Orange Polska

ORANGE POLSKA Q2 & H1 RESULTS CONFERENCE CALL

Leszek Iwaszko – Head of Investor Relations
Ladies and gentlemen, thank you for standing by and let me welcome you to Orange Polska results conference summarizing second quarter and the first semester of 2024. My name is Leszek Iwaszko, I'm in charge of Investor Relations. At this time, all participant lines are in a listen only mode. The format of the call will be presentation by the management team followed by a Q and A session. Speakers for today will be Liudmila Climoc, the CEO of Orange Polska and Jacek Kunicki, CFO. So without any further ado, I would like to pass the floor to Ludmila to begin the presentation.

Liudmila Climoc - CEO
Thank you Leszek good morning ladies and gentlemen and welcome to our conference summarizing second quarter of 2024. I will guide you through our slides.

So let's start with slide four with key messages of this quarter. I am pleased to say that the performance of our core telecom business maintained its good momentum in the second quarter. Our commercial results were strong customer base across all of all our key telecom services and also ARPO maintained healthy pace of growth. Our commercial success is also underpinned by our continuous investment in mobile and fixed infrastructure which we develop for retail and wholesale customers. Our FiberCo that we co own just finished its the third year of operations and we are very satisfied with its performance so far. On the other hand, our results continued to reflect a cyclical slowdown in the demand for ICT services and lower revenue from energy trade. Our financial results were solid even if the headline revenue figure is down year on year. Revenues from core telecom services did very well. That is key element for almost 4% EBITDAaL growth in the second quarter. Headwinds coming from inflationary pressure on cost and energy resale were compensated by our business transformation and improved efficiency initiatives. Our growth is also increasingly supported by use of digital tools. The share of sales done through digital channels in the first half of 2024 reached 24% so we are very close to reaching our strategic ambition of 25% share which we set in .Grow strategy. The key driver here is the performance of our mobile app which we constantly develop to bring best digital experience at hand of our customers. I am also very happy that in May we launched Orange Business metaverse. We will use it to market our smart city services and benefits of this technology to our customers. This is an investment into our future and demonstrates how innovation can be useful and how it can be applied in operations of our business customers. Let's zoom now on highlights of our commercial activities.

On the next slide, our commercial performance in Q2 was strong across all key telecom services with growing customer base and ARPO and dynamics is improving. In convergence we maintained 5% year on year growth of customer base with improved dynamic for net additions versus a year ago. It confirms right marketing approach to address diverse competitive landscape. Very solid ARPO growth of 4% reflected in reflecting our value to approach the pricing, good demand for tv content and higher options for fiber packages that being chosen by customers. A higher range of packages is already constituting 35% of the fiber customer base. Growth in convergence is supported by fiber. Customer base here increased 15% versus last year. It includes as well 16,000 customers coming from acquisitions of local fiber operators that we have completed in the second quarter. Coming to mobile, our mobile customer base exceeded 9 million and continued growth of around 3% year on year. Net customer additions in this quarter were the highest in many quarters, reflecting quite good contribution from all brands and markets. Dynamics of mobile ARPO was similar to what we have seen in first quarter. These solid results illustrate that we find right balance between volume and value in our commercial activity despite sometimes very aggressive offers from our competitors. A new tool for us to support the perception of quality of our services and brands is the new Orange brand signature which we have introduced in April. We already leveraged on it in second quarter and we are optimistic about elaborating and leveraging on it further. Our commercial success would not be possible without best quality connectivity and best infrastructure and I would like us to zoom on that on the next slide.

