Orange Polska

CONFERENCE CALL ON ORANGE POLSKA RESULTS FOR THE 2Q'26

Leszek Iwaszko, Head of IR:

Good morning. Thank you for standing by. Let me welcome you to Orange Polska conference call, in which we will summarize our results in the second quarter and the first half of 2026. My name is Leszek Iwaszko, and I'm in charge of investor relations. The format of the call will be a presentation made by management team, followed by a Q&A session. Speakers for today will be CEO of Orange Polska, Liudmila Climoc, and Jacek Kunicki, CFO. Let me now pass the floor to Liudmila to begin the presentation.

Liudmila Climoc, CEO:

Thank you, Leszek. Good morning and welcome to our conference summarizing second quarter of 2026. And let's start on slide four.

I'm very pleased to share with you on our progress for first six months of the year. Within this time, we were focused on our priorities set in Lead the Future strategy, pursuing brave commercial agenda, investing in our network, and implementing transformation initiatives for our operations. And it all starts with profitable growth, which was excellent across all our business lines. Firstly, in core telecom services, we successfully combined healthy pace of growth of customer bases and improving ARPU dynamics. And I am very happy that Orange Polska was the leader in mobile number portability for the second consecutive quarter, with net gain for Q2 of 20,000 customers. Secondly, it was a particularly good quarter for B2B. Revenues in IT&IS increased by as much as 50% in second quarter, thanks to an accumulation of contracts won. In addition, we signed the first major contract for the defense area, which we see as a significant milestone for future development. And finally, wholesale sustained very strong momentum, growing revenues by double digit despite lack of national roaming contract, which expired last year. These strong commercial achievements were combined with progress in our transformation program as we strive towards high efficiency, and it is visible through indirect costs, which were flat if we compare year-over-year. And all that translated into strong financial results. In H1, revenue growth exceeded 7% and the EBITDA growth exceeded 6%. And as a consequence of strong first half of the year, we are confident in the right execution of our strategy, and we are more optimistic regarding our future prospects. Let's review these achievements in more details, and I will start with commercial activity on next slide.

So, our commercial performance in Q2 was successful both in volume and value. These trends are key to today's value creation, but also give us confidence for quarters to come. And starting with mobile, where results were particularly excellent, net customer additions exceeded 80,000. And as I have mentioned already, we were again the winner of number portability with a big advantage. This demonstrates that the strength of our multi-brand strategy and also confirms that customers continue to value the quality and our always-on connectivity. For the mobile ARPU, growth improved, exceeding 2% as we monetize our value strategy. It was driven by acceleration in the main brand on consumer market and an improvement in B2B. And as a result, we have reached a well-balanced volume-value growth in mobile, which was not that evident in the previous quarters. Moving on to fiber, customer base increased 10% year on year. Net customer additions were similar to a year ago, and we see it as a very strong achievement despite fierce competition, which we see in this area. In second quarter, we increased our footprint for high-speed broadband by 900,000 households in hybrid fiber coax, HFC technology, of getting access to one of the wholesalers networks. Over the time, this footprint will be further increasing and will be gradually upgraded to FTTH standard. And this new infrastructure creates a new fishing pool for us for growth in our very high broadband services. Strong mobile and fiber were accompanied by further growth in convergence, with the pace of growth in line with Lead the Future strategy. Convergence remains key to value creation on consumer market. It already penetrates our customer base in a very high proportion, and that's why we are focusing on reaching new households, not yet using our services with fiber or mobile services. And we are quite successful with that. In the first half of 2026, the number of households where Orange is present with our services was growing, offering promising prospects for the future. And strong results of core telecom services were accompanied by strong performance in B2B and wholesale, and I would like to zoom in on it on next slide, slide six.

