be quite an important one for all mobile operators and especially for Orange because we are the leader of the market in this pre-paid business. So we have been preparing very much to this and you have probably seen it in Warsaw, for those of you who are living in this beautiful city. The city is full of our commercials, posters whereby we're actually giving a bonus of 1,000 minutes and 10 gigabytes to those prepaid customers that would come in our shops and register as soon as possible. This is of course to prepare ourselves to the large flow of customers that will visit our shops in the coming months in the second semester to register prepaid.

Let me now comment a little bit more of one of -- one of the key, and actually will be two of the key strategic direction of this Company. I mean our investment in fiber. As you can see on this chart, the investment in fiber is progressing extremely well. We are well on track. We have announced actually pretty recently, end of June, we have connected 1 million households in Poland. And we are on the good track to connect 1.5 million at the end of the year.

As you can see on this chart, total customer base is now, at the end of June -- was, at the end of June, 39,000 fiber customers being actually connected to this network, actively using it.

We have added 12,000 customers in the last quarter. The good news is that this is more than the first quarter. You will probably tell me that it is not enough. I am agreeing with this. And we are obviously in this Company doing our utmost to accelerate and increase the base at which we are attracting customers on our fiber network.

What I would like to mention is that this will be a long-term movement for this Company. I think a lot needs to be dome to communicate to the Polish market about fiber and to associate Orange with very high speed. Obviously we are associated with ADSL broadband. But obviously fiber is a state-the-art and the media of the future to connect households at the speed of light. This is the technology of the future that is here today and a lot needs to be done actually to communicate to the Polish people and to the Polish market the benefits of fiber, which we will of course do in the coming years.

And I would say month by month try to unlock those customers that are engaged in two years' contract with cable operators to switch back to Orange. As you can imagine, this is again a long-term initiative that will keep us busy for the coming years. And we are very proud to have now this beautiful network and services to bring to the Polish market.

Last but not least, before I'm giving the floor to Maciej Nowohonski, on the side of 4G and mobile, you for sure have been following up the fact that we bought the 4G 800-megahertz license. So I want to report to this analyst meeting what our progress is on this front. We are also on track; it's good to buy frequencies, it's better to use them. That's what we are doing. So we have deployed 645 sites in the 800-megahertz frequency, which, as you can see here, is covering now a population of 51% of the Polish people.

Obviously we are actually concentrating on, I would say, more rural places or smaller town because we already are present with our 1800-megahertz spectrum in the larger cities. Overall, in total, you have to keep in mind that we are covering 95% of the Polish population with 4G. And I'm quite happy to actually report that in the last weeks Ookla, which is quite well known, it's the speed test measurement, has been awarding us the fastest mobile network in Poland.

You can see there, look on the side, what is very good is that these measurements are coming from our customers, from this independent party, which is Ookla speed test. We are very happy to see that our policy, our strategy to invest in our network is paying because we are the number one and the fastest mobile network in Poland.

Last but not least on this chapter, you also are probably very well aware that there were news in the last month, so the final block that was to be allocated by the UKE has been allocated to actually T-Mobile. For us this is good news because it will enable us to start talks with a potential extension of our deal, our infrastructure cooperation with T-Mobile. It will allow us to start potential talks about doing this 800 megahertz extension under this deal, so in cooperation with T-Mobile.

So once again, we are going to start hopefully these talks, which should enable us to deploy on a more, let's say, efficient way our upcoming 4G for 800-megahertz coverage.

So with these points, I will pass the floor to Maciej for more detail on our financial results. Thank you for your attention.

Maciej Nowohonski - Orange Polska SA - CFO [3]

Thank you very much, Jean-Francois. Good morning, everybody. So we start the financial review on page 13.

So top-line trends in the second semester improving -- improved thanks to the mobile, this is what Jean-Francois already mentioned. When you take a look at the trends on EBITDA Q2, it's comparable to Q1 without HR provision reversal that we have been flagging in Q1 that happened. It had a positive impact on the Q1 results.

Nonetheless, we see a heavy commercial investment in our results. They have profited with very good results on the mobile uptake. We see also the legacy business deterioration, which is another fact. And finally we see also ADSL base decrease that also marks the EBITDA evolution.

And in terms of the cash generation, the quarter was quite good. The erosion is lower than the EBITDA and this is despite the high CapEx outlays that we have seen. And this is thanks also to the working capital, which has considerably improved in this quarter.

So now I move swiftly to the next page, which is about the details of the revenue evolution. And here you can see that trends are improving and this is, once again, it's important to repeat, thanks to mobile. And this is also despite the fact that we do not see in our current results the infrastructure projects. And those infrastructure projects were with us for important three first quarters of last year.