So there are several reasons why it is worth to talk about our infrastructure. A lot is happening in both mobile and fixed as we aim to provide the best network experience to our customers. Starting with mobile which is in the spotlight as we are building 5G network on a newly acquired c band spectrum. A few days ago we already passed 2000 sites where new reinforced 5G is available. This translates into 28% of Polish population covered by this service in 280 cities. Quality and performance of our mobile network is essential to answer to the demand of data consumption growth which is not slowing down. We actually see customers using more data where new spectrum is becoming available. While total traffic on our network more than doubled in the past three years, on the fiber front we are consistently expanding our footprint. You know very well that under .Grow strategy we do it mainly through third party infrastructure. Our largest partner is obviously our FiberCo Swiatlowod Inwestycje, which we own in 50% share. We are very pleased with its performance after three years of operation. FiberCo network is available today for 1.9 million households in Poland which means that fiber core has advanced at 70% of target rollout and recently Swiatlowod Inwestycje announced exceeding half a million of customers lines connected to its network, meaning that infrastructure usage is already achieving 28% despite constant growth and constant network expansion. On our own build, we are focusing on specific projects which are supported by EU subsidies. The new program is now in the execution phase. By mid 2026 we will build fiber connection to 155,000 households in 125 municipalities and thanks to all these investments, our customers are getting the best connectivity regardless of the network they're using, fixed or mobile. And moreover, quality of our networks is confirmed now by independent speedtest.pl ranking. We were ranked number one in download speed for 5G in five out of first six months of this year, and for fiber broadband FTTH, we were number one for all first six months of this year. This gives us a tangible evidence that our investments and efforts are reflected in better customer experience and that Orange is here as our new brand positioning is saying. Orange Tu Jest in Polish. Thank you for now and I hand over to the floor to Jacek.

Jacek Kunicki - CFO
Thank you Liudmila good morning everyone. Let's start the financial review on slide eight with highlights of our performance this quarter. We are satisfied with our financial results in Q two, especially with a healthy growth of the EBITDA, a solid net profit and solid cash generation. As in the previous quarter, our headline revenue figure reflected a decrease in energy sales and a temporary year on year decline in ICT revenues. However, we are pleased with the strong growth of revenues from core telecom services, which are key to our value creation. Good performance of the core business was a major driver of the EBITDA growth at almost 4% year over year. It also supported the net income to a solid 230 million zloty in the second quarter, broadly similar to its level a year ago. Finally, solid cash generation in the first six months of the year reflected the higher EBITDA, offset by different change in working capital requirements between the both years.

Let's now review our results in more detail, starting with the top line. So total revenues decreased in Q2 by 3.1% year over year despite a solid growth of core telecom services. There are two main reasons for this decline. First, energy sales. Its decrease is mainly a consequence of the market volatility and price regulations, both implemented last year and changed in the first semester of this year. We expect a lower pace of decline in the second half of the year as the year on year evolution will be on a more comparable base versus last year than in the first half of the year. The second reason of revenue decline is IT and IS revenues. These revenues exceeded 400 million zloty in Q two and grew by over 20% versus the first quarter of the year. However, this was not enough versus very high comparable base of Q2 2023 when we realized a large public order for ehealth in Poland. We continue to observe soft demand in the public sector and we're confident to benefit from the pickup of this activity in the future. The most important takeaway, however, from Q2 regarding revenues is that core telecom services grew at a solid 4.7% year on year. Their growth rate has actually improved versus the previous quarters. This increase is driven by a simultaneous growth of the main customer bases, so 3% in mobile, 5% in convergence and 15% in fiber, and by a simultaneous growth of the main ARPOs with almost 2% year on year growth in mobile, 3% in broadband and 4% in convergence. Revenues from the core telecom services are the key to our margin creation and so we're happy with a solid pace of their growth in both quarters of this year.

Let's now take a look at profitability on slide ten. Our EBITDA increased by a solid 3.8% year on year in the second quarter. It was driven up both by the growth of the direct margin and by lower indirect costs. Let's look at this in more detail to give you the visibility on the key drivers of this evolution. On the bottom chart on the slide, we divided the direct margin evolution into two distinctively different elements. First, the green bar showing the increase of direct margin from all services except energy trade. This growth is robust, driven mainly by the core telecom services revenues that I spoke about a second ago. The second bar shows an 18 million zloty drop of the direct margin from energy resale. It is affected by price regulations and by a high base of last year as we made unrepeatable profits in 2023 from resale of cheap energy acquired by Orange Polska from renewables. Moving to indirect costs, we show headwinds from inflationary pressure stemming from the double digit growth of inflation in 2023 and from an almost 20% hike of the minimum wage last year. Energy and inflation constitute material headwinds for us in 2024, yet they are unlikely to be repeated with the same magnitude in the future as energy decline is versus a very high comparable base of last year and the CPI growth has already slowed down in 2024. In H1, we compensated these headwinds by lower indirect costs, including ongoing cost transformation and also efficiency gains in the network rollout project for our FiberCo margin from the latter is presented in other operating income. In H1, it includes a catch up of margin upon the reassessment of the entire project's profitability. So while this isn't fully recurring, it reflects better expectations for the entire project and also it will result in slightly higher margin to be gradually recognized in the future until the contracts end at the end of 2025. As a result, lower indirect costs offset the adverse impacts of inflation and lower margin from energy trade and therefore they allow the increase of the margin from core business to convert into the EBITDA growth. This demonstrates two things. First, our ability to adapt to adverse environment and achieve our business objectives and second, a robust growth of profits coming out of our core business, giving us solid prospects for the future. Please note that you may find a similar chart for the entire H1 in the appendix section, so showing a very similar picture to the one that I've just described for the second quarter.