So common feature of these two business lines is that their revenues include both recurrent streams and boosts from particular big deals. And if we want to achieve strong growth, we need both of these streams. And we see it well reflected in results of the second quarter. Starting with business market, if you remember our priorities for 2026 that we were presenting in February, one of them was to achieve profitable growth in B2B. And I am pleased to confirm that this is clearly happening. It is driven by constantly improving trend in telco services and accumulation of contracts won in IT&IS. And additionally, we have signed a first major contract in the defense sector, and I hope that this will open new market opportunities for value creation. And switching to wholesale, it sustained great momentum in H1 with a particularly high 17% revenue growth in Q2. And this is despite the absence of revenue from national roaming contract. It was driven by consistent growth in wholesale fiber access and big deals in infrastructure rental. This should remind us that wholesale is our strategic line of business, complementing our retail operations and balancing our risk profile. And now we have discussed all three business lines which build growth of our revenues and margin, and the missing element for EBITDAaL is cost transformation, and I invite you to look on next slide, on slide seven.

Under the Lead the Future, we have launched a new wave of transformation focused on improving efficiency, expanding margins, and strengthening our cash generation. It covers all areas of our business, and you can see the pie chart on the slide illustrating it. Its key levers are automation, processes re-engineering and opportunities from integrating AI in our operations. And the key measure of its overall progress is the evolution of indirect costs. Indirect, so it is not directly linked to revenues. And our aim to keep these costs flat despite growing business and despite growing investments in our networks. This enables high operating leverage, and as a result, allows us to flow our revenues into EBITDA and consequently into the cash. And we are very pleased that this transformation is progressing well, and that underlying indirect costs were flat year-over-year if we look on first six months of this year. Now, you have seen that strong H1 results were a combination of strong commercial execution and also a solid progress in our cost transformation. It allows us to be more optimistic regarding the future.

And just to illustrate it on the next slide, as a consequence, we are raising our full-year guidance in most areas, so for revenues, for EBITDAaL, and for Organic cash flow. Following the exceptional revenue growth to date, we now expect full-year revenues to grow by low to mid-single digit in percentage. This will translate into EBITDAaL that we expect to grow at above 6%, so an important improvement versus our initial estimates. We have decided to guide above 6% as perfect execution in the second part of the year could see us landing above this level. And finally, we are raising OCF cash guidance to at least 1.2 billion zloty. This means that we plan it to grow by more than 20% in 2026. This guidance is underlining our determination to grow our financial outputs and to create value for our shareholders. This is all for me as for now, and I hand over the floor to Jacek to walk you through the details of our financial results.

Jacek Kunicki, CFO:

Thank you, Liudmila. Good morning, everyone. Let's start the financial review on slide 10 with the highlights of our performance this quarter. I am very pleased with our financial results in Q2. We have increased our revenues, profits, and cash generation. Revenues were up by 12% year on year. A solid, consistent development of core telecom services was coupled with exceptional growth of revenues from IT&IS. High top line was coupled with cost savings, and in turn, this drove the 3% EBITDA growth in the second quarter. This is a strong achievement, especially as we note that the second quarter of 2025 included a 75 million zloty positive one-off from the rollout agreement, so the comparable base was very high. Solid revenue and EBITDAaL in Q2 enabled us to achieve excellent results for the first semester, with 7.5% revenue uplift and a 6% growth of the EBITDAaL. High operating results were coupled with capex discipline, and as a result, we have significantly increased our net income by 24% year on year and our organic cash flow by 43% year over year. Both viewed for the first semester. These are very strong results based on solid underlying trends. They give us an increased level of confidence for the future, as evidenced by the guidance uplift described by Liudmila. Let's now look into the sources of these achievements, starting with top line on the next slide.

Q2 revenues grew by 12% year on year, an exceptionally steep dynamic. This combines a solid, consistent performance of core telecom services and a very strong growth of the less recurrent areas such as IT&IS and wholesale. Revenues from core telecom services increased by 5% year on year. Similarly to the first quarter, this reflected a strong above 6% growth of all post-paid service revenues and a natural slowdown in prepaid following its steep growth in 2025. Consistent development of core telecom service revenues is fueled by the rock-solid growth of their customer bases and ARPUs. Good growth of core telecom revenues was coupled with an exceptional 50% increase of revenues from IT&IS. This quarter, we benefited from a big accumulation of contracts for digital transformation and IT infrastructure upgrades. This demonstrates that market conditions are improving, and that we are able to grab those opportunities due to our large portfolio of competencies and relevant experience. We continue to observe a solid pipeline of projects for H2. However, we note that the Q2 dynamic was exceptional, and we expect less spectacular growth in the second semester from IT&IS revenues. Top line also benefited from a very solid growth of wholesale, which was fueled by infrastructure contracts and IoT equipment sales in the B2B. To sum up, Q2 revenue dynamics was exceptionally high as consistent, solid performance of core telecom service revenues was coupled with extra growth from big contracts. Revenue achievements in H1 lead us to increase the full-year guidance, even if we expect a slightly slower but single-digit growth in the second semester. Let's now look at how we turn these higher revenues into profitability on slide 12.

