

# Orange Polska

## CONFERENCE CALL DEDICATED TO ORANGE POLSKA FINANCIAL RESULTS 4Q 2022

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**Participants:**

- Julien Ducarroz, Chief Executive Officer
- Jacek Kunicki, Chief Financial Officer
- Jolanta Dudek, Board Member, Consumer Market
- Maciek Nowohonski, Board Member, Wholesale and Real Estate Sales
- Bożena Lesniewska, Board Member, B2B Operations
- Witłod Drozd, Board Member Corporate Affairs
- Leszek Iwaszko, Head of Investment Relations

Moderator:

... please go ahead.

Leszek Iwaszko:

Ladies and gentlemen. Good morning. Thank you for standing by and I would like to welcome you on Orange Polska Full Year 2022 Conference Call. At this time, all participants are in a listen only mode. The format of the meeting will be the presentation by the management team followed by Q&A session. Let me introduce speakers for today's conference starting from Julien Ducarroz, CEO of Orange Polska to his right Jolanta Dudek in charge of Consumer Market. Maciek Nowohonski in charge of Wholesale Activities and Real Estate Sales. Bożena Leśniewska, in charge of B2B operations. And Witold Drozd in charge of Corporate Affairs. Next to me, Jacek Kunicki our CFO. Let me now hand the floor to Julien to begin the presentation.

Julien Ducarroz:

Thank you and good morning, ladies and gentlemen. Welcome everyone on our conference summarizing fourth quarter and full year 2022. Let's start on slide five. 2022 was the second year of our .Grow strategy implementation. We did not expect an easy year for us, but the accumulation of challenges was unprecedented. Outbreak of the war in Ukraine, global energy crisis Polish inflation hitting 25 year high. Despite this very turbulent environment, our performance was strong, and we met our objectives. Commercial resort were solid in most areas despite intensifying competition In the wake of inflation, we escalated our value strategy. It was another strong year in B2B, both in telco and ICT services. Our new opening in wholesale strategy resulted in robust performance in this area. Financial result was strong across the board. We met all our commitment despite huge burden from energy cost. I'm especially proud to confirm that we will deliver our 2025 climate goals. Securing CO2 emission

reduction targets three years ahead of our plan. At the same time, we hedged vast majority of our energy cost for 2023.

Similarly, we continue to change as a company. We need to be ready to meet future challenges and take advantage of new opportunities. We have boosted digital transformation on many fronts. It'll support our revenue generation and cost savings. Last year performance proved that our business has strong fundamentals. And we are able to swiftly adapt to changing external condition. It was a collective effort of all team of Orange, and I would like to thank them for this commitment. Let's look at financial highlights on the next slide.

In 2022, we delivered on all our financial commitments. Despite very turbulent environment. Revenue increase by 4.7% and this was much more than we were anticipating in the beginning of the year. Strong revenue performance was a key enabler to mitigate a huge spike in energy cost and allowed us to deliver almost 4% EBITDAaL growth. Please note that we are reporting growth of our operating profitability for the fifth consecutive year. Since 2018, we increase our EBITDAaL as much as 18% despite a lot of challenges.

Economic CapEx in 2022, were in line with the guidance showing refocus from fiber to mobile. Those results show that we are consistent in delivering growth and we have good prospects ahead of us based on our .Grow strategy. Let's look in more detail how we executed it in 2022. So let's look now on our strategy and our four-core pillars. Starting with our core business, its performance was excellent in retail and wholesale market announcing .Grow. We declare new opening in wholesale and last year demonstrated that this strategy is working very well in new opportunities. We are focusing on growing our ICT products. Last year we increase our ICT revenue by almost 25%.

I'm excited that last year we saw a promising growth in our smart city services. IOT solutions enhance quality of life for local communities and support more efficient resource management. Becoming more digital as a company is a key part of our transformation. Cloud is an important part of it. Over the last year we have accelerated with its adoption by migrating our systems to Google Cloud. This make us more agile, especially in marketing. Externally, we are making the digital journey for our customers easier and more efficient. In 2022, we increase digital sales by 20%. Now half of our customers contact us via digital tools.