Okay, now let's look at net income on slide eleven. Our net income has exceeded 450 million zloty in H1. As you can see on the top chart, it is a solid result as compared to historical levels. Its year on year evolution was driven by the underlying growth of the EBITDA offset by a high comparable base in H1 of two items. First, the gain on real estate. Our results were solid this semester with gains of 64 million zloty. However, last year they were exceptionally focused in H one with 85% of the full year results achieved during the first six months of the year. Secondly, the evolution of net finance costs reflects high forex gains made in the first semester of last year when the PLN strengthened significantly against the euro. I'm satisfied with the performance of our net results as H1 confirms that the underlying trends are positive and we are looking at another year of solid net income.

Let's now switch to capex on page twelve. Our economic capex in H1 was in line with our full year plans. Capex spending amounted to 800 million zloty and consisted of three main blocks. First, we are investing considerable amounts in mobile as we are rolling out the 5G network and modernizing our radio access network infrastructure. Liudmila was presenting our progress in this key investment area earlier on. This is coupled by investments into the core and fixed network as we're expanding the capacity of our networks as well as by further investments in the transformation of our IT environment to support the agile product development and linear processes. Proceeds from sale of real estate amounted to 120 million in H1. This is a very solid inflow. One of the best in the past few years as we are progressing with the transformation of our assets from legacy copper infrastructure to a modern network supported by the agile IT environment.

Let's now finally take a look at cash flow and net debt on page 13. We're happy with the level of cash generated in H1, just over 400 million zloty. This was broadly similar to the OCF level in the first half of last year. There are three main elements explaining the year on year evolution. First, higher EBITDA which is the main building block of cash from operating activity. Secondly, lower cash capex which reflected lower payments made this year for prior year's capex than we had made in Q1 of 2023. Finally, changing working capital requirement was quite different this year in comparison to last year. Working capital requirement increased in H1 of this year by 130 million, mainly due to higher purchases and payments for handsets that we need for our H2 activity. In contrast to this, the working capital requirement was reduced by 90 million in the first six months of last year as back then you remember, we have enlarged the factoring receivables from the sales of handsets in installments. Finally, looking down to the liabilities, the effective cost of financing increased to 4% in line with what we have flagged before. And this is consequence of the fact that we refinanced an important part of our debt in May and our balance sheet remains very sound with financial leverage at roughly 1.1 times net debt to EBITDA. That is all from me. Thank you for your attention and I hand the floor back to Ludmila for the conclusions.

Liudmila Climoc - CEO
Okay, thank you. So now if we will move to slide 15 and you have heard Jacek with all the details on our financial performance and results, it should be no surprise that following first semester results we are updating our full year guidance for revenue and EBITDA. We now expect revenues to be flat or slightly declining by low single digit percentage for full year. It is due to energy trade business and IT&IS being affected by unfavorable environment. At the same time, we are pleased with the development of our core telecom business and revenues which it brings which is crucial for our sustainable EBITDA development. And taking this dynamic into the account as well as our EBITDA performance achieved in the first semester, we are upgrading EBITDA growth prospect to low to mid the single digit percentage for 2024. E-capex guidance remains unchanged and I would like to summarize our presentation on slide 16.

