Orange Polska
Q1 2024 EARNINGS CALL

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Participants:
- **Liudmila Climoc, Chief Executive Officer**
- **Jacek Kunicki, Chief Financial Officer**
- **Leszek Iwaszko, Head of Investor Relations**

Leszek Iwaszko - Head of Investor Relations
Hello. Please confirm, operator. Michael, can you please confirm we are on the line, we are live?

Operator:
Yes, you are live, Leszek. Please go ahead with your presentation.

Leszek Iwaszko - Head of Investor Relations
Thank you. Let me ask Liudmila to start again the presentation. Apologies for these technical problems.

Liudmila Climoc – CEO
Yes, apologies and, yeah, sometimes happening. So, coming back for our first quarter results presentation and a good start of the year, I was commenting on the environment that we are pretty happy that it is improving and we see that inflation is coming down a lot, which is helping us on our cost part. Commercial performance was very solid, particularly on quarterly services. We see good consumer demand for both services and handsets, and we are pleased to see that our 5G services and benefits of 5G encourage customers to replace their phones and consume more data. ARPO continues to grow in all key services. On another hand, we see slower business activity in the public sector, which is affecting development of our ICT businesses.

Our financial results were good, even if the headline revenue figure is down year over year, and the key for us is that revenues from core telecom services performed very well, growing by more than 4%. Our core business is crucial to our profit generation, so that's why it's our key focus. EBITDA increased by a strong number of almost 5%, as we benefited from lower energy costs and our efficiency initiatives.

In line with our priorities, we are investing in the quality of our networks. Rollout of 5G on the C-band spectrum progresses as planned. We already see customers using more data in the areas where network on C-band is becoming available. Fiber rollout with EU subsidies, thanks to dedicated programs, is now in the execution phase. We will build a network covering 155,000 households in Poland in 125 different municipalities, and this network will be built by mid-2026. New fiber footprint will be an opportunity for us to upsell our services in retail and in wholesale, and also we will operate on other networks which will be built with support of this program, so the entire new fishing pool will be an additional 1 million households. And by improving digital infrastructure of the country, this investment is also fighting digital divide, contributing to fulfilling our ESG agenda targets.

I would propose to zoom on highlights of our commercial activity on the next slide. Commercial performance in Q1 reflected solid customer demand, our focus on value, and intensive market competition. In convergence, we are pleased with 5% year-over-year growth of our customer base. It confirms that customers appreciate the quality of our multi-service offer in a demanding environment. We are happy that good volume growth in convergence is combined with solid ARPO increase, which was growing 4.6% year-over-year in Q1. It was also supported by good demand for TV content and higher fiber speed options, which are already contributing one-third of our fiber customer base. Growth in convergence is supported obviously by fiber uptake. Customer base here increased 14% year-over-year, and fiber is clearly our key driver for 4% growth in ARPO if we are talking about fixed broadband only. Our mobile customer base continues to grow. We are growing between 2% and 3%. This quarter it was close to 3%, which is very solid, taking into account market saturation. Mobile ARPO growth slowed down versus dynamic in 2023 and last year due to two main reasons for this quarter. Firstly, high comparable base in B2B. I remind you that we increased prices in B2B mobile on the customer base in last quarter of 2022. So in 2024, particularly first quarter, we have quite a high comparable base. And secondly, we see a slowdown in roaming, which is also visible in ARPO. These solid results illustrate that we find the right balance between volume and value in our commercial activity, despite sometimes aggressive offers of our competitors. And it is supported by strong perception of quality of our services and brands, combined with adoption of more local marketing strategies. I thank you for now, and I hand over the floor to Jacek.