At the same time, we know that brick and mortar stores are important. Two weeks ago, we have opened a unique green showroom in Warsaw showcasing greener solution including 30% of refurbished devices on display. It has been a particular year for our responsibility pillar. Thanks to greener energy mix and further optimization of energy consumption, we cut our CO2 emission by 14%. It's good for the planet and it's good for our costs. We have also reinvented our circular effort. We encourage our customers for reusing, repairing, recycling and refurbishing smartphones and wearables. Unfortunately, last year was also marked by outbreak of the war in Ukraine. I was impressed by engagement of Orange team that dedicated their time and energy to carry humanitarian aid.

Let's go to next slide and more in detail. The basis of the success of our strategy lies in the strengths of our core business. It consists of three stable growing engines, B2C, business to consumer, business to business and our wholesale activity. All of these engines constantly deliver growth of revenue but more important direct margin. 7% growth over the two years is a strong achievement and key enabler of improvement of our profits. Why it is so important to have those three-engines growing it ensure that we are more diversified and therefore more resilience to external factor linked to those business lines. Wholesales activity are an additional way along retail to monetize our core infrastructure in an open model for the market. Thank you for now and I hand the floor to my colleagues who will tell you about the performance in the respective markets.

Jolanta Dudek:

Good morning, everyone. Let me walk you through our last year's achievements in our key telecom services. Let's start with fiber. Our fiber customer base increased by more than 200,000 in each of the past three years. This demonstrates that the demand for the best connectivity remains strong. We now have close to 1.2 million retail fiber customers. This is more than the number of copper broadband customers. This is a symbol of our technological transformation. Our fiber services are available to more than 7 million households. That is nearly 50% households in Poland. This means that we already reached low-end of the strategic ambition for 2024. In line with our strategy, we grow our fiber footprint mainly to wholesale partnerships. Our largest partner is obviously FiberCo, which already has a network of almost 1.3 million households connectable and the rollout goes as scheduled. Why fiber is so critical for us? It is a powerful tool to build long-term relationship with the customer and increased value through an upsell and more services supporting convergence.

On the next slide, switching now to convergence and mobile. It was another solid year for both groups of services, convergent customer-based rose by a further 5% last year. Even though more operators are now pursuing the strategy which we initiated many years ago. We win customers with our simple and attractive offer. In mobile, we combine steady pace of customer base growth with ARPO improvement. In 2022, mobile handset customer base increased by another 4%. It was consistent with prior years. This is strong performance given that the Polish market is matured and very competitive. According to our estimates, we maintain our share in the market. They are a few drivers of this performance. On the mass market. The main Orange brand is complemented by our B brand Nju. Additionally, our digital offer, Flex, hit record increasing its customer base by more than 60% last year.

B2B was also a solid contributor which will be commanded by Bozena in a moment. ARPO in convergence and mobile only increased by 3% in 2022. In mobile, this growth rate visibly improved compared to 2021. In the second half of the year, we intensified our more for more value strategy in almost all key services in B2C and B2B. This will gradually filter to our revenues. Our key focus for 2023 is execution of the strategy. ARPO growth is absolutely essential for us to at least partly mitigate the impact of inflation. That is all from me and I have the floor to Maciek.

Maciek Nowohonski:

Thank you Jola. Hello everyone. We will now stay on slide number 12. On our .Grow strategy we declared to explore more opportunities in wholesale and I'm happy today to share with you the midpoint of this strategy execution. Our wholesale strategy is straightforward. We want to increase return on our investments in the infrastructure and monetize higher demand for wholesale services from other operators. Wholesale services are usually perceived by the market through the lens of interconnect national roaming or BSA line rental. In fact, it is much more. It also includes data transmission, links, rental of ducts and telecom posts, collocation of infrastructure and messaging. All these elements constitute a wholesale market in Poland, which is worth roughly 3 billion Polish złoty. There are three key drivers of the demand for wholesale services. Firstly, fiber networks in Poland grow rapidly. These networks require a lot of connectivity through data transmission links and their fiber cabling needs ducts and poles infrastructure.

Secondly, mobile operators increasingly need fiber to connect their base stations. Traditional radio links are less and less capable to carry amounts of traffic. And thirdly, other operators use our fiber access network to expand their footprint for fixed services. Common denominator for that is obviously growing demand for high-speed connectivity driven by increase of data consumption in Poland. Our largest in Poland stock of telecom infrastructure is meeting this demand. As you can see on the slide, since 2020, we have significantly increased utilization of our infrastructure in many aspects. We are ahead of what

we assumed in the strategy, and we want to continue this way. This has translated into robust revenue growth. More than 40% over the past 2 years.