Solid commercial performance and financial results in the second quarter and first six months of the year, which allowed us to improve our full year profit outlook. Not surprisingly, our priorities for second part of the year cover similar topics that we have discussed today. First, we want to use two high commercial seasons in second part of the year, back to school and Christmas to focus on increasing customer volumes and value that we offer to our customers. Our clients may expect new attractive offers from us and we will continue to leverage our communication platform with new brand signature. Secondly, network rollout of 5G and especially fiber built with EU subsidies are on our core priorities. This project has just entered execution phase and timing is very challenging. This effort should translate into superior experience for our customers. And as a takeaway from today's presentation, let me underline that H1 results demonstrate that demand for our core telecom services is there and we are able to translate it into the solid profit generation despite challenges which we were facing. This makes me optimistic that our business has strong fundamentals, right assets and is well positioned to grow in the future. In second part of the year, we will intensify preparations of our new midterm strategy that we will present to you in first part of next year. That's all from us and we are now ready to take your questions.

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

Dominik Niszcz - Trigon
Thank you. Hello. So my question refers to this JV settlement. When we look at your EBITDA year on year, over 80 million improvement was attributable to this line. So if we remove this line, which I would treat as not recurring in the long run, we would have a drop of EBITDA by 5-6%. So my question is, what exceptional items in other cost lines can we adjust? Because it seems that this dynamics is quite negative if we exclude this line. Thank you.

Jacek Kunicki - CFO
Thank you, Dominik. So I think what's important is, first of all, I don't think, you know, 5% drop would reflect the true business dynamics. And in fact, H1 is influenced by a number of impacts that are, I would say, not fully recurrent, but they are less likely to repeat in the future. With the same magnitudes. And I'll just mention the two most important ones, or the three most important ones. First, the profits from our energy trades. They dropped by 43 million in the first semester year over year. And this is due to the fact that Orange Energia made large unrepeatable profits last year, while this year their performance is affected by tough regulations. So I think you will already see this impact easing a little bit in the second half of the year and definitely when we will be looking forward, the comparable base of 2024, looking further in 2025, will be much easier than the comparable base of 23 as measured now. That's the first, I would say, item, which is not necessarily a one off. But it's unrepeatable in the future that that trend will definitely change. The second one is that our H1 results, they reflect very large inflationary pressures. And this, it stems from a double digit rise of inflation last year, which is resulting in higher cost that we see now and an almost 20% increase in the minimum wage. These are unlikely to be repeated with the same magnitude next year. So we can clearly see that CPI is already down to something like 4% that is expected this year, and the minimum wage will not grow by 20%, but it's going to be closer to 8-10 percent. So, you know, that that's, that's like half of the impact that we should probably see next year compared to this year. So these are the two major headwinds which are not fully recurrent. And yeah, this is offset by an almost 90 million one off this catch up of that we have from this contract with the FiberCo. This impact is in fact offsetting, nearly offsetting the aggregate impacts of this inflationary pressures and Orange Energia. And it's allowing the core business growth of the core telecom services visible in the direct margin to flow through to the EBITDA. I think, having said that, it's equally important to understand that the catchup of activity or the catchup of margin from the rollout agreement with the FibreCo it is a result of us reassessing the entire margin that we expect to receive and to generate over five

years. So there will be a further element of this catch up that is expected in the future, even though it will be gradually booked, more evenly booked with, in proportion to the progress of the fiber agreement. So I would say that the FiberCo agreement is not fully recurrent, but we will continue to have benefits from this all the way until the end of 2025. But to answer or to say what do we take out of this the one off coming from the catch up of margin for the fiber is offsetting the non recurring headwinds. And this is in fact allowing the positive gross margin evolution from our core business to be reflected in EBITDA growth. That's how we view it upon the analysis of all the factors. I hope this answers your question.

Dominik Niszcz - Trigon
Yes, that's clear. Thank you very much.

Jacek Kunicki - CFO
Thank you.

Leszek Iwaszko – Head of Investor Relations
Our next question is coming from the line of Marcin Nowak from Ipopema. Marcin, your line is open. Please go ahead with a question.

Marcin Nowak - Ipopema
Good morning. Thank you for taking my question and for the presentation. I have two questions regarding actually the efficiency gains and settlements with JV. Regarding the trajectory of further recognition of efficiency gains over the next few quarters, could you please bring more color about the expected territories? Should we expect these effects to diminish over the next quarters given the possibly lower number of households connected? Or should it perhaps be even stable given that the marginal households connected was assumed at the beginning at the higher rate?