As I said, mobile increased strongly 6.5%, and this is thanks to two big elements. First of all this is the customer base. Jean-Francois already mentioned that we have increased our mobile customers base by more than 1 million within one year. And 80% of that relates to post-paid, that's visible here in the trends of the revenue. And the second item is that we intensify right now the instalment offers. It's visible within our portfolio. It is responsible for 30% to 40% of our [acts] right now. So it's also visible in the revenue and EBITDA.

On the fixed front, the trends were quite similar to previous quarters. And going forward we expect that we should continue with those trends, mobile and fixed. And in terms of the year-over-year evolution for the second semester, the I would say detrimental effect of the infrastructure projects not being with us this year will gradually diminish and will disappear basically in Q4 when we meet here to discuss the Q4 results.

So now let's take a look at a closer detail for mobile. This is on page 15. And here, as I said, there are two positive trends. And first of all, this is the growth of the post-paid base which is strongly increasing, and it's also visible in our current results of the quarter and the growth of the equipment sales. So the latter is even accelerated in Q2. So equipment sales are going up, and this is in line with what we said about the shift towards the instalment model. And we've been talking about that last quarter.

Important thing about the churn that we see in our post-paid base, this is at multi-year low level right now. It's only 2.8% for the quarter and it has improved from 3% that was with us for the last quarter. So it is a clear demonstration that the convergence strategy is working, that customers are more loyal to us and they see higher trust in us, in our services and in our product.

You have also noticed the deterioration of the blended ARPU. That's responsible, in fact, for two business lines that we have in mobile. First of all in prepaid it decreased because of our high commercial activity. So in fact we have involved many prepaid cards and we have dispatched them to our post-paid customers and our broadband customers to make sure that they have the service that they need. And a lot of these cards have been activated at relatively low value bandwidth. It's like PLN5 to PLN10. So it has diluted, in fact, the overall ARPU, for the prepaid. However, the usage stayed at the previous level.

And then in post-paid we see basically similar factors that were impacting us in the previous quarters. And I mention them once again. The multi-SIM offers, the increase of the SIM-free sales -- excuse me, SIM-only sales, the popularization of our convergent offers and convergence rebates which are with us.

So it is also important to mention that not everything is visible today in our ARPU evolution, because when we take a look at what customer is paying to us, so the total bill, which is in many cases comprising of two elements, service and instalment for a handset. And when we take a look at that, the dilution of the bill is two times softer than the percentages that you see for the ARPU. So in fact the customers are not paying that -- less that you could expect from just an ARPU evolution.

And one additional important fact we've been saying about the uptake on the customer base, so when we combine all together the evolution of the bill of a customer and the customer base evolution which is growing, the revenue that we see on -- coming from us -- to us from the customers is in fact stable already on the B2C front. And it's very close to be stabilized on the B2B front.

Then going to the next section, which is about broadband, it's page 16. There are a couple of things which are worth saying. First of all, fixed broadband -- fast fixed broadband customer base continues to show a healthy growth; above 400,000 in a customer base right now. Obviously you see the ADSL eroding, and that's because of the competition from the cable operators and from the substitution to mobile broadband.

And regarding the fixed LTE, it is an important substitute today for the ADSL. And you can see that we -- when we combine together the evolution of the ADSL, VDSL, FTTH and fixed LTE, actually we are showing the growth for the Q2.

In terms of commercial activity, we will be probably much more talkative on the next meeting. But just to highlight right now, we are preparing some additional promotions which would be attracting our customers more towards the broadband and convergent offers. And that's going to be ready for back to school.

So going to the next section, fixed voice, slide 17. Here I would say first thing to say is that the loss of the fixed voice is at the lowest level since seven quarters. So we've been able to cool down the deterioration of the customer base here. One of the reasons is that we are effectively bundling those services with some other services, like, for example mobile. And it's already 20% of our base which is within those bundles.

This trend about cooling down the net additions is actually not too stable. So we do not know how the evolution of this business could evolve in the future and we cannot promise today, I would say, a continuation of the trends. However, it is not excluded.

Now let's go to EBITDA. It's page 18. So here you remember that we have been talking about 2016 guidance and we said that the profitability is under pressure from the negative structural trends in our fixed line services, and in fact this is what is happening. Falling fixed voice and wholesale are responsible for the substantial part of those -- of this erosion in the second quarter. Falling fixed broadband revenue of course does not help to the -- for margin. We fight with that, but in Q2 it's visible.