Our Q2 EBITDAaL has increased by 3% year-on-year. We're very pleased with this result, especially as last year's EBITDAaL included the large one-off from the fiber rollout agreement for our FiberCo that I already mentioned. This shows that the underlying growth of Q2 was indeed very strong, which was driven both by an accelerated growth of the direct margin, fueled by revenues and by solid benefits of our cost transformation. The direct margin increased by more than 6%, an outstanding dynamic that followed strong revenue growth across all business lines. It mainly reflected the growth of the high margin areas such as core telecom services and wholesale. But it also benefited from the exceptionally high IT&IS sales. This last item carries much lower margins versus core telco, but still delivers a direct margin rate in the area of close to 20% and an EBITDA contribution close to the 10%-12% mark. Our indirect costs were flat year-on-year, apart from the impact of the already mentioned fiber rollout one-off last year. We benefited from the cost transformation program and made efficiency gains in network operations, employment, and property maintenance costs. As a result, we preserved a high operating leverage, and we are able to convert revenue growth into higher EBITDAaL. This result enabled us to reach over 6% EBITDAaL growth for the first semester. And as you have seen, we expect this dynamic to hold or even accelerate in H2. With this, Orange Polska will reach its highest EBITDAaL growth rate in many years. Now let's look at net income on the next page.

Our net results amounted to 580 million zloty in H1, growing by 24% year-over-year. There were two drivers of this increase. Firstly, the strong EBITDAaL growth discussed a moment ago. Secondly, high gain on asset disposals as we executed large real estate transactions, selling properties that we no longer need as we transform our operations. These were partly offset by higher depreciation linked to the 5G license that we've acquired last year and a change in capex structure evolving into assets with shorter useful lifetimes, such as IT software. H1 results puts us on a solid path for a significant growth of net income for the full year. And now let's switch to capex on page 14, slide 14.

Our economic capex amounted to 725 million zloty in H1, so 9% down year-over-year. The difference resulted entirely from the 100 million zloty higher proceeds from real estate disposal due to the very good results achieved this year. Capex spending was on a comparable level to last year. In line with our strategic priorities, we allocated almost 40% of capital expenses to access networks. In fixed, this is mainly fiber rollout in white zones, a project that will be completed before year-end. In mobile, we are deploying the 5G network, now reaching almost 90% of population and finalizing the renewal of our radio access network. Another 30% of capex is dedicated to core and fixed network, as we are expanding the capacity of our networks to deal with the growing traffic. Finally, we've spent just over 30% on IT, with focus on projects to support process efficiency through digitalization, both on the front desk and in the technical and support areas. Finally, a quick look at the cash flow on page 15.

We generated close to half a billion zloty of organic cash flows in H1. This was 150 million or 43% more than in H1 of last year. It was driven predominantly by the strong growth of the EBITDAaL, coupled with higher cash from real estate disposal. We also benefited from less cash capex, with lower payment for prior year's investments than in H1 of 2025. However, this was offset by a higher need for working capital as a result of the great revenue growth in IT&IS equipment, but also in the core telecom services areas in H1 of this year. As a takeaway, we're happy with cash generation in H1. We also expect a solid H2 And we are eyeing the above 1.2 billion of organic cash flow for the full year. This is all from me for now, and I hand the floor back to Liudmila. Thank you.

Liudmila Climoc, CEO:

Thank you, Jacek. So summarizing, just illustrating the bullet points which you see on slide 17. Our commercial and financial results in second quarter and first part of the year were strong. They not only give us confidence to upgrade full year guidance, but also constitute a great platform for growth in the future and, in the same time, demonstrate that discipline execution of Lead the Future strategy is bringing desired results. This gives us even stronger determination to execute on commercial actions in the upcoming peak season and to focus on new transformation initiatives, but also to take more midterm perspective and to launch new actions that will fuel our growth in the years to come. This is all for us, and now we are ready to take your questions.