Jacek Kunicki - CFO
Okay, thanks a lot for your question. In order to understand the recognition of the margin from the fibre co, I think I will explain what does it connect to? Since 2021, we're managing a five year contract for rollout of the fiber network for Swiatłowod Inwestycje. We guarantee the unitary prices per household per type of household, so the profits mostly depend on the cost efficiency. We book costs of managing this contract in the various lines of the P&L by nature, by our p&L by nature, and use the IFRS 15 input method to recognize the income which you see in other operating income. This means we assess the margin for the entire contract and then recognize this margin in time in proportion to the incurred costs. Naturally, as with any type of long term contract, we periodically review the contract's actual KPI's and the expected cost to complete and update this forecasted margin. The change in the expected profitability is then reflected in the P&L, partly in the current result in proportion to the spending incurred to date, and the rest is progressively recognized in the future. In h one, we made an upward revision of the expected margin as the KPI's at roughly the halfway mark of the contract I would say we are roughly at 55-60% of the contract, they indicated to us that we will achieve and we will generate a greater total margin than on this entire contract than we previously assumed. That resulted in the catch

up of almost 90 million and this is relating to this 60% of the past until now. Because this is in proportion to the cost incurred to date. The rest of the higher margin for the full contract, roughly 40%, will be recognized much more evenly between now and the end of the contract, which normally we should expect at the end of 2025. Of course, it will be also reflected in proportion to the actual costs that we are incurring in the different quarters. So you can expect slightly higher margins in the future, but at a much more gradual phase of the recognition as the 90 million. It related to the catch up for all of the time and costs incurred since let's say end of 2021. So entire 22, 23 and H1 of 2024. It isn't the first revision of this, of our estimate for this contract, but definitely the most visible one made due to good cost management and which has become evident as we progressed throughout the contract. So you can expect slightly higher margin in the future, but this is going to be gradual over time, we will spread the remaining, let's say 40% of the additional margin assessed over the next one and a half years.

Marcin Nowak - Ipopema
Okay, great. And the second question, maybe more from the accounting perspective, because I understand, given your explanation that this is the service that Orange is providing to Fiberco, while Fiberco is JV and is consolidated by an equity method, and I assume that it's capex, so it's not recognizing the FiberCo P&L. So given that you recognize results on JV within EBITDA rather than below, my question is why we do not see this gain on Orange P&L, the similar amount on both EBITDA and EBIT? because my understanding should be that it should be visible in both lines. Right.

Jacek Kunicki - CFO
Thank you for your question. I think it's fair to start first, we indeed consolidate the FiberCo using the equity method so we do not eliminate intercompany transactions from the results. Right. Similarly, as we recognize the costs that we pay to the FiberCo for access to its infrastructure in EBITDA, it is, I would say, consistent that we also recognize the margin that we make upon delivery of the network contract to the fiber core within the EBITDA. In fact, accounting rules don't specify where the share of the profit associated with associate entities should be presented in operational or below. We made the judgment to show the full margin on the contract in operating results because the business of Swiatlowod Inwestycje is strictly related to Orange Polska, Orange Polska's business. Because we don't eliminate other intercompany transactions with Swiatlowod Inwestycje and also it is important to note that over the duration of the contract showing the entire margin in the EBITDA it is making the operating profits close to the cash margin that we will earn. The timing of this might be different, but over five years what we show in the EBITDA margin will be closer to the cash margin that we generate on this contract. Then obviously the accounting rule. This is IAS 28. They ask us to eliminate 50% of the margin earned on the asset related transactions with the JV, which we do. This relates to our share of the margin. We do this below the EBITDA and this is then making the net profit aligned with what the IFRS ask us to do. What is important to understand is that this margin will be anyway recognized. It will be recognized over time, let's say over 20 years, because this is when Swiatlowod Inwestycje will depreciate this asset that they are acquiring from us and they will use this asset to generate further profits. So there is a big difference in time and we believe that by recognizing the full margin in the EBITDA we bring the operating

profitability closer and more consistent to the cash margin that we generate. While eliminating this margin below the EBITDA means that the net income for the period is only reflecting the profit that we made on share other than our own in the FiberCo and the rest will be recognized over time.

Marcin Nowak - Ipopema
Okay, so let me clarify. So that basically different level of margin is recognized on EBITDA and on EBITDA, right. 100% on EBIT and 50% on EBITDA.

Jacek Kunicki - CFO
So therefore no, sorry. 100% is of the margin is recognized within the EBITDA and 50% of the margin is recognized within EBIT.

