Orange Polska

CONFERENCE CALL ON ORANGE POLSKA'S RESULTS FOR THE 1Q OF 2025

Leszek Iwaszko: Head of IR
Good morning. Thank you for standing by and let me welcome you to the Orange Polska Results Conference for first quarter of 2025. My name is Leszek Iwaszko and 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 a presentation by the management team followed by the Q&A session. Speakers for today will be Liudmila Climoc, the CEO of Orange Polska and Jacek Kunicki, CFO. I'm passing the floor now to Liudmila to begin the presentation.

Liudmila Climoc: CEO
Thank you, Leszek. Good morning and welcome to our conference to summarize the first quarter of 2025. So let's start with slide four with key highlights. So it was a quite important particular quarter for us. First and foremost, we announced and started to execute our new Lead the Future strategy. With this strategy, we target to grow shareholder value through high financial outputs, high cash flows and higher dividends. And to achieve this, we will mix well-proven mechanisms with new sources of growth, including a new wave of cost transformation to boost our efficiency. Another important event was obviously the auction for 5G 700 megahertz band. And we are very pleased that we have secured two blocks at the best possible price. This spectrum is very important as it will open new opportunities for us to deliver to our customers, to consumers and to businesses the best quality of 5G connectivity for handsets, for wireless and for new use cases which we will develop. As you recall, a month ago, we presented our plans in this area in detail. And another vital consequence of the auction is also a much lower than our previous expectations price for the renewal of licenses for 800 megahertz spectrum, which is scheduled for 2031. But switching now to current business and to Q1 performance, let me tell you that results for the quarter were solid and in line with our expectations. We are quite satisfied with our commercial performance as we achieved good growth of customer base across all main segments and the services and growth of ARPO. On the business market, we are very glad that our IT&IS revenues are back to growth, although we should state that the market environment in this area is still volatile. And as an output, our financial results are very solid, especially if we look at operating activity as demonstrated by more than 2% revenue growth and almost 3% of EBITDAaL growth. And as usually, let's zoom now on highlights of our commercial activities on the next slide.

So talking about our commercial performance, Q1 first quarter reflected solid customer demand and our focus on value, but also intensive market competition, especially in fiber and convergence. In convergence, we are very happy that both customer volumes and ARPO grew at a solid pace. ARPO was benefiting from our value approach in pricing, good demand for TV content and growing popularity of higher speeds of fiber. The options with higher speeds, which we are actively promoting, already constitute close to 60% of our new sales. In the same time, fiber customer base increased 15% year over year. It is a very good dynamic, considering the intensive and diverse competitive landscape. Fixed broadband ARPO growth accelerated to 4.6% year over year. One of the reasons which was contributing to it are higher ARPO customers of fiber operators acquired by us in the last quarter of last year, and accordingly contributing now to the results in Q1. For mobile, customer base continues to grow at 3%, which is very solid, given market saturation. Customer net additions in Q1 were really outstanding, with both segments, consumer and business, contributing to this achievement. We are very pleased that our value strategy translates into ARPO growth. Please note that in January, we once again implemented price increase on the consumer offers, which has helped us to achieve these results. These solid results demonstrate that we maintain good balance between volume and value in our commercial activity, despite a very active competitive environment, and this is essential for our future value creation. We have recently launched a new improved TV offer in combination with fiber. It will help us to encourage new households, new customers to choose offers from Orange, which is our strategic ambition. 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 highlights of our performance. We've generated a very solid increase of both revenues in EBITDAaL in the first quarter of the year, making a good start of 2025. Revenues are back to growth, with outstanding dynamics of the core telecom

revenues exceeding 7%. Strong core business performance resulted in higher direct margin, and in turn, this drove in almost 3% year-over-year growth of the EBITDAaL. The net income has reached almost 200 million zloty in Q1. It decreased year-over-year due to a different timing of real estate sales, as these are expected to be much more back-ends loaded in 2025 as compared to the phasing that we have achieved in 2024. Our e-CAPEX exceeded 400 million zloty in the first quarter of the year as we progressed full speed with the EU-subsidized fiber rollout for the wide zones and with transformation projects to drive efficiency gains. It was also influenced by the above-mentioned timing of real estate sales. We're comfortable with this result, and thus we reiterate the 2025 e-CAPEX guidance in the range of 1.8 to 1.9 billion zloty. Finally, the organic cash flow was seasonally low, reflecting payments for peak commercial and investing activity that occurred in the last quarter of 2024. In addition, it too reflected the timing of real estate sales that is different between the two years. Let's now review our results in Q1 in more detail, starting with the top line.

