

# Orange Polska

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## CONFERENCE CALL ON ORANGE POLSKA OPERATING RESULTS FOR THE FOURTH QUARTER AND 12 MONTHS OF 2021.

**Company:** Orange

**Date:** 17.02.2022

**Participants:**

- Julien Ducarroz, Chief Executive Officer
- Jacek Kunicki, Chief Financial Officer
- Jolanta Dudek, Vice-President of the Management Board in charge of Consumer Market
- Bozena Lesniewska, VicePresident of Management Board in charge of Business Market
- Leszek Iwaszko, Head of Investor Relations

Operator:

Good morning ladies and gentlemen, and welcome to Orange Polska full year 2021 results conference call on the 17th of February, 2022. Firstly, I'd like to apologize for the short delay in starting the call, due to technical issues. At this time, all participant lines are on listen only mode. The format of today's recorded call will be a presentation by Orange Polska management team, followed by a question and answer session. So without further ado, I would now like to pass the line to Orange Polska CEO, Mr. Julien Ducarroz. Please go head sir, the line is yours.

Julien Ducarroz:

Good morning ladies and gentlemen. Welcome everyone on our conference summarizing fourth quarter and full year 2021. This morning, I will be supported by Jacek, our CFO, Jola, in charge of consumer units, and Bozena for the B2B unit. Let's start on slide five.

Julien Ducarroz:

In 2021, we presented our new mid-term strategy. We told you that we want to go beyond and reach for more, both commercially and internally as an organization. In those terms, the first year of that grow was very successful for Orange Polska, for many reasons. Commercial result were very solid in most area. We promised that we will grow as a business, and 2021 proves that we deliver on that front. We are especially pleased with result of fiber, which enjoy unflagging popularity among customers. Orange Polska is a biggest Polish fiber provider. Fiber and our value strategy drove average revenue per offer, which delivered growth in all our key services.

Julien Ducarroz:

We are growing on the B2B market with a boost in the ICT area that is particularly worth noticing, with strong result from our subsidiaries that we have acquired in the past two years. Once again, past investment bear their fruits. Financial result were strong across the board. We met all our commitment. We executed on the FiberCo project, which was not only our landmark achievement last year, but also a key development for our successful growth in the future, and a driver to tackle digital exclusion in Poland. We also continue to prepare the future, boosting digital and people potential. This entails also changing our work model. We have reached consensus with our social partner regarding further employment adaptation. It will contribute to our further transformation and efficiency increase. So in a nutshell last year performance was a first and very strong step on our way to implement .Grow strategy.

Julien Ducarroz:

Let's look at financial highlight on the next slide. In 2021, we deliver on all our financial commitment. Revenue increased by 3.6% with all key lines of business contributing to the growth. In H2, dynamics was affected by regulatory impact. Growing retail revenue fueled almost 6% EBITDA growth. We achieved the high end of our guidance. Please note that we are reporting growth of our operating profitability for the fourth consecutive year. Since 2018, we increase our EBITDA as much as 13%, despite the pandemic challenges. This show that we are consistent in delivering growth. Our business is predictable and defensive, and we have good prospect ahead of us in the long term capitalizing on our asset services and experience. Even if short term outlook is impacted by energy crisis. Economic CapEx in 2021 was in line with the guidance and already benefited from the FiberCo joint venture.

Julien Ducarroz:

Going on the next slide, let's look at our key achievement in all four pillars of our .Grow strategy, starting with our core business. As you can see from the data, our core business is strong. Jola and Bozena will focus more on this for the respective markets. Execution of the FiberCo project was a truly exceptional achievement. We did this to secure further expansion of fiber footprint and to take advantage of the evaluation of infrastructure asset on the market. As a result, we are able to similarly continue increasing fiber reach and executing other projects that are important for our future mainly in the mobile arena. In addition, investment made by FiberCo will significantly contribute to the development of digital infrastructure of the country and to combat digital exclusion. In New Opportunity we are betting on solution for the future today. This is why we have launched a new data hub on the outskirts of Warsaw with space for our new network needs and collocation for our corporate customer.

Julien Ducarroz:

We are active in the area of campus network with unique experience in the scope on the Polish market. But the key to unlock this potential is obtaining 5G spectrum license. As such we are creating full value chain to help Polish company in their digital transformation journey and grow with them using technology as a trigger for the economy. Cloudification is one of our top strategic priorities. We not only provide cloud based solution for our business client. We are becoming a more cloud based company, too. We have partnered with Google and launched Orange Cloud 2025 program. It entails migrating our processes to the cloud, and those help us to enhance our internal operation and gain additional expertise in this area. Becoming more digital as a company is a key part of our transformation. We believe it will allow us to compete more effectively and increase our efficiency.

Julien Ducarroz:

In 2021, we established a new unit in our organization dedicated to digital reporting to me. We concentrate our growing usage of My Orange apps and increasing online sales. To me, it's obvious that our growth has to be sustainable and responsible. I'm proud to say that in 2021, we accelerated with CO2 emission reduction, which I will comment more in a moment. We continue with our social program aim at fostering digital skills focusing on children and teachers, which is critical in the remote schooling reality.

Julien Ducarroz:

Last but not least, I need to mention that our future success will depend on our capability to grow, develop, and retain our employees and provide a diversified environment. We are continuing cultural transformation at Orange Polska, bringing new talent on board and encouraging our people to grow and rescale. We are working to be a smarter workplace, able to better adapt to the challenges ahead.

Julien Ducarroz:

We have developed a balanced hybrid work model, it ensures safety, mobility, collaboration, and the much needed human touch.

Let's go to the next page, eight. Our climate policy aims at becoming a net zero carbon by 2040 with a key milestone to reduce CO2 emission by 65% by 2025 versus 2015. Last year, we reduced our CO2 emission by 9%, which was an acceleration versus previous year. For the first time, this reduction resulted from including clean energy from wind farms in our mix. At the end of last year, we signed a second PPA contract that will secure you an additional 20% of our consumption from 2024. This will make renewal energy, a key contributor for us to achieve our 2025 objective.

