Orange Polska

Changes in reporting in 2018

.one

16 March 2018

Contents

IFRS15 applied to OPL

IFRS 15
A new standard on revenue

January, 1st 2018

Effective date of the Standard

First financial communication : Q1 2018

Major impact on Telecommunication sector:

- Subsidized handset
- Contracts longer than one year

Under IFRS 15, revenue recognition is going to be based on the **contract with the customer**

…and not on the invoice anymore

- Orange Polska has decided to implement IFRS15 prospectively:
  - No comparative figures for past years restated to IFRS15 will be provided
  - 2018 results (P&L) will be reported under both IFRS15 and old standard

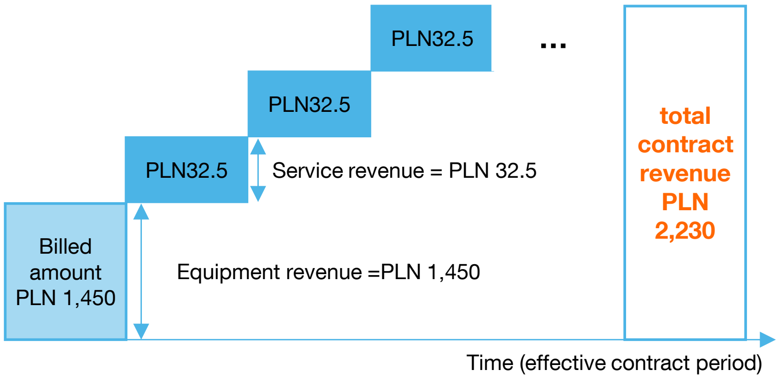
Equipment and service revenue P&L impacts

An illustration of equipment and service revenues recognition under new and old accounting standard

a client subscribes to a 24-month communication contract and pays PLN1,450 for the handset (the subsidy granted is PLN170) and pays PLN32.5 per month for the communication service

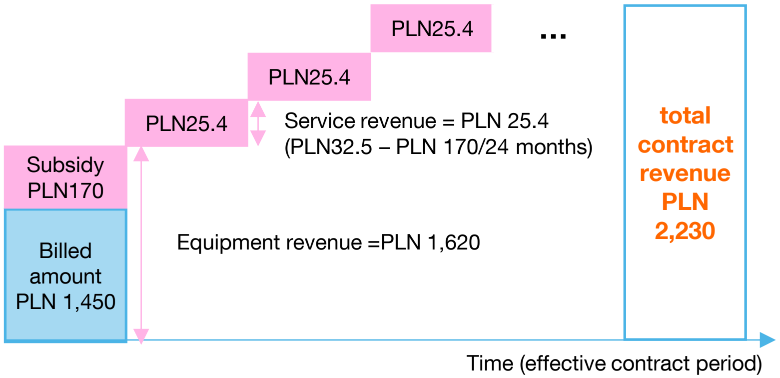
Old standard (IAS18)

- **Equipment revenues = billed amount (lower than the cost of a handset if sold with a subsidy)**
- **Service revenues = billed amount over the contract period**
- **Costs of commissions expensed as incurred**



IFRS 15 (as adopted by OPL)

- **Handset revenues = handset cost + margin**
- **Service revenues = billed amount less subsidies spread over effective contract period**
- **Costs of commissions spread over effective contract period**



Reallocation mechanism

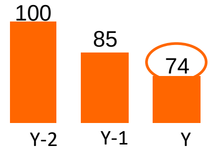
Example of the impacts on P&L

A historical downward trend of subsidy budget will trigger a negative impact on total revenue

The example is based on the following assumption:

- **Subsidies in Y-2 equal to 100**
- **Enforceable period of 20 months (with an equal distribution of annual subsidies per month)**
- **Whatever the year, subsidies granted are recovered as follows: 32% in the 1st year; 56% in the 2nd year and 12% in the 3rd year (Those % represent the average subsidy recovery whether subsidies are granted in January or December of a given year)**