Leszek Iwaszko, Head of IR:

Thank you. Switching now to Q&A session. Let me read the instructions first. First, 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 text question using the webcast window. So again, to ask a question, press star two on the keypad, or press the question button on the platform. We are as usually prioritizing voice questions. The first question is coming from the line of Dominik Niszcz from Trigon. Dominik, your line is open. You may ask your questions.

Dominik Niszcz, Trigon:

Thank you. Hi. Dominik from Trigon. I would like to ask two questions. So first is on wholesale revenues. In the second quarter, it's up by 34 million. So I was wondering, should we view this temporary, or do you expect these infrastructure projects to be more like a recurring contributor or it's just a fluctuations from quarter to quarter, so this was exceptional quarter? And what was the scale, maybe if this was kind of not recurring?

Jacek Kunicki, CFO:

Thank you for your question, Dominik. So, when you take a look at wholesale, obviously it is driven both by the recurrent streams of revenues, such as rentals of our infrastructure on a subscription basis or sale of BSA excesses for the wholesale customers, and this is very often then fluctuating as we have additional impacts of large projects. So wholesale is, I would say, it has a base that is recurrent, but then it's fueled by non-recurrent projects. So yes, we did see Q2 impacted by over 20 million of non-recurrent projects. But what I would really emphasize is that we, first of all, have grown year over year despite losing the revenues from national roaming. So that was about an 11 million negative impact. And is 11 in Q1, 11 in Q2, we've had to offset this. And then what I would mention is we are already heavily working on additional projects to come in the second semester that if we are able to execute them properly, will also give us quite nice upside and enable us to continue to grow revenues in H2. So it's not that we've run out of one-off project, it's that wholesale is a lot about non-recurrent projects, and we are working and developing those projects, and we're quite confident that wholesale will continue to deliver quite nice revenue growth.

Dominik Niszcz, Trigon:

Okay. That's clear and optimistic. So thank you. And one more question on data centers. So with this AI and data center investments accelerating globally but also across Europe, does Orange Polska see opportunities through partnerships or some connectivity-related services to gain higher scale in this area? We've heard about the cooperation with Morrison in France by your parent company just yesterday. So is this the path you are looking for as well?

Jacek Kunicki, CFO:

Another relevant question. What I would say is that today we have a meaningful data center business already as we are providing collocation for our business customers. And then obviously on top of that, a number of services starting with connectivity, security, remote maintenance, energy guarantee, and so on. The usual package for data centers. These are not AI-driven data centers, so they are with a low energy intensity, and usually they are located next to the data centers that we have for the purposes of Orange Polska, so for our internal needs. And this represents, on an incremental level, an attractive business model, because we are using the space that has already been developed for Orange Polska purposes. We do not envisage today huge projects such of the scale as you have mentioned and targeting the AI boom, but would rather be continuing to look for ways to serve our business customers with this low-intensity data center services. And here, obviously, we are not close to needing to own data centers. We can just as well rely on trusted partners, reliable partners, such as we do with fiber, where not only do we have Światłowód Inwestycje, which is co-owned and not entirely owned, but also please note that a significant part of our coverage relies on whole-buy tactics. So for pure data center connectivity, I would say we are open for all forms of gaining access to infrastructure to serve our customers, while obviously our unique advantage is to be able to provide the value-added services on top of the basic colocation services that are usually offered by the pure data centers.

Dominik Niszcz, Trigon:

Thank you.

Jacek Kunicki, CFO:

Thank you.

Leszek Iwaszko, Head of IR:

Thanks, Dominik. Next voice question will be coming from the line of Ali Naqvi from HSBC. Ali, your line is open.

Ali Naqvi, HSBC:

Great. First one is your policy on non-telco M&A, for example, in real estate, if you have anything to say on that. And then in terms of your uplift in guidance for 2026, are there any scenarios or is there any update to give a view on your medium-term guidance, whether you could raise that as well?