Julien Ducarroz:

We are intensively working to sign new PPA project, which is also very important in the context of ongoing energy crisis. We further optimize our energy consumption despite more than 20% growth of data consumption in this context is, was to mention again, the new data center, which is super energy efficient. Thanks to this solution use we can avoid 5,000 tons CO2 emission annually. Let me mention here that we are fully transparent with our ambition and action to the climate and enhance our disclosure related to climate. For the first time in our annual report, we integrated climate related issue. We use an internationally recognized standard to make it as clear and as open possible. Let me now hand the floor to Jola and Bozena, to comment on our commercial progress in B2C and B2B.

Operator:

Ladies and gentlemen, please stand on the line. We'll just be reconnecting with host shortly.

Jolanta Dudek:

Thank you Julian. Good morning, everyone. Let me walk you through our last year achievements in our key telecom services that, as Julian mentioned, performed so well in 2021. Not surprisingly, we will start with convergence, which is our key commercial engine in our household strategy. Last year convergence revenue growth accelerated to 15%. This was a result of both growth of customer base and strong growth of ARPO. Customer base increased by further 5% last year. Consumers continue to be attracted by our simple and attractive offer. Growth of our fiber footprint is especially important. Copper and wireless broadband are losing to fiber both, ours and competitors, every revenue we generated from one convergent offer is increasing. Last year it grew 6%. It results from our more formal strategy and growing share of fiber and convergent customer base. Fiber gives us higher revenue because of three

main reasons. It generates more demand for content, popularity of higher speed is increasing the number of fiber customers that live in a single family is growing.

Jolanta Dudek:

Where extra year applies to cover higher construction costs. Whenever we combine fiber and mobile in a convergent offer, we benefit from increased customer loyalty and ability to upsell additional services. Presenting .Grow strategy. We set clear targets for growth of customers. We aim at growing our ARPO and revenue in convergence. We confirm that fully after 2021 results.

Switching now to the fiber on the next slide. As I just mentioned, fiber is a key driving force for performance in convergence both in value and volume terms. Our fiber services are available already to almost six million households. That is 40% of all homes in Poland, in more than 200 cities. Today, Orange is the biggest Polish fiber provider. Our fiber footprint increased by more than 900,000 households in 2021. From the second half of the year, when we launched FiberCo project, our reach is growing mainly from wholesale partnerships Swiatlowod Inwestycje and many others.

Jolanta Dudek:

We bet on convergence many years ago when it wasn't the market trend. And now we are ahead of our competitors. Today they are turning to convergence for growth. Even the ones that not long ago were saying that this is not how they see the future. Today the home has become the new frontier. This become clearer than ever in 2020. Our homes became our offices and schools. The pandemic is hopefully receding, but the changes that generated will be with us for the long term. This is why we are focusing our B2C value proposal on the home.

Jolanta Dudek:

Our own build is concentrated now on rolling our network in digital Poland program, where we expect majority of works to be done by the end of this year. At the same time, we have decided to actively open our network to wholesale. This is part of our strategy. And at maximizing on the decision of this infrastructure, we doubled the number of wholesale fiber customers in 2021. Last year was a record year for our fiber in retail. We added 220,000 customers. Thanks to very strong year end. As a result, adding retailer and wholesale, we reached a milestone 1 million customers who enjoy fiber, thanks to Orange.

Switching to mobile on page 12. In mobile, we combine steady pace of customer base growth with ARPO recovery. In 2021, our customer base increased by another 4%. It grows consistently every year. This is a strong performance given that the Polish market is matured and very competitive. According to our estimates, we increased our share in the market. There are few drivers for this performance.

Jolanta Dudek:

On the mass market, the main Orange brand is complimented by B brand Nju Mobile, and the digital offer Flex. Every year B2B is also strong contributor, which will be commented by Bozena in the moment. It is worth mentioning that in 2021, Orange was the first choice operator in mobile number portability. Importantly, our customer base growth is not at the cost of ARPO. The ARPO trend is improving. Mobile only ARPO was up 1% in 2021. It was flat excluding roaming. Roaming Partially recovered after steep decline in 2020, obviously rated to the pandemic. ARPO is being supported by monetization of our value strategy. Let me remind that last year we made another tariff increase on the consumer market. In return, we offer consumers additional benefits. It was reflected in ARPO of the main Orange brand, which increased 4% last year. Thanks to combination of better ARPO and steady

growth of customer volumes, our revenue from mobile only services increased by 3%. Thank you. And I hand the floor now to Bozena.

Bozena Lesniewska:

Good morning, everyone let's look at page 13. On B2B marketing, 2021, we were implementing the growth strategy and delivered positive growth across all business lines. Revenue increased by 8% and the main levers of growth were mobile, fiber and obviously ICT. Firstly, mobile, revenue were up 7% largely due to the strong performance in the Soho and SME market. We increased base of this customer group by 5% and ARPO by 3% including positive roaming impact. We also noted record low monthly return rate of 0.6%. This is driven by our consistent implementation of value strategy supported by flexible tariff plans with bundles, which are easy to choose and free to exchange accordingly to customer needs.

Bozena Lesniewska:

As a consequence, according to our estimates, we increased our market share, and we are a leader with above 30% share, which is very strong achievement on very competitive four players market. Secondly, fiber, federal monetization of fiber investments resulted with 25% growth of customer base and 34% growth of revenue. Thirdly, my beloved ICT. It was another year of strong performance in this area. We monetized on Craftware acquisition and deliver organic growth, creating full value chain for digital transformation of companies in Poland, as a result, we achieved 1.1 billion zloty of revenues. Let's zoom on ICT on the next slide.