Jacek Kunicki – CFO
Thank you, Liudmila. Good morning, everyone. Let's start the financial review on slide 7 with the highlights of our performance this quarter. Our financial results in Q1 were solid, with strong growth of the EBITDA AL and cash generation. The headline revenue figure reflected a cyclically weaker ICT revenues and low energy sales. However, we are pleased with a strong growth of revenues from the core telecom services. Good performance of the core business and lower indirect costs drove an almost 5% year-over-year growth of the EBITDA after lease, making a very solid start to 2024. The net income reached almost 230 million zloty in Q1. This is a solid result when compared to the quarterly average of last year, just over 200 million zloty. And the year-on-year revolution in Q1 is made versus a high comparable base of the first quarter of 2023, when we recorded very high gains from sale of real estate, as two thirds of the full year total of this category were reported in Q1. Finally, cash generation benefited from a higher EBITDA AL and from lower payments for the CAPEX versus the ones that we have reported in 2023, first quarter of 2023.

Let's now review our results in Q1 in more detail, starting with the top line. So total revenues for Q1 decreased 1.8% year-on-year as driven down by lower sales of IT and IS and of energy trade. The most important takeaway, however, from Q1 revenues is that revenues from core telecom services are solid and grew by over 4% year-over-year. This growth rate even improved slightly versus the one that we registered in Q4. Core telecom revenues are benefiting from a simultaneous expansion of the customer bases, with yearly growth of 3% in mobile, 5% in convergence and 14% in fiber. And also they are supported by a simultaneous increase of the main ARPU indicators, with 1.7% growth in mobile, 4% growth in broadband and 4.6% increase in convergence. Revenues from the core telecom services are key for margin creation and so we are happy with their continued solid growth. Then, as you can see, Q1 revenues from IT and IS services have decreased year-over-year. The IT and IS revenues undergo a cyclical slowdown resulting from the broad IT market downturn and from lower demand from the public sector in a post-election period. IT and IS is an important value driver for us and we are confident in its potential in the future. We anticipate a gradual rebound in this activity starting from the second semester. IT and IS is also our great asset in the long term, increasing our competitive position on the business market. Finally, other revenues were pulled down by lower MTR rates and by a drop in energy resale. The latter decreased as a result of two factors. Firstly, a very high comparable base of Q1 2023 when they were much higher than in the remaining quarters. And secondly, by lower prices driven by the energy market and by changes in regulations. To sum up, Q1 shows the solid growth of the core telecom services giving us the confidence for the value creation in 2024 while the IT and IS slowdown should ease in the second semester.

Let's now look at our profitability on slide 9. Our EBITDA AL in Q1 increased by a strong 4.9% year-over-year. It benefited both from the growth of the direct margin and from lower indirect costs. The direct margin increased year-over-year, even if slightly slower than in the past. The main drivers of this are firstly, continued solid growth of margin stemming from the core telecom services and secondly, a cyclically lower margin from IT and IS revenues and from the energy trade, reflecting the revenue performance as discussed a minute ago. Given the strong performance of the core telecom business and the seasonality of the IT and IS downturn, we are confident that the overall direct margin dynamics will improve in the subsequent periods. Our indirect costs decreased year-over-year, marking an improvement to their dynamics. This was due to two main reasons. Firstly, our energy costs were 17 million zloty below last year due to lower prices. Secondly, we report a higher net other operating income, mainly due to efficiency gains made in some key projects. We are happy with the EBITDA AL result for Q1. This result gives us the full confidence in our ability to deliver the 2024 objective, as well as in our ability to deliver the long-term goal of the .Grow strategy that ends this year.

Let's now review cash flow and balance sheet on slide 10. Our organic cash flow has substantially increased versus Q1 of last year. It came from two elements. First of all, from the higher EBITDA AL, which is the main building block for cash generation over the long term. Secondly, from lower cash capex. This reflected lower payments for prior year capex than we had in Q1 of 2023. Our balance sheet remains very sound, with financial leverage at 1.1 times EBITDA AL and the effective cost of the existing financing of just over 3%. As we speak, we are refinancing an important part of our debt, which is due in May. Following this refinancing, we expect the effective interest rate just above 4%, as the new debt will reflect current market terms for financing. This is all from me for today, for the presentation. Thank you for your attention and I hand the floor back to Liudmila.