Maciek Nowohonski:

Now we move to Bożena. Thank you very much.

Bożena Leśniewska:

Good morning everyone, or good afternoon already. Let's look at page 13. I have a pleasure to say that 2022 was another successful year for B2B. We have improved our results across all business lines and sectors starting from core telco services. In mobile, executing more for more strategy, we gave customers more freedom of choice and variety of bundled offers. As a result, ARPO growth improved up to 4% growth. This coupled with consistent expansion of customer base led to 15% mobile revenue growth during the last two years. This approach strengthened our leadership position in all customer segments. Despite the market remains very competitive. Further deployment of fiber successfully replacing legacy technology resulted in 26% revenue growth in this category last year. In ICT business, we continued value chain development for digital transformation of business by building more synergies between Orange Polska and our IT subsidiaries.

As a result, ICT revenue increased by as much as 24%. It was fully organic growth. The main draw drivers were cybersecurity and software domains both growing about 30% year, year-on-year. The majority of projects were realized in retail, logistics and pharma sectors. These customers progress with automatization migration to cloud and software solutions improving customer experience. Thanks to it we are consistently beating growth of the market and our own assumptions from .Grow strategy plan. Last year, we significantly accelerated monetization of our investments in the solution based on IOT, especially smart cities. Our city management platform has become more and more appreciated by local governments. More than 100 cities use intelligent metering, monitoring, and analyzing platform for lighting, water waste and transport management. All this improved quality of life and brings tangible savings also supports the green agenda by limiting the energy consumption and decreasing carbon dioxide emission. In 2023, we are focusing on further execution of our value strategy and await 5G spectrum, which is especially important for business applications. We hope to accelerate on the front of mobile private networks. Thank you and I hand the floor back to Julien.

Julien Ducarroz:

Thank you Bożena. When we announced .Grow, we told you that we aim to become more digital to release more of our potential. This digital approach will make us to respond better and faster to customer needs and at the same time make us leaner and more efficient. In order to be better in marketing, we want to manage majority of customer interactions through machine learning and AI model. This will give us easier and faster personalization of contact and offer. As a result, it'll translate into more relevant offers, increase customer loyalty and more revenue. To do that, we partner with Google Cloud, and we are now progressively migrating our big data lake to the cloud and benefit from its capacity. We are constantly improving online sales and customer care channel to increase our efficiency and improve customer experience. Sales for digital channels increases another 20% in 2022 and now constitutes 17% of our commercial acts.

The key tool is our My Orange application, which is more and more relevant to customer needs. Already close to 50% of our customers use it to manage their services and pay their bills. Max, our voice and chat bot with AI every year is dealing better with customer requests with less human assistance needed. We estimate that in the past two years we avoided more than 2 million calls to our advisors on the main info

lines, mainly thanks to Max. Internally, we are adopting robotization, big data and AI across the company. We have now around 370 robots and more than 1,200 business processes automatized. It allows us to save cost and reallocate our human resources from repetitive jobs to more value added tasks. A very important aspect of all digital journey is education of our employees. We are on a good way to reach our 2024 target of training 70% of our employees with data skills.

Going to the last pillar of our strategy, 2022 was a particular year for responsibility pillar of our strategy. We made exemplary progress in our Orange goes green plan. On the other end, war on the eastern border was a special test to our ability to carry help and support to other people. Energy crisis additionally mobilized our effort around increasing energy from renewable sources in our mix. In 2023, thanks to our contracted PPA from wind farm, 75% of our energy is secure and green. As one of this PPA is a short term one this ratio will fall to around two-third in 2024.

As a result, our strategic goal to reduce CO2 emissions by 65% versus 2015 in scope one and two is secured three years ahead of the plan. I'm especially proud of that achievement. It'll stabilize our energy cost and make our business operation cleaner and more friendly to the environment. I'm also proud that our Orange Goes Green strategy was appreciated by world communication awards in a competition awarding achievement and innovation in the telco industry globally. We got into the final shortlist as the only company from European Union. Our climate strategy was seen as holistic with tangible action and result. This is a confirmation of our authentic engagement in green transformation and that this is not an empty slogan. In terms of Ukraine, after the major effort in the beginning of the war, now our support has become more systemic aimed mainly at helping refugees to adapt to life in Poland through various activities. As much as we hope for a quick resolution of this tragic conflict, we are aware that continuous support is needed. I now hand the floor to Jacek.