Bozena Lesniewska:

Strong ICT performance strengthened our position of integrator and digital service provider. 18% of revenue growth came equally from organic growth and from Craftware acquisition done in December 2020. Craftware as a CRM company specializes in solutions based on Salesforce technology. It was well integrated with our organization. Craftwork dynamically expanded their business growing revenues by 27% to almost 100 million zlotys. Close cooperation with BlueSoft enabled craftwork to create synergies and resulted in gaining new customers and enlarging the scope of existing business. BlueSoft confronted strong position in the area of digital transformation of financial and pharma sector. In addition, in 2021, it became a strong service provider in the retail sector.

Bozena Lesniewska:

They doubled year on year revenue in this sector, which is under rapid transformation in the area of cloud database, software and applications solution. These are main domains of growth for BlueSoft. The year 2021 was much more difficult for IT integration activities due to the chipset crisis and delays of hardware deliveries. It forced us to refocus our activities into professional services and license reselling. As a result, both biggest contributors of ICT revenue, Integrated Solutions and Orange Polska generated 4% growth and integrated solutions exceeded 700 million revenue.

Bozena Lesniewska:

Such a shift resulted in lower infrastructure sales than a year ago, but much higher software domain development. We were also active player in moving companies to hybrid work and in digitization of work environment, it resulted with significant growth of networking and communication, as well as security domain. Recently, all free ICT subsidiaries were recognized among Forbes diamonds 2022. Thank you. And I hand the floor to Jacek.

Jacek Kunicki:

Thank you Bozena. Morning everyone. Let's start the financial review on slide 16, where we present the highlights of our performance in Q4 and in the full year of 2021. As already mentioned by Julien, our financial results last year were strong across the board.

Jacek Kunicki:

Revenue expansion, accelerated, driven by an excellent performance of all key business lines, benefiting from a high operating leverage, we converted the strong revenue performance into an almost 6% growth of the EBITDA. In consequence, we delivered the high end of our guidance and the fastest pace of EBITDA expansion in many years. The economic CapEx was slightly down year on year and in line with our guidance, we have already started to benefit from the FiberCo joint venture. We grew the organic cash flow by 35% year on year. As a result of higher EBITDA and decreasing CapEx. This strong operating performance was a key driver behind the marked improvement of the return on capital employed. Here, please note that this calculation excluded the one off gain on the FiberCo transaction. High growth of the EBITDA stable CapEx and strong cash generation constitute a very good starting point of the new strategy as now reviewed results in more detail, starting with the Q4 revenues on the next slide. Revenues expanded by almost 3% in the fourth quarter.

Jacek Kunicki:

Its dynamic was affected by a decrease of the wholesale termination rate. Excluding this regulatory impact, revenues would have grown by almost 6% year over year. Let me mention three key factors contributing to this solid performance. First, the growth rate of revenues from our core telecom services exceeded 7% year on year. This is a very high pace of growth, which benefited from most of the levers at our current disposal and obviously, we are working on new levers to sustain further growth. Secondly, the IT and IS revenues were up 21% year over year, which results surpassed our initial expectations for the quarter. We focused on professional services, license resale, and achieved the robust growth via our software subsidiaries. Finally, equipment sales were up 9% year over year, reflecting on a successful Christmas campaign.

Jacek Kunicki:

Our revenue dynamics in 2021 have only partly reflected that negative impact of regulations, both mobile and fixed termination rates were decreased in H2 and they were cut again in January 2022. Their impact will be much more visible this year in 2022, especially in the first half of the year. Let's now take a look at profitability on next slide. The EBITDA growth has accelerated to 8% in the fourth quarter. This very strong result was predominantly reached by converting the revenue expansion to profits as we benefited from our high operating leverage, this is clearly visible in the increase of the direct margin. Growth was also supported by a relatively low comparable base of the last quarter of 2020. Indirect cost where broadly flat year on year in quarter four, this reflects a natural catch up in advertising and promotion expenses of the pandemic.

Jacek Kunicki:

This also includes one off increase in labor costs this year related to employee share ownership plans of the Group. We are pushing ahead with a cost transformation. This is mainly contributing to an underlying decrease of labor costs, CRM and general expenses. The combined cost of these categories dropped by around 3% year on year in Q4, excluding the above mentioned one off. We're very satisfied with our EBITDA performance in 2021. Looking to 2022, we will obviously operate in a more challenging

macro environment, and this will inevitably impact the pace of our growth. In particular this includes the energy prices. These have surged from an average of around 300 lot per MWhour in 2021 to the current market price, which is around 600 zloty. Obviously these are also very volatile to the geopolitical situation, which we are observing at the moment.

Jacek Kunicki:

Over to net income on slide 19, we post the exceptionally high net income for 2021 amounting to almost 1.7 billion zloty. This included a 1.4 billion zloty gain on the FiberCo transaction. If we exclude this item from the underlying net income, it came in at around 270 million and was much higher than in 2020. This stems from the strong EBITDA growth and also from less depreciation and lower financial expenses. Depreciation decreased year over year, mainly as we are able to use our assets more efficiently and for a longer time than originally estimated. Financial costs were down versus 2020 when they included FX losses on the weakening of the Polish zloty at the start of the pandemic. These now that in Q4, we also booked up 136 million zloty provision relating to the new social plan. We will benefit financially from this plan in 2022 and in 2023.

Now switching to CapEx on page 20, our economic CapEx in 2021 decreased slightly year on year in line with our plans. Its structure is progressively changing.

Jacek Kunicki:

It will evolve further in 2022 and honor it in line with with the .Grow strategy. After completing the FiberCo project, our direct fiber investment have gone down. They now include cost of customer connection, EU subsidized rollout for the rural areas and some B2B projects. In line with the strategy, our further footprint expansion will rely much more on the FiberCo and on other partnerships. On the other hand investments in mobile, which were low in the past two years are expected to increase from 2022. We will begin the rollout of 5G and will modernize our access network. This is needed to launch new services and also to cope with the increase of data, a phenomenon that will only accelerate in the future.