Liudmila Climoc - CEO
Okay, thank you. So, let me briefly summarize and present you our focus for next month. So, we started the year well and we are satisfied with our commercial and financial performance in this quarter and we do confirm our full year objectives. And our forward focus, looking on this year, basically reflects our objectives from our .Grow strategy. And our first priority and first focus will be commercial activity, which is key fuel for our profit generation. And if you are in Poland, you have probably seen that we are more active in the media and communication with our new brand campaign, so quite promising and outstanding. And we aim to leverage on it and to continue our local approach in marketing to address diverse competitive landscape. A second priority is our network, rollout on 5G and building fiber with EU recovery subsidies, which I have mentioned in the beginning. Timing here is very demanding. And both the commercial efforts and the network investments should translate into a superior experience for our customers and building the foundation for our future growth beyond 2024. That's all from us and now we are ready to take your questions.

Leszek Iwaszko - Head of Investor Relations
Thank you. We will be now moving to Q&A session. If you are dialed in via the phone and would like to ask a question, please press star 2 on your keypad and wait for your name to be called. You may also ask a voice or text question using the web platform. So once again, if you would like to ask a question, please press star 2 on the keypad or press the question button on the platform. We have a first question coming from the line of Dominik Niszcz. Dominik, your line is open. Please go ahead.

Dominik Niszcz - Trigon
Hello, this is Dominik from Trigon. I just have a question about your cooperation with JV. And the second part of this question would be whether it is already reflected this quarter in your other operating income costs line, which grew strongly. The question is because I saw in your P&L that your sales to JV went up by 60 million year on year and your purchases from JV only by 10 million. So I'm thinking whether you make more money on cooperation with JV and if it's if it's sustainable and whether it was this this thing that impacted your other operating income that inflated your EBITDA AL.

Jacek Kunicki – CFO
Thanks for the question. So first of all, our relationship with JV is obviously happening on numerous layers of activity, some of which is very visible to you like this other operating income, and other operating expense, but part of which which is less visible for you, for example, regarding the costs that we have in labor costs, in network costs, in other external purchase, which relates to these kind of activities or connectivity that we buy from the JV. Because we are obviously not only an important supplier, but also an important client of the JV. If you ask me

about the net impact, yes, net impact is positive in cooperation. It's not positive every quarter. It's positive this quarter when we when we sum up all the flows of what we buy from the JV and what we sell to the JV. Then when you ask me about this other operating income, obviously, this this line by nature includes many items and it is not it is not one single item that is making the total. You know, it includes risk provisions, whether we increase them or we decrease them. It includes gains from sale of copper that we extract from the ground as the copper based network is less utilized over time. And so we scale it back and sell the commodity. We include here income from commercial projects. This includes services for the Orange Group. It also includes services for the Fibre Co. And this is, you know, it's back office, it's IT functions, it's the rollout agreement for building the Fibre Co network. This is the important one. And we you know, we include here the income from these various activities. We are achieving efficiency gains in realization of some of these initiatives and Fibre Co project is not excluded here. By nature, this line contains incomes that are not, you know, our core business in terms of telecom services activity. That's why we don't report them in in revenues. I wouldn't say it's made of one offs, but it's not fully recurrent. So, you know, if you ask me about some guidance, don't fully extrapolate anything because this is not a fully recurrent line, but it's not only made of one offs either. I think if we're making some efficiency gains on projects realization, it is not only for the one quarter, but there will be some additional impacts that we may expect as a result of those efficiency gains going forward. But they are not purely recurrent. I know it doesn't make your life easier in terms of extrapolating this, but this is the nature of of this activity.

Dominik Niszcz - Trigon
OK, so I guess it's more this year than in 1Q23 and part of this will continue, part not, but you don't want to quantify.

Jacek Kunicki – CFO
Yeah, it's difficult. It's not something that we either want or that is very easy to be quantified right now. When you ask me about the duration, so obviously, you know, some services that we are rendering either to Orange Group or to the FiberCo are there to be rendered for a very long time, like back office functions, IT functions. When I'm speaking about Orange Group, this is the Accounting Shared Service Center and some other service centers regarding the big project of network rollout for the FiberCo. This is a project that that will last or is planned to last until the end of 2025.