Marcin Nowak - Ipopema
Okay. Okay, thank you.

Jacek Kunicki - CFO
And the rest will be recognized with an EBDA but over the long time.

Leszek Iwaszko – Head of Investor Relations
Thank you. Our next question is coming from the line of Nora Nagi from Erste Group. Nora please go ahead with your question.

Nora Nagy – Erste Bank
Hi, thanks for the presentation and taking my questions. Two from my side, different topics. Firstly, last time you mentioned that you expect a pickup in IT projects in second half of the year. Is this still valid? And secondly, if you could share, please share your outlook for equipment sales also for second half of the year. Thank you.

Liudmila Climoc - CEO
So first question was on ICT and the perspectives for second. So I will take it. So as we mentioned, current trajectory for ICT are results of two factors. One is quite a very high comparable basis of last year as we have outgrown significantly the market in the past. And Q2 of last year was specifically high benefiting from significant project of e-health actually with public sector and second factor is softer IT markets this year both for the entire IT industry and ICT orders from public sector, which we see slowing down post elections. So we believe that it will be gradually, the orders from public sector will be gradually unblocked and Poland will benefit from EU funds from digitalization which are there available. Although the pace of this turnaround is not fully in our hands, we are obviously working on sales pipe and we anticipate this rebound in orders from public sector. But regarding the timing, we will need to be a bit more patient before we see a rebound in ICT and revenues and margins. At the same time, I must say that we are totally confident in good prospects for ICT based on strong capabilities which we do have for this line of business. We were overperforming market of last year. There is a good perspective for IT coming back to growth and this area is critical area for polish business

and for public administration. So we have all right assets and skills to respond and to fulfill this demand when it will be rebound.
And second question, second question was on equipment. You want to take it?

Jacek Kunicki - CFO
I think if you look on the first six months of the year, you will see equipment revenues from sale of handsets roughly flat year over year. We see the volumes of handsets growing. In total, we sold roughly 6% more handsets in the first six months than in the first six months of last year. It includes even a 12% increase on the consumer market and slightly less demand from business. At the same time what we do see is that the average price is lower year over year, mostly due to changing mix in the demand from customers. And also sometimes we see the new models that are now not more expensive or even cheaper than the previous ones. I think it's worth to say we continue to generate satisfactory margins from this activity and they have not shrunk year over year. So they are well complementing the profits from the core telecom services. Now, when you look on H2, it is usually a period of higher sales than the first semester because we have the back to school period and then the key commercial season of Christmas. So naturally you expect to have more sales in H2 than in H1. However, that applies both to this year and to last year where we also made higher revenues in H2 than in H1. I don't think that trends in customer demand will change that much. So, you know, right now I wouldn't, I wouldn't bet on a huge growth in this area in the, in the second semester this, we might see different trends if we, if we have specific orders from some large corporates, but at least looking at the consumer market and the Soho market, I think we will expect. We would expect to see, I would say flattish revenues, maybe slight growth in the second semester, mostly due to this changed mix of the demand for handsets. But that will really depend on the success of the autumn and winter campaigns and on the demand that we will see for handsets in those two very, very critical periods.

Leszek Iwaszko – Head of Investor Relations
Thank you, Nora. Next question is coming from the line of Pawel Puchalski from Santander. Pawel, the line is open.

Pawel Puchalski - Santander
Hello, can you hear me?

Leszek Iwaszko – Head of Investor Relations
Yes, we can hear you.

Leszek Iwaszko – Head of Investor Relations
Great. Hello. Well, most of my questions have been answered, but still I can do better. Have you concerned or no, have you made your mind about taking control over FiberCo in the future? That would be the question, number one.

Jacek Kunicki - CFO

Okay, you want to answer one by one? So today, no decision has been made. We have the options to regain control of the FiberCo I think the earliest one is mid 2027, and there are various windows between 2027 and 2029, but no decision has been made to date.

Pawel Puchalski - Santander
Okay, thank you. The other question would be you are presenting total number of your fiber clients at almost 1.5 million, which compares to 8.5 million households. However, my belief is less than 50% of those households originate from your own network. So is it possible to be aware how much of your fiber clients originate at your own network belonging 100% to you?