Now over to cashflow on page 21, we generated around 870 million zloty of organic cash flows in 2021. This is a marked 35% increase in comparison to the prior year. They are three elements that allowed us to achieve this good growth.

Jacek Kunicki:

First higher EBITDA, which provided some 200 million lot more cash from operating activities. Secondly, around 100 million zloty less cash out for CapEx that included sale of some assets to the FiberCo, which was started before signing of the transaction. Finally, higher cash in flow from the sale of real estate. These positives were partly offset by a lower year on year decrease of working capital. Here please note that 2021 was the fourth consecutive year of working capital reduction and it is now some 40% lower if we compare it to 2018.

Finally, let's look at net debt and leverage on slide 22. Over the course of last year, we reduced our net debt by one and a half billion zloty. This came from solid organic cash generation and proceeds from the fiberco transaction. As a result, our financial leverage decreased to 1.4 times the EBITDA.

Jacek Kunicki:

This illustrates our strong balance sheet, which supports the return to dividends. Looking into 2022 please keep in mind that we are still ahead of the 5G spectrum auction, and also that we will prolong the 2100 gigahertz license that we are currently using. We're all aware that interest rates in Poland are

increasing as the central bank is reacting to inflation. This will not affect us in the short term in 2022 or in 2023, as 90% of our debt is at a fixed interest rate until 2024. Thank you very much. This concludes the financial review. And let me now hand this all back to Julien.

Julien Ducarroz:

So 2022 will be the second year of implementation of our .Grow strategy. It's quite obvious that it would be taking place in volatile and sometime challenging macro environment with inflation pressures, energy crisis, and geopolitical challenges. Despite that we are confident as ever that our strategy is the best suited to make the most of our asset, our know-how and our values. As such we will concentrate on the following priorities this year. First our commercial strategy, we will stick to convergence and value creation. Value strategy is particularly vital in this inflationary environment. Secondly, we hope that 2022 will be the year of 5G. We count on the 5G auction to be completed to be able to begin the 5G network rollout using dedicated spectrum. It'll be very important element opening new prospect for services and growth, both on the consumer and business market.

Julien Ducarroz:

Third, we are pursuing with our transformation to improve our corporate culture, to be more agile and cost effective, which include further digitalization of our business processes. We want to invest in our core asset. People, new forms of cooperation and our workplace. I believe this is especially important in the post COVID era. Finally last but definitely not least. We will push further with our societal agenda, both on environmental and social forms. Signing new PPA contract is even more important in the context of the energy crisis. In 2022, we will prepare a launch of a new hub for digital skills, Orange digital center align with our Orange global strategy. We will also continue our competence program for Polish teachers and expand the scope of our education initiative, directed to pupils.

Let's look now at our guidance on the next slide. Our last year result were excellent. They are the first and very strong step on our way to execute .Grow strategy. Revenue from our key business lines will continue to grow this year driven by our commercial value strategy and further development in the ICT area.

Julien Ducarroz:

Nonetheless, strong regulatory cuts of MTR and FTR will significantly affect our wholesale revenue, but will have limited impact on profit margin. As a consequence, we expect our total revenue to decline slightly in 2022. Our EBITDAaL grew strongly last year and amounting to 2.96 billion. This year we want to at least match this level or grow it by low single digit percentage. EBITDAaL will further benefit from profitable revenue growth in the key business area. Our continue focus on value and cost optimization. However, the extraordinary increase of energy prices due to the global crisis will weigh on our operating cost and that create more uncertainty than usually. eCapEx, we expect to be in the same range as last year. We structure evolving to greater share of mobile as Jacek mentioned, we are confident in the strengths of our asset growing customer demand and the quality of our services despite the short term challenges.

Julien Ducarroz:

As such, we fully confirm all of our long term strategic ambition and financial objective, as stated in the .Grow strategy. This confidence underpin our dividend recommendation.

Let's look at that on the last slide. I'm aware that our return to dividend was impatiently awaited by our investor who last saw our dividend in 2016. Today Orange Polska is a different company having invested



in fiber, growing its financial output and having a much stronger balance sheet. This allow us to make this recommendation to the general meeting of shareholder to pay 0.25 per share cash dividend in 2022 from 2021 profit. As we stated in the .Grow strategy, we see the 25 grosz per share dividend as a sustainable floor for the future. We will assess future changes to the dividend annually in light with the communicated dividend policy, taking into account our financial projection and future expected leverage. This conclude our presentation, and we are now ready to take your question.

Operator:

Thank you very much for telephone listeners.

Leszek Iwaszko:

Operator, please go ahead.

Operator:

Thank you very much, Leszek, and the team for the presentation. We will now be opening the line for telephone questions. If you have a question, please press star two on your keypad. That is star two for question, we'll give a minute or so for the questions to come in. Thank you very much. Our first question comes from Mr. Piotr Raciborski from Wood&Co. Please go ahead sir, your line is open.

Piotr Raciborski:

Good morning. Congratulations on strong results of fourth quarter and for 2021 financial year. I have three questions. The first one considers mobile network monetization as earlier referred state from the Polish post management side, but also from the Orange Group Management that you will elaborate on your plan regarding potential monetization of your mobile network, along with fourth quarter results. While there's no information that in the materials. Could you please comment on these plans?

Jacek Kunicki:

Great question. Well, no comments to these plans because the analysis are still ongoing. We've been operating in a very dynamically changing environment, and we need more time to ensure that we take this environment into account when identifying and assessing the option for the towers. This includes, first of all, the fiscal environment that as you know has been changing during the course of the second half of last year. And it's only stabilizing now. It's the inflation environment, which is driving up the interest rates. And I think it's equally important that we take this into account. And thirdly, we still haven't seen the rules of the 5G auction and various regulations that surround the 5G environment that we will have including the cybersecurity law. So this is a very important project.