And then profits from mobile post-paid are increasing, but they are obviously commercially quite cost-intensive. So you see also that in our commercial costs.

On the indirect costs front, again, good quarter. The whole semester was good. We have additional savings; it's 4% year over year. And looking forward for the second semester, we expect a slightly more favorable EBITDA evolution in year-over-year terms. And that's going to be mainly driven by the better revenue trends that we've been discussing, so improving mobile and cooling down the deterioration of the fixed, and higher savings on the indirect costs front. So our full-year guidance is obviously secured.

Now let's take a look at the net income on page 19. Net income is impacted by lower EBITDA and the higher financial cost. So following payment of the new spectrum in February, we took additional debt on ourselves and it's visible there. These effects are partly compensated by lower depreciation, and here there are two effects impacting depreciation. One thing which is growing is the depreciation and amortization of the licenses.

And second, which is going down, is the positive effect from the extension of the useful life of some assets that we have been flagging a quarter ago.

So now let's go to page 20, which is not so typical, I would say, in our last quarterly reviews because this is the CapEx. And we thought it will be good and fair to exchange with you on what we spent. And this is also in response to many questions that we have been getting from the investor community and analyst community. So on slide number 20 we have divided our CapEx in five different categories to help you to understand what is the evolution of that.

And what you can see is that what's growing is, first of all, the fixed and mobile connectivity and, as well, the CapEx for business transformation that is ongoing in the Company.

In terms of the fiber CapEx, please note that in the first half we have spent around 75% of the amount that you see in this category on the household connectable and around 25% is dedicated to concrete customer connections and equipment which is needed to connect the customer.

So I propose that we go now to page 21 of the document, which is about the cash flow. And here, as I said, we have achieved a pretty good level of cash in this quarter. This was supported by working capital. So there are three elements which are worth mentioning here for the working capital.

First of all, we had timely payments from customers. Receivables this year were flat, whereas last year were much increasing towards the end of the semester.

Second important thing here in the working capital is the efficient inventory management. We have decreased inventories for the end of the second quarter of 2016. And in fact actually last year those inventories had been increasing at the end of the quarter. And we have some positive one-offs which were also mentioned on some slides related to the revenue, which basically contributed here positively.

Looking forward for Q3 cash generation, we expect that this cash generation will be lower than in the second semester. There are basic facts which are impacting that. First of all, we pay the license fee for the UMTS, and always pay it in September. So this is, I would say, no surprise for somebody who is tracking our quarterly cash generation and it's going to be around PLN120 million. So it's going to be visible. And the interest to be paid in the third quarter will be higher than the interest actually paid in the last two quarters. So it's a basically phasing of payments of the interest, which will be responsible for something like PLN25 million.

In terms of the upside on the working capital, we want to keep at least part of this upside that we see today. So we would like to see this year-over-year upside also in Q3 with us.

Then going to page 22, which is the last page before I finish. On this slide you see the evolution of our net debt. So in fact we are presenting some additional information in response to some questions that we have gotten about the ForEx exposure here. So you can clearly see that our debt is risk-free in terms of the currency exposure and is in two-thirds secured hedged from the interest rate fluctuation.

You can also notice that the effective cost of debt has again decreased here, and it's right now around 3.3%. Last time we met it was about 3.5%, 3.6%. We shall expect to stabilize this cost of debt also in Q3. So looking forward it should be -- it should stay at 3.3%. Net debt will probably in Q3 slightly increase because of the UMTS payment.

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

Jean-Francois Fallacher - Orange Polska SA - CEO [4]

Thank you, Maciej. So before we go to the Q&A, let me summarize briefly and give you a little bit of flavor of what our plans for H2 are. On the Q2 results, you understood that our financial results are on track. The results are in line with our plan. And, as Maciej stated it, we are reconfirming the guidance.

I think that Q2 was a -- what needs to be reminded is that the commercial trend on mobile was quite strong actually. And as well on very high broadband, as you have seen, we have added, including a fixed LTE service, more than 75,000 net addition. So I think strong commercial momentum in this Q2 on both mobile and very high broadband.

Now if we look at the next semester, I'd like to give you a brief flavor. So we aim to continue performing well on mobile, of course. And what our challenge is to improve the key fixed business. So that's what we aim to do. So obviously we aim to accelerate the fiber take-up and to pursue convergence to differentiate ourselves on the Polish market.

What I want as well is to take the occasion that you have all here to say that I am here for almost three months now and I can reconfirm that the strategy that has been put in place by my predecessor, Bruno Duthoit, and his team, I fully reconfirm it.

We are in a world where our customers are more and more greedy to consume data on the mobile side, with all these devices that are now flourishing everywhere, smartphones, tablets and all these connected devices.