Jacek Kunicki - CFO
Not for the number of clients. We do not disclose this information. I think what is relevant is that total number of clients is then reflected in revenues. And here I would not distinguish between the clients that are on our fully owned network, partly owned network, and on networks to which we have access to. To the way that obviously the costs of customer access connectivity are then included in the direct margin. They decrease the direct margin from this. So this is where our profitability reflects the costs that we have for accessing third party networks, including the FiberCo ones. And obviously, when you look on the net result, depreciation is representing the cost of using our own network. But I don't see how disclosing the number of clients between the two different networks would be helpful as it also changes over time.

Pawel Puchalski - Santander
Well, it would be helpful when it comes to tower co Poland or whatever, but we'll talk about it in a few years. Okay, there are two last questions from me. CEO suggested that the company is well positioned to grow in the future and you are about to present your midterm update in early 2025. Would it be right assumption that growth of EBITDA would be a fundament of your updated midterm strategy? That would be question number one. And question number two, would it be fair to assume that the growing path of dividend paid would be maintained in the new guidance?

Liudmila Climoc - CEO
Thank you for asking. But obviously we will be sharing on these prospects in six months time. Yes, we will be elaborating on it in more details.

Jacek Kunicki - CFO
Good try Pawel, but I think to be honest, it's about also giving you the whole picture with the strategic plans, with commercial plans, with how we get it, not just to promise, oh, this will be the growth here and that will be the growth there. I think it's best for everyone that we have the chance to tell you the whole story from a to z.

Pawel Puchalski - Santander
Okay, got you. And on the basis of what we are today and what we know today, what could be the key challenge to your midterm Strong growth of both EBITDA and dividends?

Jacek Kunicki - CFO
I think really let's be a bit more patient. We will come with a whole story in roughly six months time. I think it's best to speak of opportunities and challenges both at the same time and also show me the way that we will rise up to the challenges and explore the opportunities. I think our track record demonstrate that we are able to deal with quite a lot of headwinds in an effective way. I mean when you take a look at the strategy of .Grow so since 2021 we had some nice tailwinds, demand from digitalization post Covid we have even this fiberco tailwind right now. But on the other hand, let's remember that we had to deal with a 200 million increase of cost of electricity, 15% inflation in 2022, 11 percent inflation in 2023, minimum wage growth, all of it, you know, to take for a telco where the business model is not perfectly equipped to fight inflation, it was tough. But at the same time you can see that we are clearly heading to reach our objectives and I think that's the track record that I would point to. And for the strategy, I think we even internally need a little bit more time to formulate all the thesis of this strategy. We're in the process of preparation of this right now, so you need to get patient.

Pawel Puchalski - Santander
And the very last question, you just reminded me of something you mentioned energy or electricity costs. What is your, well, how your hedging is built? Do you have, I don't know, ten year flat price contract or ten year contract with price inflated, inflated annually? How it works?

Jacek Kunicki - CFO
I think it's off the top of my head around 75% of electricity needs are secured through long term PPA contracts from renewable sources. And this is, it's a variety. Most of it is either physical or virtual contracts from wind farms, some is from the minority of this is from the photovoltaics, so from the sun. And then in terms of pricing schemes, it's a mix. We have some prices that are flat over the duration of the contract, some prices which are partly indexed to inflation, and the contracts are not uniform. So it's not like we have the same amount of megawatt hours contracted for the next twelve years. I think the duration is between six to eleven years. Now, maturity. Again, off the top of my head, this is something that we would have between six and eleven years. So progressively, some of those contracts will be coming to an end and then we will need to reevaluate. How do we want to continue with the hedging? We don't want to be fully exposed. We need to observe market pricing right now, and also the forecasted market prices. And obviously we need to assess, depending on the availability of additional PPAs or the availability of hedging on the open market in this, you know, six, seven years time, we will formulate the view of how much of this energy do we want to hedge forward? We never want to be 100% hedged for ten years. It's like a rolling hedging. You know that you have some, you have some instruments which are maturing, so you're trying to replace them with new ones, and you're trying to make sure that both the duration of the contract is different and that the terms are as favorable as you can get at the given point in time.

Pawel Puchalski - Santander
Okay. And you mentioned at the very beginning of your statement that some 75% of your activity is secured by a PPA contract. Does it imply that the remaining 25% you are buying at low spot prices? How it works?