Jacek Kunicki, CFO:

Thank you very much for your question. So I will start with the M&A. Here we're very consistent. We would not be open to venture far out away from the telco side. The two areas of M&As that we are open to, and historically have been open to, is on the one side, the potential increase of our competencies in the ICT area, where we've done a number of M&As historically, and where obviously we need to be relatively selective as to which exactly competencies would be potentially wish to acquire. And on the other hand, the fiber infrastructure, where we are an active participant on those infrastructure projects, the last one being the ongoing process of acquiring Nexera together with APG. And those would be pretty much the only areas that we would be looking at right now. We're not really eyeing any M&As that would be outside the core business.

Now, I think regarding the EBITDAaL, what I would say is: first of all, we need to understand where this upward guidance revision stems from. So we're happy with the growth that we've seen so far for 2026, and we're happy with the sources of growth. And the way that I would put it, it's in three steps. This guidance revision, and growth stems from, one: strong sustainable growth across the recurrent business. So core telecom services, we've seen great trends in H1. We think they will be continued in H2. Plus, we see support from big deals. We've seen very nice revenue growth and converting into also EBITDAaL support in B2B with continued and will continue good growth from wholesale. And number three is another plus, so a great contribution of our cost transformation, and this has visibly accelerated this year. So that gets us to guiding above 6%. And as Liudmila mentioned, perfect execution could take us even 1% to 2% higher. Now, as far as H2 expectations, obviously we expect relatively slower revenue growth versus the one that we observed in Q2 as IT&IS was truly exceptional. But at the same time, we expect rock-solid revenue margin from core telecom services. So that is in fact translating into EBITDA growth that could even be higher in H2 than the one that we've seen in H1. Now, what is great about this dynamic is that both core telecom services and cost optimization provide a recurring effect, so we should be able to enjoy their benefits in the future. Now, repeating this year's forecast would obviously also require for sizable additional big deals, and it's a bit early to be eyeing this right now, we are in mid-year. But our 2026 performance is definitely creating a good platform for further growth in the future. And our midterm EBITDAaL guidance is a low to mid-single-digit percentage CAGR. So today we stick to this, but clearly our ambitions are at the high end of this guidance. We will be doing our annual business planning in H2 of this year, and we will definitely address, well, next year's guidance, but also give you a better outlook for 2028, together with the full year results, so in February of 2027. Thank you.

Ali Naqvi, HSBC:

Great. Thank you.

Leszek Iwaszko, Head of IR:

Thanks, Ali. We have no more voice questions as of now, but we have text questions that came to us from Paweł Puchalski from Erste Brokerage. Three questions. First question is, in Q2'26, we observed 200 million top line consensus beat and a mere 6 million EBITDAaL beat. Is that actual margin on ICT or more profits would be recognized in coming quarters? That's the first question. Maybe we'll take them one by one.

Jacek Kunicki, CFO:

Sure. So thank you, Paweł, for the very relevant question. I believe I mentioned part of the reasons when commenting the EBITDAaL. So while we have indeed noted very steep growth of revenues from IT&IS, we need to remember that IT&IS carry much lower margins than the incremental margin by extra core telco revenue. So this is where the EBITDAaL contribution of this extra revenues, it is about 10% this quarter. So that I hope explains to you why the 200 million top line beat, which was I believe mostly about IT&IS. I do not have the details per product line of consensus obviously, but I do believe that this was mostly about IT&IS. It's not translating into a spectacular beat of the EBITDAaL. And so congratulations to everyone that was forecasting well and had faith in our ability to deliver EBITDAaL growth despite this big one-off in Q2 of last year, because all of you guys have actually had faith that we will deliver a very strong underlying growth, and we're happy with this.

Leszek Iwaszko, Head of IR:

Then the next question I will read, but I believe this was already at least partly answered. It concerns OCF guidance following '26 OCF guidance increase by 0.1 billion zloty. Should we assume it would result in your 2028 OCF guidance or maybe 26 OCF is related to uniquely strong real estate asset, leaving midterm OCF outlook unaffected?