And on the fixed side as well there is more and more appetite for data, so it's a data world we are going into. So those two large investments that have been conducted and started by the Company are absolutely key.

I am confident in this strategy, so fiber on one side, on the fixed side, which is the way up for this Company, I'm absolutely believing in that, and the deployment of our 4G in 800 megahertz. So I absolutely endorse this strategy.

Now the name of the game will be execution and to execute it properly. You know that, as some of us say, the devil is in the detail, but god as well.

So we are going to focus on executing this strategy. We are going as well to focus on simplifying our processes and refocusing the Company on this strategic direction, especially on the commercial front.

So we are undergoing this transformation from a legacy telco to, I would say, a modern telco. I am very happy that I am joining the team here in Poland and leading this transformation and that I am absolutely determined to deliver. And I'm glad to participate to this turnaround.

So thank you very much for your attention. And again, thank you for coming to us and with us today in the middle of the summer. We are now -- all the team is here around the table. We are now absolutely ready to take your questions. Thank you very much.

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Questions and Answers

Leszek Iwaszko - Orange Polska SA - Head of IR [1]

Thank you very much. As usually we start with the questions from the floor, Konrad?

Konrad Ksiezopolski - Haitong Bank – Analyst [2]

Hello, Konrad Ksiezopolski, Haitong Bank. Could you remind this positive one off in the wholesale? In mobile segment -- what was exactly this positive one-off mentioned on the slide 14, and whether it impacted mobile ARPU anyhow?

Maciej Nowohonski - Orange Polska SA - CFO [3]

It's not related to the mobile ARPU. The range of this one of around [PLN20 million].

Konrad Ksiezopolski - Haitong Bank – Analyst [4]

What was it, the PLN20 million?

Maciej Nowohonski - Orange Polska SA - CFO [5]

It was a settlement with one of the operators.

Konrad Ksiezopolski - Haitong Bank – Analyst [6]

Another question about the prepaid mobile ARPU. Should you expect the same marketing action in the third quarter to impact so heavily negatively prepaid ARPU?

Maciej Nowohonski - Orange Polska SA - CFO [7]

So actually -- well, this is a very good question. And as Jean-Francois mentioned, the second semester is going to be full of interesting activities related to the prepaid part of the business. I just would like to remind you that starting from -- in fact this month. And these days all new customers that are buying prepaid cards -- prepaid numbers are going to be registered with the name, surname and social number. And all customers who are existing today are going to register until the beginning of February next year. So this is a period in which we may expect high commercial activity of the whole market, not only Orange here.

Konrad Ksiezopolski - Haitong Bank – Analyst [8]

So we should rather expect such a negative trend in prepaid ARPU to be maintained in the second half?

Maciej Nowohonski - Orange Polska SA - CFO [9]

It's difficult to say in such a volatile environment how the ARPU for the prepaid should evolve. We have a large number of loyal customers within our prepaid base. So we do not rule out that they will just basically continue to make the usage as they are using today.

Konrad Ksiezopolski - Haitong Bank – Analyst [10]

Okay. Another question about, again, ARPU, but fixed broadband. Actually you didn't comment anything on the erosion of fixed broadband ARPU which accelerated to minus 2 percentage points. Last year we observed positive dynamics. In the first quarter we observed first negative dynamic. This ARPU is composed of three services, broadband, pay TV and VoIP. And the question is what stood behind acceleration of this ARPU erosion?

Maciej Nowohonski - Orange Polska SA - CFO [11]

Well the -- there are no particular new news in terms of the ARPU evolution for broadband. So we are within the trend that we have seen year over year with us in Q1. And, well, it's difficult to say something new about this ARPU evolution. The forces which are impacting the ARPU are the same as they were, so the heavy competition from the cables in agglomerations and heavy competition from the mobile LTE in rural.

Konrad Ksiezopolski - Haitong Bank – Analyst [12]

Yes. But last year we had a positive trend in this ARPU. In the first quarter we saw the first negative trend. And I again say that it's multi-play ARPU formed of three services, broadband, pay TV and VoIP. So where is the problem? Are you repricing your pay TV offer? Are you repricing your broadband offer because you see increased competition from LTE, for example? I don't know.

Maciej Nowohonski - Orange Polska SA - CFO [13]

Konrad, you probably see the results of the change of pricing that we have done in September last year, and now it's going to be -- excuse me, June last year. And now it is going to be visible in our ARPU evolution. I just recall you we have done -- repriced our offer by, roughly speaking, around 10%. Majority of the [acts] which are being done right now are pretty much in different of these categories that you mention. So we sell convergent offer together with the TV and the headline price is the price for the total offer.