Dominik Niszcz - Trigon
OK, thank you.

Leszek Iwaszko - Head of Investor Relations
Thank you. Our next question is coming from the line of Nora Nagy from Erste Group. Nora, your line is open. Please go ahead.

Nora Nagy – Erste Securities
Hi, thanks for the presentation. Two questions from my side, please. Firstly, could you please explain the year over year drop of commercial expenses this quarter? And secondly, do you still

expect further premises to be added to the broadband network rollout or the EU fund is fully exploited for now for this purpose?

Jacek Kunicki – CFO
Thank you. Can you just repeat your second question?

Nora Nagy – Erste Securities
Yeah, this is related to the National Recovery Fund and your broadband network rollout. So now you've announced some new premises and do you still expect further to be added in the upcoming quarters or this fund is already exploited?

Jacek Kunicki – CFO
I think starting perhaps with the KPO. Which is the National Recovery Fund. Yeah, which is the National Recovery Fund. It's, you know, most of the deadlines are where they are. We've signed the contract that we that we applied for, we want and we wish to sign based on the profitability criteria that we have. And so right now, I wouldn't expect any meaningful add ons in terms of new contracts. But rather we focus on the execution of this, on making sure that we are on time, on making sure that we are at budget and we are able to deliver this network. You know, on the other hand, when we're thinking about the National Recovery Fund, it's not only our part that matters. What really matters for us is equally that, you know, what others will build. Overall, within the next two and a half, three years, we should expect the fiber footprint that is available for our retail activity to increase by one million households. And this is the nice addressable market that we need to benefit from by selling more retail services. Regarding commercial costs, yes, they have decreased this quarter. And it's mainly due to lower costs of ICT equipment. You will have seen that ICT revenues have decreased. So have purchases of ICT equipment that we quite often resell. And so this is the reason why commercial expenses have gone down. It basically explains the entire difference.

Liudmila Climoc - CEO
Maybe just to add on EU funds, on overall perspective for Poland, you know, just to remind that in current perspective, there are about 135 billion euro funds which are dedicated to Poland. Through two programs, National Recovery and there is a Cohesion Policy Program. And more than 20% of these funds are dedicated to digital transformation. So fiber deployment and what we are benefiting from, it's just a part of it. So it will be much more funds dedicated on, you know, more than digital public administration, digital, you know, digitalization and innovation for enterprises. And of course broadband connectivity where we are directly taking part. And obviously what we foresee for future that we are going to benefit as well indirectly from these funds because they will be available for digitalization almost for every sector, manufacturing, energy transport, public administration. And will stimulate definitely public and private investment in this area and among all our key customers. So with our position and our range of competences, we believe that we are quite well positioned to benefit from it in future in connectivity and especially in ICT.

Nora Nagy – Erste Securities

Thanks a lot for the detail.

Leszek Iwaszko - Head of Investor Relations
Thank you. Our next question is coming from the line of Piotr Raciborski from Wood&Co. Piotr, go ahead.

Piotr Raciborski - Wood
Good morning. Thank you very much. I have like three questions. Firstly, could you please remind me what part of Energy Costs for 2024 was hedged? And a quick follow up question. If energy prices remained at the current level for 2025, what could be the change in the nominal energy costs?

Jacek Kunicki – CFO
And the third question. No? Two?

Piotr Raciborski - Wood
Okay. And the third question. When it comes to the other cost savings apart from energy, could you please elaborate on the main areas where they were generated in the first quarter that caused this nominal drop in indirect costs?