Jacek Kunicki - CFO
It means that the remaining 25% is unhedged, or unhedged through PPA. It's unhedged through PPA. And this results from the technical aspects of the PPAs, because the amount of energy that you generate both from wind and from the sun, it's uneven. So you get more energy at night during wintertime from the wind, and more energy during summer and daytime from the solar. And therefore you cannot, even if you wished, you should not, and you cannot hedge for 100%. You would be then facing an overhedge issue. So we need to leave a certain technical, I would call it a technical reserve. And we're addressing this technical reserve each time through a combination of hedging on the on the commodities exchange and spot pricing.

Pawel Puchalski - Santander
Okay, thank you very much. Very informative.

Leszek Iwaszko – Head of Investor Relations
Our next question coming from the last question coming from the line of Dawid Gorzynski from PKO BP. Dawid, your line is open.

Dawid Gorzynski – PKO BP
Hello. Congratulations on good results. I have three questions more. So, first is on employment costs. It accelerated a little bit in second quarter, and I wonder if there is some specific factor behind that acceleration. Maybe one or maybe recurring one, if you can say a little bit more.

Jacek Kunicki - CFO
Yeah. So obviously the labor cost reflects implementation of the social plan. So on the one hand, you have the employment optimization year after year that we are executing and we are transforming our processes and digitalizing more the process that we have. On the other hand, you have salary increases. I guess it's fair to say that the salary increases that you see right now in labor costs, they still reflect the 5% pay rises from the previous social plan. Starting from Q3 of this year, it will start to reflect about 7%. So just to give you a little bit of a flavor, but labor costs also include some items which may be volatile from quarter to quarter. So, like provisions related to holiday pay, motivational schemes, actuarial provisions, and in Q2, indeed, the costs were affected by a low, comparable base of the quarter two of last year. So I do believe in, I would say, half of the acceleration of growth that you can see in Q2 to be sustainable for the following quarters.

Dawid Gorzynski – PKO BP
Okay, thank you. Second question is on e-capex. As I look at your confirmed full year guidance, the execution after the half of year is 40% of the lower end of the range. So I wonder what may drive the acceleration capex spending in the second half or maybe there's a chance for lower capex in the full year.

Jacek Kunicki - CFO

I think you will find this pattern of capex not unusual for us. If you look on last years. Last years, not just last year. If you look on the last years, you will find that we spend much more of the full year capex in H2 than in H1. And even in particular, we spend a lot of capex in the fourth quarter of the year, which has got a lot to do with the way we deploy network and the timing of the project. So, to be honest, the 40% that we see, that we see right now after first six months, it's not something that I would call unusually slow. It's 100, 130 million higher than the capex that we had in the first six months of last year when I take a look at e capex, and I would say we're confirming the guidance of 1.7-1.9 billion. And usually when we do that, we aim rather at the middle of the range. Obviously, you have some uncertainty around the timing and the actual amount that you're able to get from sales of real estate, because that's, you know, those are commercial transactions, so we don't manage the timing and precisely which real estate will be, we will send when. But I would say that's the main variable. Other than that, we're aiming at the middle of the range roughly.

Dawid Gorzynski – PKO BP
Okay, understood. And the last question on effective interest rate on your debt. You reported an increase after the refinancing of the debt in May this year. But as I understand, like the number, the effective interest rate is 4.1 in the first half of this year versus 3.2 in the first quarter. So that suggests me that the increase in this effective interest rate was quite high and may amounted to 6%. So, like the new effective interest rate in the last month after the refinancing may be around 6%. If you can confirm. If I do the math correctly.

Jacek Kunicki - CFO
I think it's fair to say that the refinancing reflected the current financing conditions and we are happy with the level of margin that we have in this debt facility. Obviously, we made the, the refinancing in May, so it's not fully reflected in the 4.1% that you see. I would say by the year end you could have the effective interest on debt at around 4.4-4.5%. think that could be the number that you will see reported by the year end.

Dawid Gorzynski – PKO BP
Okay. Very useful. Thanks so much. Thanks.

Leszek Iwaszko – Head of Investor Relations
Thank you. It appears we have no further questions, so thank you very much for the questions, for the participation. Have a good rest of the summer, and if you would like any follow ups with us, you know how to contact, please do that. We are always open to speak with the market. Thank you. Goodbye.