Konrad Ksiezopolski - Haitong Bank – Analyst [14]

So we should rather expect this ARPU trend to maintain, meaning minus 2, something like that?

Maciej Nowohonski - Orange Polska SA - CFO [15]

In the foreseeable future, it is difficult to somehow see those trends evolving very differently from Q1 and Q2.

Konrad Ksiezopolski - Haitong Bank – Analyst [16]

Okay. Thank you.

Leszek Iwaszko - Orange Polska SA - Head of IR [17]

A question from the floor? There is one more.

Pawel Szpigiel - mBank - Analyst [18]

Hi. Thank you very much for the presentation. Pawel Szpigiel from mBank. I wanted to ask about the FTTH rollout. What in particular was the main problem with monetizing the network in the second quarter?

Jean-Francois Fallacher - Orange Polska SA - CEO [19]

What do you call a problem?

Pawel Szpigiel - mBank - Analyst [20]

A problem because I assessed that this 10,000 or 11,000 of new clients is not that high

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Jean-Francois Fallacher - Orange Polska SA - CEO [21]

Actually 12,000.

Pawel Szpigiel - mBank - Analyst [22]

Okay.

Jean-Francois Fallacher - Orange Polska SA - CEO [23]

No, actually, to be very frank and direct, we are on the plan. So we are on the plan in terms of a rollout, so passing homes and households, and even on the plan talking about customer numbers. However, obviously looking at the difference between the million homes passed and the 39,000 customers, there is such a gap that obviously we would like to accelerate. But there is no issue or problem, as you quoted it, at this stage. We are in line with our plan and we want to continue and proceed and accelerate.

Pawel Szpigiel - mBank - Analyst [24]

So what is your goal in this area?

Jean-Francois Fallacher - Orange Polska SA - CEO [25]

To do more.

Pawel Szpigiel - mBank - Analyst [26]

Okay, so at the end of the year we could expect more. You will not give us the details, right?

Jean-Francois Fallacher - Orange Polska SA - CEO [27]

We want to accelerate, that's what I would like to share with you.

Pawel Szpigiel - mBank - Analyst [28]

But you want -- I understood that you want to improve the communication of the service to market, right, that you think that's one of the problems with that is because the people don't know the quality of the network?

Jean-Francois Fallacher - Orange Polska SA - CEO [29]

Yes. We have a set of action plan that we're currently deploying, which will be heavily local as well because, as you can imagine, this is a very local business, where, building by building, block by block, house by house, we are connecting customers. So we have a set of actions which are extremely local, both in terms of communication, in terms of local animation to make people aware of the benefits they can get out of Orange Światłowód(fibre).

And there is an effort of communication towards the market that needs to be done and there is as well an effort of linking the Orange brand with Światłowód(fibre) and what it could bring and what are the benefits out of it. We have also some, let's say, more segmented approach. We will use social media which are enabling us to target a bit more customers. We'll need a certain -- we'll be more active in a certain population which are more greedy of bandwidth and speed, like gamers, for instance.

We have a very clear set of actions that we are going to deploy. We are deploying currently. We are going to deploy. Obviously it's going to take, as I was explaining, a lot of time because the Polish market -- most of the Polish market is already equipped, by the way, by us with DSL, but also by our competitors on cable and also on more, let's say, smaller areas by fixed LTE.

So it will be -- it's a long race, it's a marathon rather than 100-metre running that we have started. But we're pretty confident. We are on track. Not happy because we don't believe it's enough, but we're confident. This is the core business of this Company.

Pawel Szpigiel - mBank - Analyst [30]

Okay. Thank you very much. And the second question is about the cost. What could we expect in the field of costs optimization in the second part of the year, because I think as well that you could [do] a little bit more in the second quarter.

Jean-Francois Fallacher - Orange Polska SA - CEO [31]

Maybe I will pass the floor to Maciej immediately. But what I want to stress here is that you will see in the results that our actually indirect costs are better quarter after quarter, semester after semester. So we are, as management, absolutely conscious of that. We are having very clear plans. You can see we're delivering quarter after quarter the results on the indirect cost. So we prefer to focus on what we call direct costs, which are usually costs of acquisition of our customer base or cost of serving the base. And Maciej will maybe tell you a bit more.

Maciej Nowohonski - Orange Polska SA - CFO [32]

Just a couple of things to add to that; it's a good question. We should see year-over-year improvement in terms of the cost decrease in the quarters to come. Actually that's already in

implementation. What we are working on right now is actually not the second semester, because it's, as I said, implemented; we are working on 2017 today in that respect.