Jacek Kunicki:

We are still conducting our analysis. We need to carefully assess the impact of these changes in the environment, so that we take the decisions and the options that are to the best interest of all shareholders in the long term. And simply this still needs more time for considerations. We will inform you once we will be in a position to speak about an option or a preference that we have. We don't have this yet today. So we will not really speculate about the different options right at this moment, you will appreciate it simply. We need to extend the period of the analysis and to carefully consider the impact of the changes that I have mentioned.

Piotr Raciborski:

Just a follow up question. You mentioned interest rates environment as one of the factors here, but interest rates hikes don't harm Orange Polska use all the fixed. Do you mean the impact of interest rates on potential valuation of the mobile network?

Jacek Kunicki:

All of the factors that I've been mentioning, those are the macro factors which can impact the project. I wasn't speaking about the impact on our debt about the impact on Orange Polska, but the impact on the project, because it is the project, which is in need of more time for us to assess what is the best route forward.

Piotr Raciborski:

So my second question is about the EBITDA guidance and energy prices. I assume that the cautious guidance for 2022, assuming the flat low single digit growth in EBITDA, it's mainly driven by uncertainty regarding the energy prices. Would you please elaborate? What are your assumptions that behind the guidance, at what level of energy price hike you are expecting EBITDA to be flat year on year and at which level of price hike is about to grow.

Jacek Kunicki:

Thank you for this question. Well, our guidance, first of all, and foremost assumes that we continue to dynamically grow both our customer bases, our ARPO, revenues from the core retail services, and then the profits that we are able to generate from this. And to that extent, there is no change or modification to the strategy. We're happy with the progress so far, we're working on new levers to make sure that we have the levers needed to sustain the growth. And, and this is the main area of our plans for 2022. In terms of the cost assumptions. Well, obviously we need to take into account that inflation is providing more uncertainty, labor costs to some of the subcontracting costs to some of the rental costs. So it's not just energy prices, but also the energy prices. We know that we are in a situation of a spectacular energy crisis with a huge surge of energy prices.

Jacek Kunicki:

What I can say is our costs for last year of energy was about 250 million zloty full year, 150 of this is more exposed to the pricing moves, because these are not regulated distribution fees, but rather the cost of the energy. And as I mentioned, what you can take is the average cost that the market was able to book for last year, which is about 300 zloty per MWhour, and this relates this 150 million. And right now, if you were to look on the market valuations, I mean, obviously it's changing quite dynamically, but it's in and around 600 zloty as we speak.

Jacek Kunicki:

So it's a big increase potentially of energy. Of course, we have hedged some of the volumes, we are buying some of the energy through the green purchase power agreements that have a fixed price. So not all of our exposure is a direct consequence of this shift in pricing, but there is a considerable volatility for this price. I will not speculate, and I will not mention at which exactly price will we have flat EBITDA or low single digits, because there are many factors at stake for the full year guidance, but you're right, energy prices is one of the main uncertainty for the width of the guidance.

Julien Ducarroz:

No. And to add on this, it's not at all a lack of confidence in our core business, as we have demonstrated in 2021, we are delivering very strongly upon the core business, but you might appreciate that the today landscape and the forecast, and I will say the current environment from multiple dimension force us to be cautious when it come in term of cost, and we will see along the year, how we develop and how much we can secure and report upon energy because we are obviously buying a bit in advance. So we will have more clarity throughout the year, how those costs will be at risk. But as Jacek mentioned, as well, there is not only energy or crisis or energy price that are today, a factor of being cautious, but as well, inflation, and some challenge that might come out of this is still ahead of us.

Piotr Raciborski:

Okay. Thanks for answering. So just a quick follow up question in the PPA agreements, in which you've signed with the wind energy producers, you've hedged the energy price for like the mid term. What are the conditions and is the price hedged like a current level or?

Julien Ducarroz:

Yeah. I will not comment exactly the price, but more of the principle. So last year we signed toward the end of the year, the second one, the second one will be effective from 2024. So it's very important because we have our commitment of reduction of our carbon emission by 2025, when we want to reach a 65% decrease. So this is important to play toward this target. When it comes to price for 2022, we will benefit from the first PPA that we have signed, which represent around 10% of our needs. And regarding the structure of this one, obviously it was signed in a period where the luckily for us, the price were much lower and this is fixed. And this is for usually typical PPA, I would say are between 10 to 15 years commitment. So we are in this range of commitment. And again, it was signed one and a half year ago. So yes, the price were very good and help us to decrease the average price we will have this year.

Jacek Kunicki:

And generally the PPA agreement because green energy is left as of a subject to the fluctuations of the price of CO2 emissions. It's the structure of those agreements are with a fixed price pre agreed price per year for the given contract duration.

Piotr Raciborski:

Okay. Thank you. So the last question from my side of the dividend pays going forward, considering all the factors and the uncertainties, do you see a chance for dividends increase next year from this 25 groszy level? Or do you think as, for now in the current market situation, that's sustainable level that we should not hope to be increased and was the main KPI that we should observe to make any estimate on the next year dividends.

Jacek Kunicki:

Thank you for your question. Well, I think that dividend and our thinking around dividends is clearly laid out in the dividend policy that we've included this part of the Orange .Grow strategy. In this policy, we stated that we will start with 25 grosz per share and we are happy to be able to be in a position to say, yes, we did grow the EBITDA and the cash flows quite strongly last year. Yes, we did decrease the level of net debt and we are with a safe balance sheet right now. And yes, we can propose a dividend of 25 grosz per share. We think this is a sustainable floor. And this is the first principle that is important for us, for the dividend to be predictable, sustainable, and not to be questioned by shareholders whereas what kind of a level could this be?