Jacek Kunicki:

Thank you, Julien. Good afternoon, everyone. Let's start the financial summary on slide 17. Our financial results last year were strong across the board as we delivered on our annual objectives and have built a platform for further growth in 2023. We grew revenues, profits and return on capital employed while preserving a solid cash generation and a save balance sheet. We have outperformed our initial expectations for the year. I'm particularly happy with the EBITDA growth as a 4% rise is slightly ahead of our guidance. We've delivered solid growth despite some 220 million headwinds coming from the energy prices. This was coupled with disciplined capital allocation, and CapEx was at the low end of the guidance. This underscores that we are becoming ever more efficient in CapEx spending. The growth of profits and CapEx control further improved the return on capital employees, the KPI that we target to create value for shareholders.

Let's now review our results in more detail starting with the top line. Our revenues expanded strongly in Q4 fueled by the sustainable demand for our core retail and wholesale services. The key takeaway is the consistent mid-single digit growth of our core telecom services supported by good dynamics of their respective KPIs. These are key to our results as they generate a very high variable margin. These were coupled with a continued double-digit growth of It/IC revenues strong dynamics of our wholesale business and a 10% increase of equipment revenues as we attracted customer demands away from the open market. Let's now take a look at our profitability.

EBITDA grew by around 4%, both in Q4 and for the full year. We outperformed our guidance. The analysis of this growth reveals the strength of our business model. First, a strong underlying growth of the direct margin. Second, the adaptability of our cost base to external headwinds resulting in high operating leverage. These are the fundamentals that underpin our .Grow strategy for 2021 until 2024. We delivered this growth in spite of huge price driven increase of energy costs. This rose by 220 million

last year and by 50 million in the fourth quarter. We've offset two thirds of their impact by limiting other indirect costs and therefore preserving our high operating leverage. In consequence, we have converted the growth of the direct margin into higher EBITDA. Looking forward, the macro environment remains challenging. However, the 2022 success gives us the confidence to address this challenges and continue to deliver predictable, consistent and improving results. Over to net income, on the next slide.

We have achieved over 700 million of net income in 2022. This was our highest net income in a decade if you exclude the one-off FiberCo transaction gain from the result of 2021. First of all, we note that the EBITDA growth is translating into the net profit. Secondly, positive EBITDA was coupled with lower depreciation expenses as we have decreased CapEx and used our assets more efficiently, especially the mobile access infrastructure. Finally, our property sales have rebounded and gain on sale of assets has increased by 55 million. Let's now switch to CapEx on page 21.

Our economic CapEx for 2022 amounted to just over 1.7 billion złoty and was towards the low end of our guidance. We allocated more CapEx to mobile where we began the modernization of the access network. This is exactly in line with a pivot planned inside .Grow strategy. This modernization will be coupled with 5G rollout as soon as the spectrum auction will be concluded. At the same time, we continue to expand our fiber footprints off balance sheet through the FiberCo joint venture. We have decreased CapEx in all other lines striving for a greater discipline in capital expenses and arise in the returns that we get from our investments.

Let's now take a look at cash flow on page 22. We're happy to report over 800 million of organic cash flows in 2022. Marking this another year of very solid cash generation. Cash flow growth was fueled by 200 million more cash from operating activities before working capital owing to the excellent EBITDA results. This was then offset by higher working capital requirements as we have significantly increased the value of handsets sold in installments.

Higher handset sales have increased accounts receivable in the short term, but they will generate recurring positive cash flows in the future. Good cash generation has further strengthened our balance sheets and now let's look at leverage on slide 23. The financial leverage through that 1.3 times EBITDA at the end of December. Despite cash outlays for spectrum renewal and for the dividend. Our cost of debt is only 3.3% due to effective hedging. We don't expect it to change significantly soon as 90% of it is at fixed interest rate until mid-2024. So, as you can see, our balance sheet is as solid as ever giving us the necessary safety net and flexibility especially appreciated in the current turbulent environment. 2022 marks a halfway point in our strategy execution. So, let's do a quick checkup of how we stand against our ambitions from the financial perspective as visible on the next slide.