Pawel Szpigiel - mBank - Analyst [33]

Could you give us a little bit more details about the work?

Maciej Nowohonski - Orange Polska SA - CFO [34]

Well, to date, this is a number of actions which are, as usual, not concentrated on one area or two different areas. But we basically work on a number of initiatives which is measured in 10s, 10s of initiatives which concerns various areas of the Company.

We are using available benchmarks. We are using external support in terms of knowhow, how to progress in terms of the automation, how to progress in terms of simplification of the processes. And that's also part of our CapEx activity that I mentioned for the transformation. So there is a number of things that we are working. It's difficult to say about one concrete item on that because those items are not big, per se, but the volume makes the difference here.

Jean-Francois Fallacher - Orange Polska SA - CEO [35]

But we can give you a few hints, like obviously we have -- we are trying to optimize energy consumption by changing some equipment, investing in some equipment, which are obviously much less energy-consuming, much more easy to operate, so this is one example that we could quote. There are many, many different projects that are delivering.

Talking again about our investments, it's obviously changing obsolete equipment, changing obsolete IT where maintenance costs are much, much less and performance and efficiency is much better. There is also -- Jacek Kowalski is with us, could tell you a little bit more about -- more better using our own teams more efficiently, automatization of a number of tasks, for instance, which are done in a more efficient way. So these are few examples of ongoing undergoing changes, which allow us to actually work more efficiently, reduce costs basically.

Pawel Szpigiel - mBank - Analyst [36]

Thank you.

Leszek Iwaszko - Orange Polska SA - Head of IR [37]

Any more questions from the floor? I don't see. So I suggest we switch to -- sorry, there is one, Przemek, please.

Przemek Sawala - Pekao - Analyst [38]

Good morning. Przemek Sawala, Pekao. Well you hit a fantastic quarter in terms of net additions to mobile and how this came to the prepaid. How confident are you that this part is going to stay with Orange. Isn't that just some of the clients which are hooked on a promotional terms for a month or two and then they will --?

Jean-Francois Fallacher - Orange Polska SA - CEO [39]

Are you talking about the prepaid customers?

Przemek Sawala - Pekao - Analyst [40]

Yes, prepaid mobile.

Jean-Francois Fallacher - Orange Polska SA - CEO [41]

Of course, you're right to say this because prepay is a volatile business by definition. However, we will see how prepay will be because there will be a new prepay market after registration than before. This market is now in a transition mode. Prepay in 2017 will not be what it used to be obviously because of registration. So I think these acquisitions are still interesting ones because, once again, the prepay market after the registration will look extremely differently than it is today.

Przemek Sawala - Pekao - Analyst [42]

And if I may come back to the FTTH segment for a moment. You mentioned at the beginning of the year that you were creating door to door marketing of the offer. So far we've seen net additions which are a bit disappointing. I would say low. The 12,000 per quarter is not much higher than the 10,000 in the first Q. You also mentioned in the commentary that you are preparing various activities, other various activities, to boost those numbers in the second semester. Would that include also a cooperation on the selling front or investment front with other operators?

Jean-Francois Fallacher - Orange Polska SA - CEO [43]

Indeed, we have chosen to structurally deploy our network and acquire our customers. The way we are going to continue deploying the FTTH network does not exclude, on the contrary, cooperation with other telecom operators in this market. Of course in the entire respect of anti-competition laws so that we are going to be very cautious of this.

But obviously we are going to try to avoid what we call overbuilding, so going in the place and bring double fiber in a home. So that's also a call to the market, we are open and willing to deploy, I would say, intelligently this FTTH network to avoid duplication of infrastructures. Obviously Poland needs to be equipped, so we are open and we hope in the second half to be able to come back to you guys with some concrete news about this.

Przemek Sawala - Pekao - Analyst [44]

Would you be able to comment a certain target of active accounts by the end of the year in FTTH?

Jean-Francois Fallacher - Orange Polska SA - CEO [45]

As you understood, we are just -- we have a plan to accelerate looking at the volumes we are talking about anyway. At the size of Orange Polska and the size of our customer base, they are not yet very material so we really prefer to tell you that we will accelerate.

Przemek Sawala - Pekao - Analyst [46]

Thank you.

Leszek Iwaszko - Orange Polska SA - Head of IR [47]

Let's now switch to our listeners on the teleconference. Operator, please.

Operator [48]

(Operator instructions) Vyacheslav Degtyarev, Goldman Sachs.