Jacek Kunicki:

This say it's a sustainable floor. As mentioned in the strategy we will work higher to make sure that our results are higher and higher, and that this would, if we are able to achieve those better results, this would obviously give us more room to be positive about the dividend consideration and when assessing the dividend for the given years in the future, we will make the decisions on annual basis. We'll be each time looking at our financial performance and projections, both in terms of the operating profits, but also how do we forecast our leverage with this given corridor between 1.7 and 2.2 times of EBITDA. So these are the conditions we will be looking at. Yes, we will be working tirelessly to make sure that we can deliver as high results as possible. So that also the prospects for any considerations on dividend can be as positive as we can. We're not at year end 2022, yet.

Jacek Kunicki:

For now we're happy to be making our previous commitment concrete with the declaration that we will and we have recommended to the AGM 25 grosz pressure for this here, not waiting for the different uncertainties to materialize or not, not waiting for the auction to be announced or not. I think this is already underscoring the big confidence that we have in our assets, in our product and in our ability to grow revenues and profits in the future.

Piotr Raciborski:

Thank you very much for the answers.

Jacek Kunicki:

Thank you.

Operator:

Thank you very much. We'll be moving to the next question. If I could kindly ask all callers to limit their questions to two questions, we will take additional ones. If we have time later, the next question comes from Mr. Marcin Nowak from Ipopema securities. Please go ahead, sir, your line is open.

Marcin Nowak:

Good morning. Well, two questions then for me. First one is the follow up to the question regarding the towerCo. I want to ask whether does your analysis so far show that the project you consider has a positive NPV for Orange Polska in current year environment, and possibly may have a positive NPV in the yield environment the market expects to see in a few months time.

Jacek Kunicki:

Thank you for your question. But as I mentioned, since we haven't commented on the route that we'd like to take, I will not be commenting on the NPV for Orange Polska. What we will be definitely working to ensure is that if we proceed with this project, that we do it to the benefit of shareholders in the long term. And I would prefer not to speculate right now and to take your questions once we will be in a position to inform you which route do we propose to go and what implications that that lead us to. Thank you.

Marcin Nowak:

Okay, great. And the second question also, I follow up to a dividend question from Piotr, but from the different angle, at what EBITDAaL level will the management start to consider paying larger dividend than minimal given the existing long-term target for net debt EBITDA level of 2.2.

Jacek Kunicki:

Thank you. I think this is, this is clearly stated in the dividend policy. So if we were to be with our forecast, because it's not only the current net debt to EBITDA, but with a forecasted midterm net debt to EBITDA, which would be below 1.7, that would definitely be an indicator for us that we need to assess now if we should not increase the level of the dividend, as I mentioned, this needs us to be positive, both on the growth prospects for profits and on the midterm prospects for the net debt to EBITDA.

Marcin Nowak:

Okay. So can you then comment on what net debt to EBITDA level you have in your forecast in, let's say next four years because this is a long term target I'm currently the net debt to EBITDA is at 1.4. Well, the long term target.

Jacek Kunicki:

Yes. Thank you for this question. I think the first uncertainty that we have and to a large extent, this will be something that will make my answer easier to be given is how much will we need to spend on the 5G auction, this is something which is still ahead of us. So obviously this will influence the net debt to EBITDA once the cash out is needed either this year or whenever the auction will be finalized. And this is the first, I would say big cash out, and also uncertainty that we need to evaluate to be more precise with what are we expecting. It's one of the reasons why we've decided not to guide on net to EBITDA in the .Grow strategy, because you will have seen that we've guided on many areas, but we not guide precisely on the net debt to EBITDA.

Jacek Kunicki:

We have the sufficient balance sheet flexibility right now to sustain the 25 grosz per share. We're confident about that. We have the necessary balance sheet flexibility to participate with confidence in the 5G auction, but then regarding the forecast of the net debt I will be in a better position to give you the answer to that once the auction is behind it.

Marcin Nowak:

Are there any other big outflows done the 5G auction going forward that you are well-

Jacek Kunicki:

Is the 5G auction, and there are various renewals of the spectrum that we have. And obviously as this is strategy until 2024, the further out you go with your question, the more uncertainties that we could have on potential non-organic moves, obviously Orange .Grow was a dominantly organic strategy, because we've never ruled out some selective acquisitions. If we were to be proposed with an interesting opportunity.

Marcin Nowak:

Thank you very much.

Jacek Kunicki:

Thank you.

Operator:

Thank you very much. Our next question comes from Mr. Pawel Puchalski from Santander Bank Polska, please go ahead, sir. Your line is open.

Pawel Puchalski:

Hello. Pawel Puchalski here. What a pity on the two questions. Let's start with the first Iliad. Did you incorporate risk of the new Iliad offer into your 2022 outlook and well, do you think Iliad will kick off its convergent offer and what impact could it have on your financials? That would be the first question.

Julien Ducarroz:

Yes. So thank you for the question. Well, first of all, I would say we are confident of our strategy on convergence. We have been leading and we are leading from an infrastructure perspective, what we are a fiber on the market. And today the main choice of the customer when it comes to convergence is fiber. So we do not speculate, but equally we play as well I will say war gaming and we have different scenario, but honestly, at the moment, I think our focus is obviously to continue to create value.

Julien Ducarroz:

The strategy of more, for more has started in the past. And we continue, certainly the inflationary environment is reinforcing our belief that we need to further continue this more for more, there is still a need of market repair that was set almost three years ago on this market. When I compare to other country, we are still not at the same level related to the purchasing power. So to answer, simply we don't have any disruptive assumption, but equally we have a set of offer that we believe are adapted to the market, from more complex, more value added to simple. And we are confident that will allow us to remain market leader in convergence independently of what other player might or might not do in the coming months.

Pawel Puchalski:

Okay. Thank you very much. And the other question is midterm EBITDA drivers, what would be a driver of Orange Polska EBITDA growth beyond 2022, because with constant OPEX pressures, maybe we should expect flat 2022 performance representing early profit warning for EBITDA growth in years, 2023, 24.