We're pleased that our revenues are back to growth in Q1. We're even more pleased when we look at the structure of this growth. Core telecom services, the key driver of our profits, grew by over 7% year-over-year. And while the 7% may be a bit flattering comparison, the underlying growth amounted to just over 6.5%, and we're more than pleased with this trajectory improvement. The acceleration versus the tempo achieved in the previous quarters was achieved due to four important drivers. First, consistent growth of all our key customer bases. Second, upward price adjustments. As we raised post-paid tariffs in Q1 of this year, and we increased the prices of prepaid twice during the last five months. Third driver is the upsell of additional services like content or additional mobile SIMs to convergence and to our convergent customers. And finally, the use of AI-driven customer value management in everyday commercial tactics. Our next key area of growth is IT and IS. Its revenues finally increased year-over-year after we have registered a weaker performance throughout last year. The key driver of this was an increase in integration and resale of software licenses. So obviously the contribution to profits was much smaller than the contribution to the top line. Sales of IT subsidiaries were broadly stable flat year-over-year as the market continues to be quite challenging. Finally, revenues from equipment dropped by 14% year-over-year, affected by a market decline, but also by the lower price mix of handsets that we have sold in Q1 as part of our commercial tactics. To sum up on the top line, we're very happy with the pace of growth of the core telecom services. We're satisfied with IT and IS improvement, even if we note that more progress is still required throughout the year to get this revenue line to the proper growth trajectory that we wish to have over the Lead the Future strategy period. Let's now look at our profitability on slide number nine.

Our EBITDAaL in Q1 grew by an almost 3% and benefited from a solid growth of the direct margin, which has more than compensated for the increase of indirect costs. The growth of the direct margin was driven by strong and consistent growth of core telecom services that I have just described. Direct margin was at roughly 55.8% of revenues, so it is in line with the strategy slightly above the 55% level that we would like to maintain or improve throughout this new strategic period. Our indirect costs have increased year-over-year. They were driven up by salary increases and cost pressures stemming from inflation. These were partly compensated by cost savings and favorable forex impact. The ratio of indirect costs to revenues was at 29.8%, and obviously while we aim to bring this below 29.5%, hence more work is needed to increase the efficiency of our operations in the midterm. To sum up, we are satisfied with EBITDAaL result for Q1. It gives us the confidence to deliver the full-year objective, and the direct margin growth and indirect cost efficiency is obviously our recipe for the shareholder value creation in the new strategy, and we will continue to execute this in the subsequent quarters of 2025. Thank you very much, and I hand the floor back to Liudmila for the conclusions.

Liudmila Climoc: CEO
Okay, let me briefly summarize and present our focus for next month. We started the year well. We are happy with our commercial and financial performance in the first quarter, and we confirm our full-year objectives. Going forward, I would like to mention two priorities. First of all, to keep good commercial momentum. This will be our main focus by delivering the best offers and best experience for our customers. I mentioned the revamped TV offer in combination with fiber, which we have just launched. So, commercial success is the key fuel for our profits generation. And secondly, as we speak, we are preparing the launch of new transformation wave that in line with Lead the Future priority will support our cost efficiency beyond 2025. We believe that a combination of commercial success and the improved efficiency is the right recipe for growth of shareholder value in the new strategy. That is all from us, and we are now ready to take your questions.

Leszek Iwaszko: Head of IR

Thank you. We are 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 webcast window. So once again, to ask a question, please press star on the keypad or press the question button on the web platform. Our first questions will be coming from the line of Marcin Nowak from Ipopema. Marcin, your line is open, so please ask your questions.

Marcin Nowak: IPOPEMA
Good morning. Thank you for the presentation. I have two questions. First one, your core telecom service revenues are growing quite strongly, but at the same time, we are recognizing the level of impairment on receivables nearly at the pandemic levels. Simultaneously, we are seeing lower equipment sales. Do you see any issues with the selected consumer groups in terms of their resilience or do you feel that this is something that should be concerning for the market? And the second question, could you please comment on the results of energy retail in 2024 in terms of a EBITDAaL generation and contribution to consecutive results? When do you think the sales process that you commented on in the report may end and can you comment on the potential level or scale of proceeds from it? Thank you.