As you remember, we have a strategy of growing our revenues and translating this growth through high operating leverage into low to mid-single digit increase of the EBITDA over the strategic plan horizon. Next, by keeping stable CapEx, we aim to boost cash generation and the return on capital employed all while keeping a very solid balance sheet. The results of the last two years show that we have done exactly as committed. The revenue and EBITDA growth is at the high end of the guidance. Our CapEx spending is at the low end of expectations. We have quadrupled the return on capital employed and preserved the very sound balance sheet. In short, we are on the right track to deliver all our midterm financial commitments so we can focus on execution in the remaining two years of the .Grow strategy. This concludes the financial review. Let me hand the floor back to Julien for the conclusions.

Julien Ducarroz:

So, let's look forward. 2023 will be the third year of implementation of our .Grow strategy. The environment continue to be demanding. Poland's economy is expected to slow down to less than 1%, inflation to stay at double-digit level. The war behind our eastern border unfortunately continues.

Nonetheless, we are confident that we have the right assets, network and people in place to manage those challenges and that our goals are ambitious. First and foremost, we need to be persistent in execution of our commercial value strategy to at least partly reflect much higher cost in output prices. That needs to be coupled with a further cost transformation to be more agile and cost-effective, which include further digitization of our business processes that we discussed a lot today. Secondly, we hope that 2023 will finally be the year of 5G. We are very pleased that longer awaited consultation for the 5G auction has begun. We hope for efficient and transparent process.

Finally, we will push further with our ESG agenda both on environmental and social fronts. Our increased focus will be now on CO2 emission reduction in scope three, so including entire value chain of suppliers and customers. This is why we are pushing more action related to circular economy.

Let's look now at our guidance on slide 27. The objective for this year is consistent with our strategy to deliver growth. The key challenge is inflation, which will significantly impact our operating costs. We believe the demand for our services will remain solid as they are essential to our customers. We anticipate further growth of our core retail telco services, solid revenue from ICT and high demand for our infrastructure from wholesale customers. As a result, we expect further growth of total revenue at low single digit level.

EBITDAaL will further benefit from profitable revenue growth in the key areas of business, our intensive focus on value and cost optimization. At the same time, please note that the large part of our cost is indexed to last year inflation or subject to pressure resulting from big increase of minimal wage in the economy. In addition, macro environment is very volatile with uncertain scale of economic slowdown couple with high inflation and interest rate. Taking all that into account, we repeat guidance for EBITDAaL that we announced last year for '22, so flat or growth by low single digit percentage.

Regarding CapEx, we expect it between 1.5 and 1.7 billion złoty. This reflects three elements. Firstly, our view that the outcome of the 5G auction will come in the second part of the year, so we will not see this year full run rate of network rollout. Secondly, our strive to be more CapEx efficient. And thirdly, our ambitious plan regarding sales of our unused real estate. Of course, by definition it exclude acquisition of mobile spectrum.

It is going to be another tough year, but we believe that the measures we have put in place provide us with confidence in our ability to execute our goals. This confidence underpinned our dividend recommendation.

Let's look at the last slide. As we presented to you today, we are on track with our strategy execution. We delivered our objectives. We grew our revenue profit, return on capital employed. And we have a healthy balance sheet. I'm pleased that we are in a position to share benefit of this growth with our shareholders. We have recommended to the general meeting of shareholders a payment of 35 grosz per share cash dividend in 23 from 22 profit. At the same time in line with our dividend policy certified grosz per share becomes our new sustainable floor for the future. This 40% dividend increase reflect confidence that we as management have in the long-term prospect of Orange Polska and our ability to resist challenges of the future. This conclude our presentation and we are now ready to take your questions.

Leszek Iwaszko:

Thank you. We would like now to turn to the Q&A session. If you have dialed by phone and would like to ask a question, please press star two on your telephone keypad. So, star two on your telephone keypad and wait for your name to be called. If you dialed in via web, then you can ask a question writing in a text question on chat. Now while we are waiting for first question from telephone conference. We have received a couple of questions online. I will start with the questions from Piotr Raciborski from Wood.

The first question, could you please provide us with some update on the network monetization project and this is about the discussions with Totem. What scenarios are possible?

Jacek Kunicki:

So, thank you very much... question I would say we don't have any big news to share regarding the tower considerations. Today, I think the macro environment is not favoring this type of considerations so it's not very high on our agenda, it's not the perfect time for these type of projects. I think it's fair to say today we're more focused on the concepts of improving the efficiency of running these operations. And obviously, we would keep you updated if the situation changes, but I would definitely say today if you're thinking about what are we focused about, it's less on the towers and the monetization potential is more on execution of the organically designed plan that we have designed for the four years that we have implemented over the last two years and that needs a lot of care to be implemented properly in 2023 and 2024.