Decreasing subsidies



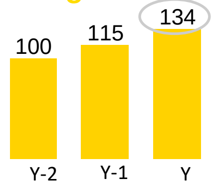
Impact on equipment revenue +74

Impact on service revenue: -83,3*

**(100*12%+85*56%+74*32%)*

Total impact on revenue: -9,3

Increasing subsidies



Impact on equipment revenue +134

Impact on service revenue: -119,3*

**(100*12%+115*56%+134*32%)*

Total impact on revenue: +14,7

Stable subsidies

Impact on equipment revenue +100

Impact on service revenue: -100*

**(100*12%+100*56%+100*32%)*

Total impact on revenue: 0

Reallocation mechanism

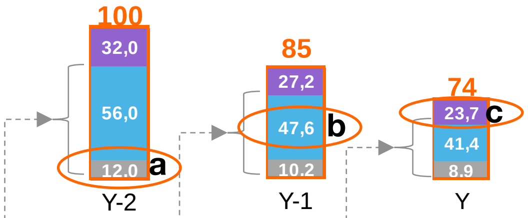
Example of the impacts on balance sheet

The contract asset balance reflects the subsidy policy of the previous periods

The example is based on the following assumption:

- **Subsidy of Y-2 equals to 100**
- **Enforceable period of 20 months (with an equal distribution of annual subsidies per month)**
- **Whatever the year, subsidy granted are recovered as follow: 32% in the 1st year; 56% in the 2nd year and 12% in the 3rd year (Those % represent the average subsidy recovery whether subsidy in granted in January or December of a given year)**

Decrease of subsidies



Impact on service revenue on year Y:
-83,3m = a+b+c

	Y-2	Y-1	Y	TOTAL CONTRACT ASSET
Contract asset amount end of Y-2	68	-	-	
Contract asset amount end of Y-1	12	57,8	-	69,8
Contract asset amount end of Y	0*	10,2	50,3	60,5

-9,3

* When contract asset is equal to 0 it means that there is no more discrepancy between cash collected and revenue recognized from past and current commercial acts.

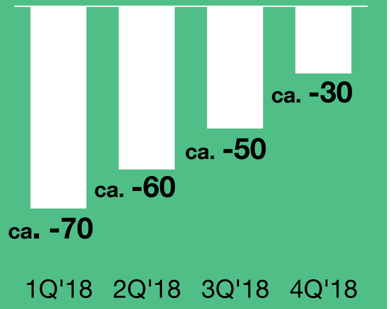
Expected range of impacts in 2018

Expected impact on 2018 opening equity of approximately PLN +0.6bn

Expected impact in 2018 on a normal course of business with the current policy for subsidies

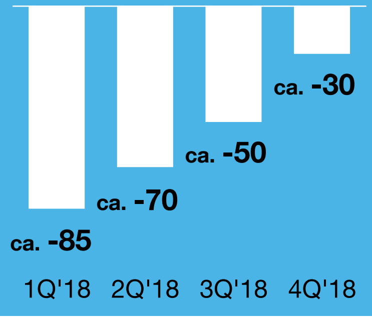
Expected estimated revenue impact PLN -0.22bn

Expected quarterly distribution of IFRS15 adjustment (PLN m)



Expected estimated EBITDA impact PLN -0.25bn

Expected quarterly distribution of IFRS15 adjustment (PLN m)



Changes in revenue and KPI reporting

Changes in revenues reporting driven by commercial strategy

- New layout for revenues reporting
  - Focus on convergent revenues
  - Non-convergent (mono products) revenues disclosed separately
  - Incoming mobile revenues disclosed in wholesale
  - KPIs adjusted to reflect new layout

New layout of revenues

FROM

in mPLN	FY 2017
Mobile revenues	**6,141**
Retail services	3,791
Wholesale services (including interconnect)	1,147
Mobile equipment sales	1,203
Fixed services	**4,571**
Fixed narrowband	1,327
Fixed broadband, TV and VoIP	1,617
Entreprise solutions & networks	894
Wholesale revenue (including interconnect)	733
Other revenue	**669**
Total revenue	**11,381**

TO

in m PLN	FY2017
Mobile services only	**3,373**
Fixed services only	**2,748**
Narrowband	1,257
Broadband	1,043
B2B Network Solutions	448
Convergent services B2C	**1,068**
Equipment sales	**1,256**
IT and integration services	**493**
Wholesale	**2,140**
Mobile wholesale	1,147
Fixed wholesale	733
Other	260
Other	**303**
Total revenue	**11,381**

- Total mobile and total fixed broadband revenues will also be provided as additional information
- New revenue layout is available for all quarters of 2016 and 2017 in the KPI file on OPL IR website