Jacek Kunicki: CFO
Thank you, Marcin, for these questions. So, I guess I will answer for the bad debts first. You have seen that we have an increased level of impairment of receivables both in quarter four of last year and in Q1 of this year. In fact, the result in Q1 of this year was slightly smaller than what we have accounted for in the last quarter of last year. So, this is nothing that is very new. It does have... Well, it is linked with, first of all, starting from... In H2 of last year, we've had a number of B2B customers that were overdue and that finally ended up not paying us or being significantly delayed in their payment. So, we have registered this and reflected this with an increased provision. We have, this year in Q1, we have increased the provision relating to equipment sold in instalments. It mostly reflects the equipment that we have sold, I would say, SIM-free. So, without a direct link to the contract. Quite often, this is linked with equipment that is not purely a handset. And it is less linked with customers actually not paying us but rather with a certain delay of payments. So, we've reflected this in the provision, both retrospective and the prospective. We have adjusted both our scoring but also the collection. We are adjusting the collection processes to make sure that we remind customers a bit quicker if they are delayed with an invoice or two. And we will obviously be observing this very closely. I wouldn't say this is a major change in the trajectory or major cause of concern. It is something that we will observe, adjust our processes and I do believe that we will be able to bring the level of bad debts down over the period. It doesn't mean that we are sure that Q2 will be lower but it means that we are confident that this is a wave that will drop over time. And then, regarding Orange Energia here, I will not comment much. You've seen that we have mentioned in subsequent events to the financial statements that we are in the advanced process of disposal of this subsidiary. We expect the sale agreement to be signed in the near future and so considering the stage in which we are right now, I would refrain from neither giving additional unpublished data nor about commenting this transaction overall in any way. Thank you very much for your questions.

Leszek Iwaszko: Head of IR
Next question is coming from the line of Paweł Puchalski from Santander. Paweł, please go ahead with your questions. Your line is open. We can't hear you, Paweł. Your line is open, Paweł, if you would like to ask a question. If we cannot hear Paweł, let us switch to the line of Dominik Niszcz from Trigon. Dominik, your line is open.

Dominik Niszcz: Trigon
Thank you. Hi, so you surprised us with the pace of growth in mobile revenues. I think it's the fastest in a couple of quarters or years. So what should we expect in the coming quarters on this line and what's the current situation in the prepaid and postpaid mobile-only market? Do you see room for price increases this year? Thank you.

Liudmila Climoc: CEO
Thank you for the question. Indeed, we are very happy with mobile market performance with net ads in Q1. To be frank, we have been maintaining already the net ads close to 70,000 per quarter in the past quarter. But in Q1 of this year, it was particularly remarkable. And all business lines are contributing to it. So we have a very

balanced performance coming from consumer offers and brands, from all brands, from Orange, from Nju and good performance on Flex. And also from B2B, which has also a very good quarter. And how we explain this. Jacek was commenting on the price increases, which we have been implementing several price increases. But it was very well combined with commercial offers. With promotions, which has been able to attract customers. So it was well received in Q1. And we hope and we target to maintain this performance. That's why I was commenting that this will be our main focus for the quarters to keep this commercial pace. And we expect it to continue. Also to emphasize probably pre-paid. It is not only post-pay performance, which was contributing to the results, but also prepay. Mainly thanks to good acquisition mix. So we were able to get customers according to our fair share on the market. And simultaneously we have been implementing price increases in November of last year, which is becoming very visible when you look on the full quarter, full three months in Q1. So all in all, it is good performance for pre-paid. And it is very good performance on post-paid as well.

Jacek Kunicki: CFO
And I guess it's fair to say that we expect this to continue and we will do everything in our power to fuel this. Obviously, when it comes to pre-paid, since we've done one of the major price increases in the fourth quarter of last year, the pace of growth will naturally slow down slightly in Q4, as we will be on a more comfortable base in terms of pricing, unless we follow this up with some other actions. But as of today, I would say this is what you need to expect and we will do our best to keep this up in Q2 and Q3.

Dominik Niszcz: Trigon
That's clear. Thank you.

Leszek Iwaszko: Head of IR
Thank you. Paweł Puchalski has sent us a couple of questions online, so let me read them one by one. The first question is, how much copper is available for sale going forward?