Jacek Kunicki:

Thank you for your question. I think first of all, 2021 showed that we have very strong fundamentals, and we are able to achieve a satisfactory pace of growth, both revenues and the EBITDA. So that is what vindicates our confidence in the midterm. The drivers of the EBITDA growth in the midterm have not changed since June 28. So in those presentation, you will have found that this is predominantly achieved through a profitable revenue expansion. And then while we keep cost under control, and we have a multiyear track record to say that we can keep costs under control. This gives us the high operating leverage to grow the EBITDA. How will we achieve this revenue growth? It's mostly based on core business. It's mostly built on core telecom services, continuation of our efforts to sell convergence, we've precisely guided for the customer base expansion that we expect to achieve on convergence 2021 shows that go well on track.

Jacek Kunicki:

We've guided for the ARPO uplift that we expect to have in the midterm. 2021 shows that we are perfectly on track. Core business is definitely going to be supported by the fiber expansion and expansion expanding fiber footprint. Since Orange .Grow strategy was announced, we closed the FiberCo transaction with operationalized Światłowod Inwestycje, the jointly controlled company that we have together with, with APG. So the grounds that we have to be confident in growth are much more solid than on June 28th, as we have begun to execute the strategy in a quite good pace. And I think that on the B2B market, I cannot forget about ICT we've delivered impressive growth of ICT, both revenues and margins. We will continue to grow ICT both revenues and margins and I think we have been able to acquire the right skills that we needed in ICT at the right moment to be in a position to benefit from the growth of this industry and from our growth within this industry.

Jacek Kunicki:

So those are the fundamentals. It's core business. 5G will come on top. I don't think this will be yet a game changer short term to the results, but 5G will definitely come on top, and this will be an important development for further growth. But if you were asking one or two years it's core business, it's ARPO it's convergence, it's ICT, and we are well on our way to reach it. Is the 22, some slowdown? Yes, as we are experiencing, well, quite an unprecedented increase of costs. I think the inflation environment hasn't been as volatile as right now, for many, many years, I don't expect that this will be at current levels for the remaining part of Orange .Grow. And equally if you take a look at the energy situation, I think that the context for 2022, and especially for the first and also a bit for the second quarters, is especially acute, and these incremental impacts will not be as high in the next years. Thank you for question.

Paweł Puchalski:

Thank you.

Operator:

Thank you very much. Our next question comes from a Dominik Niszczyński from Trigon. Please go ahead, Dominik. Your line is open.

Dominik Niszczyński:

Hi, this is Dominik from Trigon. So part of my questions were answered. Maybe just follow up on this mobile infrastructure, because you seem quite confident that you give us an update this year. So are you analyzed a part of bigger puzzle on the level of Orange group that resulted in a delay of your choice of preferred scenario, or is it more, this delay is referred to the Polish market itself and current environment.

Jacek Kunicki:

Thank you for your question. As I mentioned, the reasons why we need more time to assess is that the environment in Poland was changing very dynamically and is both fiscal and interest rates and the 5G environment, which we need to assess. And it is important for this project. Obviously we will be taking to account all the considerations of the Group project. This is clear, but the reasons for why we need more time, we're clearly external.

Dominik Niszczyński:

Okay, thanks. And the second question refers to today's Orange group call. So maybe it's directly referred to the whole group, but indirectly also to Poland. So Mr. Richard commented today that I'm citing, we all know that there will come a day when the French state will sell parts or a whole stake. So can you help us interpret this statement? Does it mean that chances for privatization or a merger have increased recently? Because he seems to be quite confident that something might happen. And as a result, this will also affect Orange Poland.

Jacek Kunicki:

Thank you very much for your question. However, I think it's best that you direct it at the Orange SA executives or investor relations, and I'm sure they will be able to help you with exactly what was intended. We don't comment on that.

Dominik Niszczyński:

Okay. Thank you.

Jacek Kunicki:

Thank you.

Operator:

Thank you very much. Our next question comes from Ms. Anna Kaim from PKO Bank Polski. Please go ahead, Anna. Your line is open.

Anna Kaim:

Hi, thank you. So congratulations on the great results. Most of my questions were actually answered. Maybe I have just one more about the market in general, because we see more and more players interested in enrolling fiber and covering more households. Do you see that the competition and market is becoming more aggressive or does it impact you in any way as of now, or do you expect any impact in the future? And a comment would be appreciated. Thank you.

Julien Ducarroz:

Yeah. Thank you for your questions. So, well, it's, I think for me, the first view will be that this is a confirmation that the bet that Orange Polska did in 2018 when it was maybe not fully appreciated at that time that it was the right to invest in fiber. Now we have more than six million plugs, connectable house household in the country. So, and in our strategic plan .Grow, we have this ambition to go in the range of eight to nine million. I think the fact that other are stepping in is good because we are as well, very open, and we are using certain parties infrastructure. So we don't have an aim to over build that the FiberCo is design in a way that we want to cover and be completely open to go in area where there is low competition.

Julien Ducarroz:

So, no, I really see that as a positive, comforting me in the strategy that convergence and home is the right one. And Orange is obviously, I believe few step ahead of the market, because we have been doing that for three years, four years almost, we have the technical capabilities to roll out, to maintain and to sell, which is, I would say it's something not the same as a mobile. And I think this is advantage for us.



And more infrastructure will be beneficial as well for Orange. So I consider it a good market environment.

Anna Kaim:

Thank you. That's very helpful.

Operator:

Thank you very much. We will now move the next question. And if there's time, we will come back for additional follows up on the voice. Leszek please go ahead.

Leszek Iwaszko:

Yes. Let's switch to some questions that we have received via email. First question from MetLife OFE from the, the question is in case the 5G auction will be quote cheap unquote, according to expectation. Is it possible to pay special dividend taking into account very low net debt to EBITDA ratio.

Jacek Kunicki:

Thank you for the question. I think it's a bit early to be saying, how will we reactive the auction is quote, quote, cheap, or quote, quote expensive. We will be focusing on the best route to conduct this auction once it is announced. And I think the most likely scenario is also looking at the fact that it has not been announced yet. And this process takes well between six to nine months.