Jacek Kunicki – CFO
Sure. Thank you very much. So starting with the energy prices, if they were to remain flat 2025 to 2024, then we would be aiming at flattish energy costs, more likely. You have two main factors that we would still need to see how they balance each other out, but they both regard consumption. Consumption of electricity is pushed up by deployment of fiber, because this is a new system that we are deploying on the network, so obviously it requires more energy to run this additional system on the network. On the other hand, we have a number of energy saving initiatives in the network and also outside the network that continue to bring benefits year after year. This is also supported by the transition away from copper-based network that consumes more energy and towards fiber network, which is more passive with less active elements, and so it consumes less energy. It is also supported that the downward energy trend with disposal of real estate. So I would say the ambition, if the prices were to remain flat, the ambition would be to try and keep energy costs flat, definitely not going down but flat, or to limit the growth that is going to be driven by deployment of 5G. Then when it comes to energy hedging, I think this was close to three quarters, around 70% of energy which was hedged for this year, this way or another, and we are not able to hedge 100%. For two reasons, we buy some energy indirectly, so you can imagine a shop which is in the shopping mall, and we do not source this energy by ourselves but we get this re-invoiced by the landlord. And then the second part has got to do with the volatility of our PPAs, both virtual and physical. They do require a certain buffer of energy that is unhedged. So this is for the energy in 2024.

Then on the cost savings, we mentioned energy costs. Obviously, we have a long-running program that affects a lot of cost categories. As you know, we are executing another round of social plan, so this impacts the number of employees that we have. Downwards, we continue with automation. We have a project to transform our network processes, and this is including dispatching the way that we work with technical partners. All of this is contributing to decrease the pressure that we have from last year's inflation. We obviously have a lower amount of real estate as we continue to sell real estate, so this is decreasing the base of some of the taxes. This is decreasing the base of the costs of maintaining and of energy for those buildings. And last but not least, we spoke already about it before, but we have an increase in net other operating income that is driven by better efficiency of some of the projects that we have in this area, and we spoke about it during the earlier questions. This also influences the indirect cost base that you have in Q1, and as I mentioned, it's not entirely a recurring activity, but it's also not a pure one-off that is only going to affect this quarter.

Piotr Raciborski - Wood
Thank you very much for all the answers.

Leszek Iwaszko - Head of Investor Relations
Thank you. Next question is coming from the line of Marcin Nowak from Ipopema. Marcin, your line is open.

Marcin Nowak - IPOPEMA
Good morning. Thank you for taking my questions and thank you for the presentation.

Jacek Kunicki – CFO
Speak up, Marcin. Sorry, speak up.

Marcin Nowak - IPOPEMA
Well, three questions from me. First, regarding competition, if I got this correctly, you mentioned increased competition during this call, and we also heard similar comments from your competitor. Can you please provide more color about what you are seeing in terms of commercial trends on both mobile and fixed markets? The second question would be about inflationary clauses. Do you plan to proceed with inflationary hikes on part of your contracts this year, similar to the last year? And if not, why not? And the first question would be about the comment from the most recent interview from CFO regarding the potential larger M&A. About exactly what scale was potentially considered to be proceeded with in terms of larger M&A? Thank you.

Jacek Kunicki – CFO
Thank you for your questions. A very quick comment on the M&A. We're not in a process or planning any larger M&A. It was just by pure logic that we are not close to anything that is larger than the small things that we are having. But there is nothing on the agenda that I would be inclined to be speaking about, and there is nothing that you should be aware of. We're not in any large M&A process. Regarding inflationary clauses, this is something on which we can decide up to mid-year. So we will definitely take the decision by then. As you remember, last year we have decided not to apply these inflation clauses to contracts that were within the loyalty duration. We only applied them to the very, very limited amount of customers. And so

while this is and continues to be a very important insurance policy against high inflation that would be recurrent with us, you should not treat it as an important mechanism to influence the revenues or EBITDA this year. Because it still concerns even potentially a very small number of customers, and we are seeing inflation going significantly down. So I would not say this is a major factor that you should be concentrating on when trying to estimate our results for the year.