Jacek Kunicki: CFO
Thank you for your question, Paweł. I think regarding copper, it really depends on the pace at which we decommission the copper network. So it is a little bit linked also with customer base evolution. It is not linear. We rather decommission copper on a progressive basis, looking at micro regions or micro areas and identifying those areas where, first of all, we have a lot of infrastructure, but without so many clients, so that it's profitable for us to dismantle. And second of all, that the physical location of the copper is allowing us to extract it and to sell it with a profit. So it's not like we have a predefined value, which is just sitting here and waiting to be sold. If that were the case, we would have sold it as soon as possible. It is rather that it depends on the pace. So what I can do is I will let you know how much we've done in the future. When I'm looking at data for 2022, the net sale of copper was about 47 million, 45 million in 2023, about 41 million in 2024. I do remember years where we did a little bit less or a little bit more. It is not something out of the ordinary, but I would guess you could expect that we are able to do between 40 to 60 million zloty per year for the next several years at least.

Leszek Iwaszko: Head of IR
That's the first question. The second question is, does the company plan to adjust its short or mid-term CapEx following finalization of 5G auction?

Jacek Kunicki: CFO
Nope. When it comes to CapEx, our definition does not include spectrum. So when we were guiding both for this year and for the long-term plan, we had in mind, first of all, that whatever we will pay for the license, it is not part of the CapEx definition. But we were also implicitly assuming that we will have two blocks of the spectrum that we indeed have won in the auction. So no adjustments that I foresee right now.

Leszek Iwaszko: Head of IR
The third question is, I saw a slowdown at both fiber and convergent net additions. Anything to worry about or Q1 2025 was just a lazy period and growth should accelerate going forward?

Liudmila Climoc: CEO
It is a ceratain and slowdown, but we need to remember that markets on fiber and convergent became increasingly more competitive. But if you look on Orange Post's performance for last year, it is really very, very positive. We are getting a very nice share in net ads on the market on very high broadband. With fiber for last quarter, it was more than 40% of net ads on the market. We will see what will be the results of this quarter with net ads, but we expect it will be in this range. So as well, we need to remember that in Q4 we have been closing several M&A deals which are also as part of the numbers of net ads. So organic growth is not changing a lot, although it's increasingly more competitive. And all in all, if you look on our performance with broadband, what is remarkable is that we manage very well between shifts of technologies, so we are fully compensating and even overcompensating the decrease of legacy copper customer base with new fiber. While convergence is remaining our main target, the growth for Q1 is in line with our expectations. We need to remember that we are each time comparing to higher denominators, higher base, so it is difficult to keep the same percentage in absolute numbers because the denominator is higher, and the 15% growth of the base of fiber is a really very nice performance, so we are happy and we are keeping it going forward.

Jacek Kunicki: CFO
Yeah, and I think, to be blunt, when we look at especially convergence, it's 16,000 net additions in Q1 versus 18 one year ago, and our figures for Q2, Q3 of last year were also in the vicinity of 18,000, so it's really not a major difference in Q4, as I mentioned it was influenced by the non-organic activity. And on fiber also, if you take out the M&A, the slowdown is really insignificant.

Leszek Iwaszko: Head of IR
Okay, we have a follow-up question from Marcin Nowak from IPOPEMA. Marcin, your line is open.

Marcin Nowak: IPOPEMA
Hello, again, two more questions from my side, if I may. First one, do you maybe plan to sell part of your receivables to improve working capital evolution? Orange did that in the past, if I recall. And the second question, you commented on plans for the new transformation wave in 2026. In what areas those costs will be focused on, and maybe why haven't they been addressed earlier?

Jacek Kunicki: CFO
Thank you very much. The first question, if I got it right, were you asking about factoring?

Yes, yes.

Jacek Kunicki: CFO
So, we do it, Marcin. We have an agreement with one of the banks, and we systematically sell those receivables that are with a relatively low level of risk. So it's mostly handsets, mostly handsets from retention. It's handsets from retention, you know, after we see that the first two or three invoices have been paid. And it's mostly B2C customers. So we do it on a regular basis, and this factoring program is there. I do believe the last time that we had extended it was 2023. And right now it's going without any major changes. So that is just part of us recovering the cash early, and being able to reinvest this cash to make more profits. So nothing new on this front. And the second… Transformation. On the transformation, it's always a very relevant question. And I think we've been asking ourselves this question for many strategic plans, because each strategic plan usually includes a certain amount of cost transformation. But we definitely do see that new possibilities from both the changes of our profile, we're much more fiber-oriented than copper-oriented versus five or six or seven years ago, but also changes from the IT systems that we now have, or the possibilities of AI, or possibilities of going more into digital. They unlock new options and new possibilities for us to consume less resource. And when I mean that, it's both in terms of the labor and non-labor spending. It's both on the side of our own workforce, the outsourced workforce, but also third-party services where we do find new options to run our operations more efficiently. And throughout last year, I'll just give you an example. We've been running quite a nice program on the end-to-