Vyacheslav Degtyarev - Goldman Sachs - Analyst [49]

Yes. Thank you very much for the presentation. A question on the prepaid customer registration. So things like the pressure on ARPU could continue given the fact that you offer free data and minutes for the customer registration. But do you have much of the hopes or opportunities to offer more profitable contract services to those customers who will be coming with their prepaid card registration?

And also if you can elaborate on what you mean by the completely different prepaid market from 2017. Thank you.

Jean-Francois Fallacher - Orange Polska SA - CEO [50]

So to the two questions. First of all, this promotion is there to incentivize customers to come to our network, to our retail network and to our partner network to register. So that's the aim of this registration promotion, so that is the first point.

Maybe I will elaborate on your second question. So how is - why is the market going to look different? Because we are in the country today in a prepay market whereby, in any of the 40,000 or 20,000, sorry, distribution points, which are all own retail but, as you can imagine, third party retail chains, you can actually buy for PLN5 to PLN20 a pack with a prepaid card. You go in one of these shops, buy it for PLN5, take the card, put it in your phone, it works. You can throw it away after two days.

These kinds of usages are already existing through just people just going in gas stations, buying a card because they have a problem with their other mobile or whatever, put it in their mobile and place a few calls and throw it away. And these kinds of usages, obviously they will disappear because in order to be able to place calls you will need to go in -- or one of our shops or one of our key distributors with whom we are currently passing agreements, to show your ID card, where we will ask you your name, first name and personal number, which is, in Poland, the number which is identifying you as a person.

And you will need to show physically your ID to one of our point of sales. So there will be, we believe, a bit more stability in the base. So prepay is, sorry for the expression, but it's a kind of washing machine; there is a lot of churn in prepay and a lot of reacquisition. And that will obviously change due to the fact that, again, you will need to make a little bit more effort than in the past to actually get access to prepay.

Obviously we are not worried with this. We see it as both a threat and, as you said, as an opportunity, because not only will it be the opportunity to register these prepay customers, but there will be a massive inflow in our retail network, in our partner's network. You see the numbers; we are accounting 7.9 million prepay cards at Orange Polska, so there will be massive influx in our prepay -- sorry, in our retail chains of people that will need to come to show their ID.

It's of course the great moment and the great opportunity for us to sell or to upgrade them to eventually post-pay offers, which are bringing more value to the Company. So there will be as well opportunities to grasp in this period of six months.

Vyacheslav Degtyarev - Goldman Sachs - Analyst [51]

Okay. Thank you.

Operator [52]

(Operator instructions). Ondrej Cabejsek, Berenberg.

Ondrej Cabejsek - Berenberg - Analyst [53]

Hi. Thanks for the opportunity. I've got two questions basically. One is regarding the LTE for fixed. I assume that, first of all, you're targeting Cyfrowy Polsat customers who traditionally are in this medium. And second, you are probably trying to decrease churn in your ADSL, so I would like to ask whether there is any cannibalization of that base, whether the growth in the LTE for fixed that we're seeing is partly coming from your ADSL customer base decline and what strategy there is for this going forward.

And the second question relates to content, whether you are planning, in the year to come, when your fiber products picks up to acquire any exclusive content and increase the strength in that space. Thank you.

Mariusz Gaca - Orange Polska SA - VP, Business Market [54]

Okay. Thank you for the question. It's Mariusz Gaca speaking. So obviously LTE for fixed, which is the LTE mobile broadband, is mainly used by us in order to keep the customer when he wants to leave from ADSL and, for different reasons, LTE for fixed is a good solution to keep this customer. This is obviously a good tool to acquire new customers, especially in those areas where DSL is not available or, more specifically, FTTH is not deployed yet.

And it's very important for the B2B customers, where the deployment of the network is a bit behind the consumer market. So the -- obviously the strategy, when you asked about the strategy, the strategy is to go and offer to the customer the fixed broadband and FTTH each time the customer is within the FTTH coverage. But obviously, as a company that is designed to acquire and retain customers, when the customer for different reasons wants to have the LTE for fixed, we are not in a position to say no. But this is not our primary goal.

Going back to your question about the DSL decline, yes, part of those customers who are acquired for LTE for fixed product like these are DSL customers from the area where the copper line quality is rather low. So LTE for fixed is a good substitute.

And the fiber content, I'm not sure I correctly understood your question. But when it comes to LTE, there is no content obviously. When it comes to the fiber content, we have the very competitive offer currently that was refreshed recently. This is a 3P package that is a must to deploy. Basically 1P is a good entry point for the customer to enter to the network. But the 3P offer, this is something that we are targeting and this is the most valuable, not only because of the ARPU or from the ARPU standpoint, but also from the churn standpoint.