Leszek Iwaszko:

Okay. Thank you. The second question from Piotr do you see negative impact of macro slowdown on your net additions? What is the reason of the decline in mobile postpaid net adds and fiber net adds in Q4? How does Q1 2023 looks like?

Jolanta Dudek:

I will take this question. We do not observe the macro slowdown in general on the market. The reason of lower net adds and postpaid and FTTH are as follow for postpaid and on the end of October we have introduced new tariff plans with price hikes. So, always after such a price hike implementation we observe two, three weeks of slowdown of the sales but after this period the sales come back to the normal level, and we observe in January that, January was excellent. So, my forecast for first quarter is very good. Thank you.

Julien Ducarroz:

Maybe fiber that the production from the market mainly now for us as for third parties and our own core, own venture were lower than in '21 resulting in slower but this is more a time different than our own performance. So, this is the production was reduced in last quarter of '22 versus '21.

Jolanta Dudek:

And some delays of installation on third party FTTH.

Leszek Iwaszko:

Thank you. The next question on CPI clause, will you execute CPI clauses included in the contract this year? Can you please provide us with some comment on the current anti-monopoly office investigation regarding these clauses?

Julien Ducarroz:

So, let me take the first part of the question. So, regarding the implementation of the clauses that we introduced last mid of last year to all new customers and customer renew the contract with us. So, we have not yet decided the period is the first six months of the year to take this decision. So, at the moment we have not yet decided, but we are strongly considering to implement this clause that we in



our case which the way we have implemented the way we have formulated in the contract we believe our position is that we have the right to do it. And again, we have this period of up to the end of June to decide and I repeat at the moment, no decision has been taken, maybe Witold on the second part of the question related to our observation.

Witold Drozd:

Just one comment we are aware of one proceeding concerning also us directly the competition office is simply verifying all the clauses introduced by telco operators including us. We strongly believe, our clause fully in line with the regulations so we are patiently waiting for the outcome from this proceeding.

Leszek Iwaszko:

Thank you. The last question from Piotr on eCapEx guidance. Could you please elaborate on the in eCapEx guidance for 2023. What level of investments in 5G network rollout do you expect? What are the assumptions regarding real estate sales?

Jacek Kunicki:

Well, I would say if we are thinking about the eCapEx guidance, there are four main factors driving the CapEx expectations for 2023. First, we need to note that we continue to benefit from an expanding fiber footprint but that we are able to wrap those benefits off balance sheets through the use of Swiatłowódw Inwestycje, our FiberCo JV and here everything is really going well. It has a mandate to build up to 1.7 million of new households connectable and this is progressing. And this allows us to allocate more CapEx onto the 5G rollout but also the renewal of the existing radio access network. Now for the... as far as 5G rollout goes, the auction isn't expected to end soon. I would say it's more likely to end in the second half of the year. So, we will mostly focus on purchase of the license. This is obviously excluded from the eCapEx definition and therefore from the CapEx guidance, but this is going to consume well sizable amount of capital and the rollout will likely reach the full pace only in 2024.

What does that mean? It means that more CapEx will be delayed, be beyond the horizon of the .Grow plan 2021 to 2024 versus our initial expectations. I would still assume that if you ask us about the size of the yearly spend that we need for mobile investments, it's valid what we have said in the .Grow plan. So, it's between 400 and 500 million złoty yearly for the renewal and the rollout, but it'll really be dependent on the timing of the 5G auction. And then looking at all the other categories of CapEx spend, we really are working on increasing the CapEx efficiency on things like network replacements, capacity, IT development and I believe that we will demonstrate further sequential benefits and will increase the returns that we are getting from the investments in those areas, so that's for the CapEx spends. Obviously, the eCapEx includes both the CapEx spending but also the proceeds from sale of unused real estates.

You will have seen that over the last two years we have progressed the income, the proceeds from sale of real estates this year was much higher, or last year was much higher than 2021. And we wish to further exploit the strength and to make sure that we have well, growing proceeds year-on-year from this domain, so that is another factor. Well, we are quite ambitious, and this will help us to manage the eCapEx portfolio and this is the reason why we have guided for 1.5 to 1.7 billion złoty of the CapEx spending. Obviously, the width of the guidance it takes into account that there are various scenarios both for the real estate sales but also timing and pace of the 5G rollout that we would be making. Thank you.