Reconciliation between the new and the old layout

To: 2017 revenue as to be reported from now on

From: 2017 as reported until now

	Total	Mobile services only	Fixed services only	*Narrowband*	*Broadband*	*B2B Network Solutions*	Convergent services B2C	Equipment sales	IT and integration services	Wholesale	Other
Total	11,381	3,373	2,748	1,257	1,043	448	1,068	1,256	493	2,140	303
Mobile revenues	**6,141**	**3,364**	**0**	0	0	0	**418**	**1,110**	**0**	**1,147**	**102**
Mobile retail services	3,791	3,364	0	0	0	0	418	0	0	0	9
Mobile wholesale services	1,147	0	0	0	0	0	0	0	0	1,147	0
Mobile equipment	1,203	0	0	0	0	0	0	1,110	0	0	93
Fixed services	**4,571**	**0**	**2,747**	1,257	1,042	448	**650**	**0**	**197**	**970**	**7**
Fixed narrowband	1,327	0	1,252	1,252	0	0	73	0	0	0	2
Fixed broadband, TV and VoIP	1,617	0	1,038	0	1,038	0	577	0	0	0	2
Enterprise solutions & networks	894	0	457	5	4	448	0	0	197	237	3
Wholesale revenue	733	0	0	0	0	0	0	0	0	733	0
Other revenue	**669**	**9**	**1**	0	1	0	**0**	**146**	**296**	**23**	**194**

- **Data for 2016 is available in the KPI file on OPL IR website**

Minor changes to presentation of customer bases

customer base (in thousands)	2017 4Q
Convergent customers	1,306
o/w B2C	*1,035*
o/w B2B	*271*
Fixed telephony accesses	
POTS, ISDN & WLL	2,857
VoIP	827
Total retail main lines	3,684
o/w B2C convergent	630
o/w B2C PSTN convergent	*124*
o/w B2C VOIP convergent	*506*
Fixed broadband access	
ADSL	1,324
VHBB (VDSL+Fibre)	681
o/w VDSL	467
o/w Fibre	214
CDMA	0
Wireless for fixed	433
Retail broadband - total	2,438
o/w B2C convergent	1,035
TV client base	
IPTV	333
DTH (TV over Satellite)	515
TV client base - total	848
o/w B2C TV convergent	551
Mobile accesses	
Mobile Handset	*7,270*
Mobile Broadband	*1,231*
M2M	*1,225*
Total postpaid	9,726
o/w B2C convergent	1,959
Total pre-paid	4,698
Total	14,424

B2B convergent customer base not included in convergent revenues

Convergent B2C customers added to each segment line of current customer base segment

New ARPO/ARPU reporting will match new revenue layout

***OLD** quarterly **ARPU** in PLN per month*	2017 4Q
Retail fixed voice ARPU	37.2
Fixed broadband ARPU (Broadband, TV & VoIP)	57.7
Mobile ARPU	
Total post-paid excl M2M	37.5
Mobile Handset	*40.8*
Mobile Broadband	*18.2*
Prepaid	17.4
Total Mobile excl M2M	30.3
retail ARPU	22.6
wholesale ARPU	7.7

***NEW** quarterly **ARPO** in PLN per month*	2017 4Q
Convergent services B2C	103.0
Fixed services only – voice	37.1
Fixed services only - broadband	56.3
Mobile services only	23.0
o/w post-paid excl M2M	*30.3*
-handset	*32.5*
-broadband	19.4
o/w prepaid	12.6
Mobile wholesale (convergent + mono)	7.7

- **ARPU to be renamed ARPO (average revenue per offer) to have the same name for convergent and non-convergent revenue lines:**
  - **For mobile-only and fixed-only ARPO = ARPU billed**
  - **For convergence ARPO = total convergent billed revenues / convergent base (# of FBB convergent accesses)**

Q&A

Appendix

New revenue split 2016 and 2017

amounts in PLN millions	2016				2017				2016	2017
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY	FY
Mobile services only	1,002	984	980	927	875	879	825	794	3,893	3,373
Fixed services only	802	769	756	740	721	688	681	658	3,067	2,748
Narrowband	387	367	357	346	333	317	308	299	1,457	1,257
Broadband	292	288	280	278	274	259	260	249	1,138	1,043
B2B Network Solutions	123	115	118	116	114	111	113	110	472	448
Convergent services B2C	191	203	213	223	233	256	279	300	830	1,068
Equipment sales	183	224	248	336	303	304	297	352	991	1,256
IT and integration services	73	97	92	152	92	101	123	177	414	493
Wholesale	493	523	499	515	512	524	547	557	2,030	2,140
Mobile wholesale	244	271	251	271	268	280	291	308	1,037	1,147
Fixed wholesale	191	195	189	178	176	180	193	184	753	733
Other	58	57	59	66	68	64	63	65	240	260
Other	59	103	63	88	82	87	62	72	313	303
Total revenues	2,803	2,903	2,851	2,981	2,818	2,839	2,814	2,910	11,538	11,381
year-on-year					0.5%	-2.2%	-1.3%	-2.4%		-1.4%