Jacek Kunicki, CFO:

I think it's worth answering this one directly because it's about organic cash flow, and before we comment more about EBITDAaL. So thanks for spotting this one, Paweł. I would say, first of all, this year's OCF looks indeed to be very strong. At least 20% growth to reach more than 1.2 billion. It is a remarkable achievement for a telco. So we're happy with this, and we're confident in our ability to deliver. It will be an outcome of both the strong profitable revenue growth, and operating costs that we have envisaged in the EBITDAaL guidance, but also disciplined capex, enabling the EBITDAaL growth to flow through to the organic cash flow. As you remember, our e-Capex guidance, it's broadly stable versus last year. So it is not about a huge cut of a huge, I would say, non-recurring one-off cut to the e-Capex, but the strong OCF growth is rather about a very good result expected on the EBITDAaL side. So that is, I would say, really the bright side of things is the quality of the sources of the EBITDAaL growth. And capex is merely there, first of all, to finance the future growth, because this is why we want to invest capex. And also the capex discipline, so to enable the EBITDAaL growth to flow through to organic cash flow. Now, looking into the future, I would say, on the one hand, we note that this year's EBITDAaL growth is supported by large deals and this year's organic cash flow is obviously supported by the sale of real estate. And over the course of the next years, the real estate proceeds will be diminishing as we will be progressively selling all that we have and are not using. On the other hand, we have a good track record of developing new growth levers and of outperforming our targets, and we are very motivated to maximize shareholder value. So I do believe that there is a case to be optimistic for the future. But now we're concentrating on reaching this year's goals. There's a lot of execution to be done. We will refresh the plans for the next two years in H2, and we'll address the topic in more detail in February. Thanks.

Leszek Iwaszko, Head of IR:

The last question of Paweł is, following ‘26 OCF growing 20% year on year, should we expect your 2027 DPS also growing by 20% year on year?

Jacek Kunicki, CFO:

So Paweł is following through all the way to the dividends. Thank you. I think it's clear that for us, the dividends are an important part of - an essential part of - value creation to our shareholders. So we're looking and we're working hard to create the financial conditions to be able to offer sustainable growth of the dividend. Today, by increasing the guidance, we're demonstrating that our actions are bearing fruits, and we're progressively delivering those better financial outputs. Whenever we analyze dividends each year, we look into the midterm projections for our profitability, our cash generation, and the balance sheet. These will inevitably include the 400 million cash outlay for the 1,800 MHz spectrum renewal in '27, and some other renewals after 2028. But also they will include our updated expectations for profitability and cash generations. And this will follow the financial planning process in H2 of this year that I've already mentioned. And that's why we will address the question of the next dividend in February together with the full year results. But I hope that you can understand the logic that we take in determining each year what is the next level of the dividend that we pay going forward. Thanks.

Leszek Iwaszko, Head of IR:

Thank you. We have a follow-up question, text question from Dominic Niszcz from Trigon. You mentioned a new defense contract in the shareholder letter. Could you share more details? And what defense capabilities does Orange Polska aim to develop over the coming years?

Liudmila Climoc, CEO:

Thank you, Dominic, for spotting it, and indeed, we see the contract as a significant milestone although, we are bound by confidentiality. So you appreciate that we will be rather general in the comments. Our relationships with defense sector in Poland is a long-lasting one, and obviously now the sector is becoming even more important in current geopolitical landscape, and we see growing demand. And what I can say is that the contract is an evidence that technology and modern infrastructure play an important role to strengthen defense and security in Poland. We see it also as an important step for long-term value building in this market segment. It is not new for us. We are working in this area for quite a long time, and now we are intensifying efforts, working on wider scope of solutions which could serve defense and security needs on not only of public, but also in private sectors. As for this particular contract, you need to expect, and we plan that this contract will contribute to our results gradually starting with 2027. So it is not yet reflected in our H1 numbers.

Leszek Iwaszko, Head of IR:

Thank you. It appears we have no further question, neither voice or text. So thank you very much for participating. Enjoy rest of the summer, and please send us a note if you wanted to meet us on one-on-ones. We are always open.

Jacek Kunicki, CFO:

See you at the latest in October and on conferences and roadshows in between.

Leszek Iwaszko, Head of IR:

Thank you. Bye-bye.

Liudmila Climoc, CEO:

Thank you. Bye.

Jacek Kunicki, CFO:

Thank you very much!