Jacek Kunicki:

So I think the most likely scenario that is that whatever is the outcome of this, of the auction we will take this into consideration when contemplating the dividend decision from the results of 2022 to be paid in 2023. I reiterate that that net debt is not the only criteria. We also need to take a look at our projections midterm for the net debt and our projections in the midterm for the operating profitability, but the best timing to consider this impact of the auction on our balance sheet and consequently on our ability to pay dividend is probably when we will be assessing the next dividend to be paid in one year time.

Leszek Iwaszko:

Another question from Konrad Ksiezopolski from Haitong bank, do you plan to increase prices in 2022 of your mobile and fixed internet commercial offers giving high inflation and cost pressures?

Jolanta Dudek:

Okay, I will take this question. Thank you for this question. So in 21 results indicated that value strategy is working as Julian mentioned three years ago, we started our more for more strategy implementation and we see that it pays off. In mobile post paid we are still monetizing the price hikes we had last year. So there is also the potential, and we are convinced that always Poland, there is room for creating value because comparing the prices in Poland and in other European countries, in Poland are lower. So this indicates that there is the space for improvement, and what is important is included in our .Grow strategy. More for more, and building value is still very valid for our movement on the market. Thank you.

Leszek Iwaszko:

Another question that came via email from Pawel Szpigiel from mBank securities. Looking at the current market, what penetration rate you want to achieve when it comes to the fiber network? Do you think the net inflow of customers of 60 to 70,000 fiber clients per quarter is sustainable?

Jacek Kunicki:

Well, I think in terms of the penetration rates, it's always an average of where you build, what kind of geography do you build in? What kind of competition do you have there? What kind of saturation of other services do you have in those areas? What is the wealth in those areas? As right now, we will be progressively turning to fresh fiber footprint coming from the FiberCo and from the POPC programs.

Jacek Kunicki:

We have two phenomenons to take into account. On one hand, these are areas that we can expect to have very high penetration rates, much higher than our current average and some early signs of the POPC projects have shown that, yes, we are able to have good penetration of customers in those areas fast. On the other hand, those areas are obviously, and will be open to competition.

Jacek Kunicki:

So it's a determinant of what penetration can we get versus the others, having the advantage of the knowhow and the skills of selling fiber and convergence for a long time, we're confident that we are able to grab a fair share of the net editions on those markets and to achieve good penetration rates rather higher than what we have been achieving in the very highly competitive areas such as Warsaw. And then on the fiber ads, I think 2021 shows that we are progressing well and we're not slowing down while we can expect different quarters to have different dynamics. We're still very, very positive on fiber, on our ability to use fiber as the growth engine for revenues and profits.

Leszek Iwaszko:

Okay.

Operator:

Thank you very much. We'll go back. We're going back to our final, to the question, we have a question from Rohit Modi from Citi. Please. Go ahead, sir. Your line is open. Hi, your line is open, please. Go ahead. Yes, please go ahead. We can hear you.

Rohit:

Am I audible? Hello?

Jacek Kunicki:

Yes.

Julien Ducarroz:

Hi. We can hear you now.

Operator:

Rohit, we can hear you, please go ahead.

Rohit:

Go ahead. Hi. Sorry. I think that it's some disturbance at my end. All my questions were answered. Just one question I have on your midterm CapEx guidance, if can give more color, what kind of 5G coverage do you expect on your midterm CapEx envelope? Does anything you do with your towerco will change your CapEx estimate for next few years?

Jacek Kunicki:

Thank you for your question. I think it's fair to say that our CapEx is changing in a way that we will spend less CapEx on fiber, more CapEx on rollout of 5G. I think it's fair to say that within the midterm period until 2024, this doesn't envisage a massive rollout of new towers. It rather envisages the roll out of 5G and modernization of our existing radio access network infrastructure, meaning that in the short term, it is not heavily impacted by any considerations regarding the tower assets, tower infrastructure, obviously looking further ahead, then you might have more impact coming from towers. And this is why it's crucial for us to understand how will the 5G, what will be the 5G environment like for the years beyond 2024, as this impacts the towerco project, but answering your question regarding the next few years that there is no big impact of towers on the CapEx guidance that we gave as part of the Orange .Grow strategy.

Operator:

Thank you very much. Our final question comes from Mr. Ivan Kim from Xtellus Capital Partners. Please go ahead, sir. Your line is open.

Ivan Kim:

Hi, thank you for the opportunity and the Polish fine missed previously, but on price inflation and general inflation. I just want to see if you see the opportunity to address the ongoing cost inflation via price adjustments, similar to the UPC price region that happened earlier this year. Thank you very much.

Jolanta Dudek:

So I answer for this question. It was few minutes ago about the market situation inflation, which changed a little bit. Now our approach in terms to analyzing, we observe behavior of our customers. As I said, we started more formal strategy three years ago, we will continue and the still is a room for growth for Telcom services in Poland.

Julien Ducarroz:

But to answer concretely on the question of the UPC move, I think, well, I mean, from our perspective today, regulatory and I will say environment are not allowing us to do that at the existing contract with our customer. And we would welcome any opening discussion on those topic with a different regulatory body. But as we said, our focus at the moment is on the more for more, which is more related to new client and existing client and giving more benefit for an increase of price. But when we are talking about the contracted base, this has to be a discussion wider than Orange and we welcome any opening in this area.

Ivan Kim:

Yeah, that's very clear. Thank you.

Operator:

Thank you very much. Unfortunately, we have no time for additional follow up questions. I'll pass the line to Leszek for his concluding remarks.

Leszek:

Thank you very much for all the questions. Those that were not answered, please contact us directly. So thanks again and talk to you later this year.

Operator:

Thank you very much. This concludes today's conference call will now be closing all the lines. Thank you.