end transformation of our network maintenance and activities. And even though this was something that wasn't an ancient process, and even though this concerns to a large extent also the fiber operations, we were able to identify new initiatives, new ways of managing our external partners and their workforce, and working with those partners to extract quite significant cost savings. So I think we should never cease, and we have still quite a big organization, and a lot of spending, and I think our efficiency ratios are not yet at the level at which we would like them to be. And so we will identify new initiatives to reduce the operating expenses.

Marcin Nowak: IPOPEMA
Thank you.

Leszek Iwaszko: Head of IR
Thank you. The next question is coming from the line of Nora Nagy from Erste Bank. Nora, your line is open.

Nora Nagy: Erste Bank
Hi, thanks for the opportunity to ask questions. Only one from my side. Perhaps it's too early to ask, but if you could share any color, how do you perceive the first reaction of customers to the new TV offer? Thank you.

Liudmila Climoc: CEO
Yes, we launched the offer end of March, and we know it's taking time to roll out across channels. Of course, we hope for good results, but it's too early, Nora.

Leszek Iwaszko: Head of IR
Okay, the next question is coming from the line of Dawid Gurzynski from PKO PB. Dawid, your line is open.

Dawid Gurzyński: PKO BP
Hi, thank you for taking my question. I want to ask about other operating income costs line in P&L. Would you be able to provide some breakdown of that position, especially like how much came from FibreCo and how much from other sources?

Jacek Kunicki: CFO
Yes, thank you very much for your question. I think, yes, what is important to remember is that just the nature of other operating income expenses makes it, I wouldn't want to say volatile, but it's less predictable between the different quarters, because it's a line that includes a lot of items, risk provisions, forex impact, gain on sale of copper, of course, the settlements with FibreCo, and other services that we render, that we sell, which are non-telecom services. So it's really other. What I can comment for this quarter is when we look on the year-on-year perspective, so Q1 versus Q1 of last year, we see an increase of what, about 8 million zloty. And here, there are a few factors. First of all, the impact of the FibreCo is less positive than it was in Q1 of last year, by about 10 million overall. We did not have a catch-up, and you do remember that last year in Q1 we had a catch-up of just over 30 million. But we do have higher amount of recurring income, because we are at this stage of the project as we are. And so the net-net is only a 10 million drop. Sale of copper was comparable to one year ago. I think there is a 4 million increase. There is, I think, a 13 million increase of forex, where we made some gains in Q1 of this year versus some losses in Q1 of last year. And also we have a year-on-year increase of about 10 million zloty of different services that we render, that are not rendered to the FibreCo, but they are, I would say, non-classical telecom revenues, so we classify them in other operating income rather than in the revenue line. And if we compare versus Q4 of last year, so quarter and quarter, the other operating income expense line is basically unchanged. There is a big drop of the net-net FibreCo impact of around 40 million zloty. But then we almost sold no copper in Q4 of last year, while we sold copper worth about 30 million zloty in the first quarter of this year. So these are the major compensating items, if you are analyzing the Q on Q position. I hope that helps you understand the different movements.

Dawid Gurzynski: PKO BP
Yeah, thank you so much for the detailed description. And I also want to maybe complement this picture with the impact of orange energy in the first quarter. Like you said, you see a negative impact on EBITDA in the first quarter?

Jacek Kunicki: CFO
I think here I will need to be less talkative because of the advanced process of the disposal of the subsidiary. We've decided not to be very vocal on the subsidiary at all in this disclosure. And so please accept that we need to be patient and I will not comment.

Dawid Gurzynski: PKO BP
Okay, no problem. Thank you so much.

Leszek Iwaszko: Head of IR
Thank you. It appears we have no further questions. So thank you very much for listening to us today and talk to you in July. Thank you very much. Bye bye.