Liudmila Climoc - CEO
And to follow on your first question regarding the environment, what we can see is that, you know, dynamic has not been changed since last year. So this is what we are witnessing already for several quarters. So from one side we see much more, I would say, rational market in mobile while in convergence competition has increased versus, you know, like previous years. But it is not something new. We have quite a market that is open on fixed. A lot of players are providing available infrastructure. And accordingly, we see the telco players moving to convergence. And here, you know, offers are becoming more aggressive. But it is not something new. So for us, key is to strike a right balance between volume and value. Because from one side we are pursuing our value strategy and we are determined to continue. And you might notice that we have done several actions to hike prices in postpaid, in prepaid, and also in flex recently. Flex is not reflected in Q1 results, but it will be impacting us further. And at the same time, we recognize that promotions are there, aggressive, and we need to make sure that we are remaining attractive for customers. And we are further pursuing our strategy to lead on convergence, on fiber, and as well, you know, to support our mobile performance, including campaign, which I have mentioned. And fighting on regional level, so with really local and tailored offers depending on competitive environment, you know, regionally.

Marcin Nowak - IPOPEMA
Okay. Thank you very much.

Leszek Iwaszko - Head of Investor Relations
Yeah. It appears we have no further questions either via the phone or on the web platform. So I think we will just close the call. Thank you very much for your attention. Oh, actually, we have a last minute call from, we have a, yes, we have a last minute question from Dawid Górzynski from PKO PB Securities. Dawid, please go ahead.

Dawid Górzynski – PKO BP
Hi, thank you for the presentation. I have two questions actually. First, about some outlook on ARPUs in convergence. Actually, if 4.6 growth in first quarter is a good run rate for the full year, or maybe you see full year figures like lower or higher, if you could elaborate on that. And the second one on the guidance for eCAPEX, we have range 1.7 to 1.9. And maybe you could give some color on which end of the range is most more likely this year. Thank you.

Jacek Kunicki – CFO
Okay. So maybe starting with eCAPEX. Normally, you know, when we give a range of 1.7, 1.9, we aim at the middle, so 1.8. That's the standard procedure. We reserve the right to spend a little bit less or to spend a little bit more, and it comes down to two factors. First of all, please do

remember that our eCAPEX includes not only the spending that we do, but also the proceeds from real estate disposal. So it's also market driven. It's not only something that is entirely in our hands. But here we can see after Q1 that this is going quite nicely as we have cash proceeds from sale of assets of 83 million already in Q1 of 2024. So this is good and it's supporting what we are planning to do. And then the second part is, you know, depending on how different projects are going, you know, physically, whether we are able to do some projects faster or whether we experience a slowdown. We may spend a little bit more or a little bit less. This includes, you know, 5G rollout. It includes some of the IT projects where we can be surprised throughout the project with the pace of its execution. But broadly, we would aim in the middle of this eCAPEX range. Then regarding the ARPU of convergence, we're happy with the Q1 result. It's, again, a very good result both for convergence and for the ARPU. 4.6% is really a good indicator. Now, obviously, with every quarter, the comparable base becomes tougher because we have been growing this ARPU for quite a long time and quite dynamically. I will not give you a specific guidance for that because, as Liudmila mentioned, we are aiming to strive and to strike the right balance in all the three main lines of the business that we have in core telecom services, in convergence, in mobile. We aim to strike the right balance between acquiring new customers and between growing the ARPU. This is where we get both the size but also the sustainability of the growth of revenues and margins stemming from the core business is to make sure that we are at an ARPU that is growing but at prices that are competitive and with a customer base that is increasing because this guarantees the possibility to achieve higher incomes from this activity in the future. So we will not look just at the ARPU. We will look at the way that we can achieve the maximum revenues and margins from this category over the long term. Thank you.

Dawid Górzynski – PKO BP
Thanks.

Leszek Iwaszko - Head of Investor Relations
Thank you. It appears really that this time we have no further questions. So, again, thank you very much for your attention. Please let us know if you have any follow-ups or would like to meet us on one-on-one. We are, as always, eager and open to meet the market. So thank you very much and have a good day and goodbye.