New customer base split

customer base (in thousands)	2016				2017			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Convergent customers	626	679	738	835	938	1,084	1,195	1,306
o/w B2C	*532*	*568*	*603*	*666*	*738*	*858*	*945*	*1,035*
o/w B2B	*94*	*111*	*135*	*169*	*200*	*227*	*250*	*271*
Fixed telephony accesses								
POTS, ISDN & WLL	3,487	3,415	3,337	3,268	3,181	3,081	2,972	2,857
VoIP	633	644	651	664	678	728	771	827
Total retail main lines	4,120	4,059	3,988	3,932	3,859	3,809	3,744	3,684
o/w B2C convergent	*380*	*408*	*418*	*429*	*449*	*530*	*577*	*630*
o/w B2C PSTN convergent	*156*	*170*	*169*	*166*	*158*	*169*	*152*	*124*
o/w B2C VOIP convergent	*224*	*238*	*250*	*263*	*291*	*362*	*425*	*506*
Fixed broadband access								
ADSL	1,669	1,613	1,562	1,503	1,451	1,407	1,367	1,324
VHBB (VDSL+Fibre)	366	409	436	492	544	588	633	681
o/w VDSL	339	370	379	404	427	443	457	467
o/w Fibre	27	39	57	88	117	145	176	214
CDMA	44	35	27	20	14	0	0	0
Wireless for fixed	50	82	128	191	260	328	377	433
Retail broadband - total	2,130	2,139	2,153	2,206	2,269	2,323	2,377	2,438
o/w B2C convergent	*532*	*568*	*603*	*666*	*738*	*858*	*945*	*1,035*
TV client base								
IPTV	200	213	214	234	254	277	301	333
DTH (TV over Satellite)	597	590	548	532	521	515	512	515
TV client base - total	797	803	761	766	775	792	814	848
o/w B2C convergent	*291*	*307*	*318*	*329*	*351*	*418*	*473*	*551*
Mobile accesses								
Mobile Handset	*6,369*	*6,491*	*6,640*	*6,851*	*7,009*	*7,112*	*7,200*	*7,270*
Mobile Broadband	*1,298*	*1,327*	*1,355*	*1,377*	*1,364*	*1,334*	*1,287*	*1,231*
M2M	*858*	*898*	*963*	*1,033*	*1,079*	*1,126*	*1,175*	*1,225*
Total postpaid	8,526	8,716	8,957	9,262	9,452	9,573	9,662	9,726
o/w B2C convergent	*876*	*949*	*1,042*	*1,198*	*1,366*	*1,601*	*1,760*	*1,959*
Total pre-paid	7,689	7,898	7,309	6,537	5,820	4,983	4,696	4,698
Total	16,215	16,614	16,266	15,799	15,272	14,555	14,358	14,424

New ARPO split

quarterly ARPO in PLN per month	2016				2017			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Convergent services B2C	123.5	121.6	119.8	116.5	112.3	104.9	102.6	103.0
Fixed services only – voice	39.2	38.7	38.4	38.0	37.5	36.9	37.1	37.1
Fixed services only – broadband	60.9	60.9	59.8	59.4	57.8	57.1	58.5	56.3
Mobile services only	23.0	22.2	22.1	21.9	21.8	23.5	23.5	23.0
Postpaid excl M2M	38.2	37.1	36.5	34.2	32.8	32.9	30.9	30.3
Mobile Handset	*40.5*	*39.6*	*39.3*	*36.6*	*35.1*	*35.5*	*33.1*	*32.5*
Mobile Broadband	*27.6*	*25.5*	*23.5*	*23.2*	*22.3*	*20.9*	*20.3*	*19.4*
Prepaid	9.6	9.1	9.2	9.4	9.3	11.3	13.0	12.6
Mobile wholesale (convergent + mono)	5.3	5.3	5.3	5.9	6.0	6.7	7.3	7.7