Leszek Iwaszko:

Thank you. That concludes questions from Piotr and now we are switching to Marcin Nowak, who will be asking the question via phone. However, I guess Marcin your... let me try again.

Marcin Nowak:

My line is open. Good, good afternoon. Oh, can you hear me?

Leszek Iwaszko:

Yeah. We can hear you very well.

Marcin Nowak:

Yeah. Yeah. Good. Good. Thank you for taking the questions. Good afternoon. I have, well, two questions. First, regarding working capital, giving the significantly large charge of working capital in fourth quarter. What should we expect regarding further evolution of working capital in following quarters given that lately the demand from handset has been the major driver for the quarterly increase? That would be first question and well second question would be about your net debt to EBITDAaL leverage target which has been established in 2021 in mid-2021 and then it was described as a well long term. And my question is, what exactly has your mind back then when describing gives us a long-term target? In which year should we expect Orange to meet this target? I mean, having net debt to EBITDAaL ratio within the range of 1.7 to 2.1 excluding potential M&As.

Jacek Kunicki:

Thank you for these questions. Maybe starting with the working capital, obviously we've seen an increase of working capital requirements, but it's driven by positive factors because it's driven by our ability to sell more handsets, to take more of the share of handset sales away from the open market. It demonstrated our ability to price those handsets in a favorable way for us and still for those to be attractive for the customers. So, this is definitely something that if there will be demand, we will be trying to pursue that. The increase of working capital that you have seen in Q4, it's something which again it's favorable but this is the first step. So, as we buy the handsets and we sell them to our customers in installments either with a contract or as a SIM free, it creates a large account receivable and then as time passes, we are able to do two things with it.

First of all, we receive the cash from the customer and if it's SIM free it's cash for the handset. If it's with the contract, obviously the higher the account receivable the more we receive. But also, usually we use this to promote higher end tariffs. So, this is something which is very accretive from the ARPO perspective and as time goes, we are able to sell a portion of those accounts receivable through factoring facility. This is what we have always been doing at least for the last three or four years. We do not sell those accounts receivable immediately. We wait for at least three tranches to be paid to make sure that the quality of those accounts receivable is good and then we are able to get the cash quicker. We haven't decided exactly how much of which we will release through factoring, but this is definitely something which is at our disposal and something that we are using normally it's part of the business.

And so this is the working capital is not something that I perceive as a blocking point and a hampering point for the cash generation in 2023. I would say even going further, if you look on the EBITDA guidance and on the CapEx guidance, it implies that we're rather striving for quite a good cash generation in this year. Regarding the net debt to EBITDA leverage target. It is a long-mid or long-term goal that we have. So, every time that we refer to this target, we don't only refer to the point that you see or the ratio that you see on the balance sheet date, but what are our expectations regarding this target when we take

into account at least two to three years. So, giving you an example of the current situation, we would not only look at the ratio that we have as of end of December 2022, but we obviously include the costs that we have, that cost that we will incur for example for the 5G license during this year.

We haven't set an exact date when we would like to reach this corridor. It needs to encompass the main expenses that we have ahead of us in the big uncertainties. I think we will be in a much better position to comment this when the 5G auction will be included as this is currently the rather big unknown that has been shifting in time for the last two years. And as soon as the amount will be known we will be also in a better position to say how close are we to the minimum of the maximum threshold and what actions should we take to make sure that we are not under or over leveraged in the long-term perspective.

Marcin Nowak:

Thank you. But if I may a quick follow up because as you said, if I understood correctly that you perceive this long-term approach looking onward by two or three years and if I calculate correctly in mid-2021, the period of two or three years was in 2023 or 2024. So, can you comment whether if this is not a current approach to the receiving the target but only when we look from the today's perspective that you possibly may not plan at all to reach this leverage because from current level of net debt to EBITDAaL, which is at 1.3 to reach the higher end of their leverage we would have to pay in 5G auction around let's say almost 3 billion złoty which looking at proposed pricing by UKE now kind of unrealistic.