Maciej Nowohonski - Orange Polska SA - CFO [55]

If I can add something about the fiber content or content itself, Maciej Nowohonski speaking, it's important to notice that the Polish market is not too much exclusive about the access to content. So our offer, TV offer is basically fitting to those market standards.

Ondrej Cabejsek - Berenberg - Analyst [56]

Thank you. So you don't -- you're saying that the pay TV, not necessarily fiber, because IPTV is by definition attached to fiber. So my question was in that direction. So it is not in your plans to, for

example, make or marketing where you support the local whatever football league and have that as an exclusive product on your fiber network and promote it that way?

Jean-Francois Fallacher - Orange Polska SA - CEO [57]

Just to be clear, we have currently a deal with the local affiliate of CANAL+, which is called [nc+], which actually allows us, as we speak, to give access to Ekstraklasa, which is the first league of the Polish soccer, to our customers today. So we do have, as Maciej was saying, an IPTV offer which is a competitive offer on the market today.

Ondrej Cabejsek - Berenberg - Analyst [58]

Okay. Thank you.

Operator [59]

(Operator instructions). Vibhor Kumar, Citi.

Vibhor Kumar - Citi - Analyst [60]

Yes. Hi. Thank you so much for the opportunity. I have one question related to the convergence strategy and its impact on future fixed broadband pricing. So looking at the certain discounts offered by the competitors, like Cyfrowy on their [smart DOM] offers, do you think it will hamper the potential as to growth on your fiber plans today and in the future? Thank you.

Maciej Nowohonski - Orange Polska SA - CFO [61]

Vibhor, if I understand correctly, the question is whether the offers of Cyfrowy Polsat could hamper the fiber commercial take-up. Do I understand this correctly?

Vibhor Kumar - Citi - Analyst [62]

Yes. Let me give you more detail on my question. They give deep discount on their mobile broadband plans, which could be very attractive for the lower take-up [entities]. Do you think that your broadband ARPU could be hampered in future?

Maciej Nowohonski - Orange Polska SA - CFO [63]

Well actually, for the complete understanding, we are not directly competing our fiber with the LTE of Cyfrowy Polsat. These are the most presumably different geographies to Cyfrowy Polsat's LTE. It is important as a competitor for us, mainly in the rural areas where the cables are not existing.

Fiber is our fantastic tool to regain big agglomerations and mid cities -- mid-sized cities. So the competition for fiber is in cable. The rural, yes, we are competing there with different competitors, and not only with our ADSL offer but with our LTE.

And then in terms of your question about the potential further push on ARPU erosion, we will still have with us the reduction of the fixed broadband ARPU that I mentioned responding to some other question from Konrad. And this was about last July, last year July reduction of the ADSL pricing and conversion packages then. So we will still see the evolution of that. And we will see what kind of promotions or new offers we are going to implement in the quarters to come. I will not be talking too much today about that, but, well this pressure may stay with us for a certain period of time.

Vibhor Kumar - Citi - Analyst [64]

Thank you. Just to follow up. So don't you see any pressure on your existing broadband subscribers from the aggressive [smart DOM] offers by Cyfrowy? It looks like it's quite attractive on the second and third offers.

Jean-Francois Fallacher - Orange Polska SA - CEO [65]

Yes, we do. Jean-Francois Fallacher speaking. So obviously, as Maciej was explaining to you, we do in more, let's say, in more small cities and rural areas. There is obviously pressure, and this is why we want to accelerate on convergence because, as you were rightfully saying, the ARPUs on fixed broadband might actually continue the trend we are seeing. And the beauty of convergence is that, despite the fact that on one of your specific products ARPU might go down, by convergence you also acquired additional revenue-generating unit RGUs which are all compensating hopefully these effects. So that's why we believe the way for us in the future is convergence.

Vibhor Kumar - Citi - Analyst [66]

Okay. So, sorry, just the last question on this. Do you see a competition in convergent offers?

Jean-Francois Fallacher - Orange Polska SA - CEO [67]

Yes, we are in a very competitive market, and yes, there is competition and there will be more and more competition in that field.

Vibhor Kumar - Citi - Analyst [68]

Okay. Okay. Thank you so much.

Operator [69]

Thank you. There are no further questions on the telephone. I would now like to turn the call back to the host for any additional or closing remarks.

Leszek Iwaszko - Orange Polska SA - Head of IR [70]

Are there any follow-ups from the floor? I don't see. So thank you very much for the attention. And see you back in October along with Q3 results announcement.

Thank you. Goodbye.

Operator [71]

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

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