Jacek Kunicki:

Oh, thank you. I would say if you're referring to the comments made in 2021. Obviously, those were made also in the assumption that the auction will be finalized by now. The auction has not yet been finalized and hence today it's still a big uncertainty ahead of us. We have not and will not commit to the precise date at which we should be within this corridor, but we have issued this corridor as part of a policy where being below the low-end trigger is always initiating our thinking of how leveraged are we, how levered do we want to be and should this not assume something positive for shareholders in terms of dividends increase. On the other hand, obviously if we were to reach the high end of the guidance, this would be something that would be awarding signal for us that we need to limit the expenses going forward not to exceed to the two times net debt to EBITDA.

I think it's our actions as of today prove that it is working. We are below the low-end threshold. We're still before concluding the 5G auction, not waiting for the 5G auction to be concluded, we have first reinstated the dividend last year. We have increased the dividend by 40% this year and I think again this shows you that we are taking those triggers into consideration. There is no automatism but obviously those are linked with amongst other things our ability either to exercise our balance sheets to grow faster or to use the balance sheet and the safety net of the balance sheet to increase shareholder remuneration. But those are decisions that we will obviously take in one year time in two years' time because we do evaluate and reevaluate the dividend on a yearly basis.

Marcin Nowak:

Thank you for detailed answer.

Jacek Kunicki:

Thank you.

Leszek Iwaszko:

Two questions from Dominik Niszczyński from Trigon and that came online on the real estate. First question, what was the year-end book value of the real estate that you intend to sell and what is the market value of that portfolio? Is two times book value a fair assumption?

Maciek Nowohonski:

I will take this question so, Maciek Nowohonski speaking, basically the value of the portfolio that we estimate is the market value that today we are having is surpassing 1 billion Polish złoty. The value in the books is obviously lower because as you know these properties are not with us since two years or three years but they are long tens of years, so they are well depreciated and net book value of that is obviously much lower and I hope it is helpful for you.

Jacek Kunicki:

I guess it's just as a compliment is it's fair to say whenever we sell real estate, we usually make quite a nice gain. It's sometimes close to 50% gain on those sales. It obviously depends which exactly real estate we sell and how much we sell this for. It's not the only... I would say benefit of selling those real estates. I mean, obviously the capital gain is one benefit but it's also freeing up the capital that is currently locked into the value of those real estates and then reinvesting this in CapEx into more value accretive projects. That is really something that is on our minds as well as disposing those assets to reduce the recurring cost of maintaining those real estates including real estate tax including all the utility fees that we need to pay as we have them, as long as we do have them.

Leszek Iwaszko:

And the question from now from Jakub Viscardi from BOS, what is the value estimated CapEx for 5G network rollout? How do you assess the covering targets? So, covering with five years, 99% of households with a speed of 100 max per second capacity network with the latency of 10 milliseconds?

Jacek Kunicki:

Yes, it's more for 5G commitments. In terms of the overall rollout, it's what I mentioned, the run rate will be around 400 to 500 million per year for the rollout and the renewal of the rollout of 5G and renewal of the 4G license. As for the conditions of the auction, maybe Witek give us-

Witold Drozd:

Just one short comment. Please remember that these conditions are not final ones. This is I would say first round of consultation. We expect the second round and us like our operators and all the chambers passed our positions. We believe the regulator is now carefully analyzing it and we expect the conditions may change also in this respect. So, it's much too early to say what level of cost we may assume based on these obligations.

Leszek Iwaszko:

Actually, I missed one question from Dominik Niszczyński. It's a question on PPA agreements. A question on PPA wind energy agreement. What is the price indexation mechanisms beyond the year 2023?

Jacek Kunicki:

I mean, we will not comment those contract by contract because they are commercially sensitive. So, on some of the contracts for these type of ventures, you get mechanisms that are linked directly or

indirectly with inflation but the precise mechanisms are commercially sensitive. So, we will keep it for us, I think it's safe to say we are satisfied and happy with the conditions that we have for those PPAs, both the virtual ones and the physical PPAs. We are satisfied with a mix that has both short term and long-term contracts and it is the right mix that we should have in our hedging strategy, and we are satisfied with the fact that this will help us to keep costs of electricity or energy stable year over year 2023 compared to 2022. Thank you.

Leszek Iwaszko:

It appears we have no further questions, so thank you very much for your attention. If you would like to follow up, you know how to reach us. Thank you. Have a good day and see you back in April. Thank you.

Jacek Kunicki:

Thank you very much.

Jacek Kunicki:

Thank you.

Leszek Iwaszko:

Bye.