

Orange Polska 2Q Results

SPEAKERS

Jean-François Fallacher, CEO

Jacek Kunicki, CFO

Leszek Iwaszko, Head of IR

Operator

Good morning, ladies and gentlemen. Thank you for standing by, and I would like to welcome you to the Orange Polska 2Q 2020 results call. At this time all participant lines are in listen-only mode. The format of the call will be a presentation by the management team, followed by a question-and-answer session. So, without further ado, I would like to pass the line and Mr. Leszek Iwaszko, Head of Investment Relations at Orange Polska. Please go ahead, sir.

Leszek Iwaszko

Good morning. Welcome everyone, to our conference, summarizing Quarter 2 and H1 of 2020. Welcome those who are in the room, welcome those who listen to us and watch us online. Speakers for today will be Jean-François Fallacher, CEO of Orange Polska and Jacek Kunicki, CFO of Orange Polska. Let me hand the floor to Jean-François to begin the presentation. Thank you.

Jean-François Fallacher

Thank you very much, Leszek. Good morning, ladies and gentlemen, and welcome to the courageous ones that joined us physically today. Welcome to this conference. As usual, I will start with the business highlights, Jacek Kunicki, here present, will follow with the financial review, and then I will say a few words to close this presentation.

Jean-François Fallacher

So let's start immediately with the page 6 of this presentation with another view of where we stand after half of the year against our full year guidance and expectations. So, as you can read here, our revenues are up 1.7% in the first half. They were growing both in the first quarter and the second quarter. Our original guidance, if you remember, was the growth of revenues for the full year. However, when we presented the first expected impact of the pandemic on these results in the beginning of April, we noted that the growth of the revenues is this year unlikely, and we are still maintaining that view today. However, we do confirm the guidance for the growth of our EBITDAaL for the full year. You see that in this H1 results, we are posting an EBITDAaL that is up 8% year-on-year. And this performance is combining both our underlying turnaround and the significant impact of mitigating measures that we have launched in the second quarter. Concerning the outlook of the second half, we are still cautious, but we believe that the performance that we are posting in this first half, and the countermeasure that we have taken are making us more confident than before regarding the growth of this key parameter,

financial parameter for the full year. So we are maintaining also the full year outlook for economic CapEx, although the pandemics makes, as you know the real estate market more difficult. And we are also having prepared some adjustments to offset that difficulties of the real estate market.

Jean-François Fallacher

I would like also to highlight, that at the end of the first half, we have achieved the number one position in NPS, this is the net promoter score, a measure of our customer satisfaction. This is meaning that we are now the most recommended operator on the Polish market. We went from number three position end of 2018 to number two position end of 2019. And now, number one. This was clearly one of our strategy goal set three years ago. And this is the evidence that our daily focus on the needs of our customers pays off and I'm very proud now, that customers are trusting us more.

Jean-François Fallacher

Let me now go on the page 7 of this presentation. I think during this COVID pandemic period our performance in the second quarter proved that our operations are resilient. Relatively fast reopening of the economy that started at the end of April helped us to limit some of the negative effects that we encountered. Our distribution returned to normal operations early May, when shopping malls were reopened here in Poland. And since then, we observe a gradual increase of the customer traffic. In June, it was still down 20% versus the level before the pandemic. However, it is improving in the month of July, again. We will review the commercial results a bit more in detail.

Jean-François Fallacher

So I will now just mention a few key trends. Not surprisingly, the most resilient service was fixed broadband and fiber, in particular. Sales in mobile's dropped much more, but started quickly recover especially on the consumer market. Recovery of the business market is a bit slower. Net customer additions in all postpaid services were helped by low churn, especially during this lockdown. The service that suffered relatively the most was prepaid. We lost more than hundred thousand customers due to much lower activations of new prepaid cards. This was a consequence of clearly reduced small business activity and much lower sales to foreign residents, obviously caused by the pandemic.

Jean-François Fallacher

These were few key impacts on our commercial results and Jacek will comment on financial impact during his financial review. Clearly, it seems that Poland is less affected by the pandemic than other countries. Nonetheless, I say it again, we are cautious about the future, as today's situation is helped by various government aid programs and we know that many sectors are going through significant slowdown. This may, in particular affect our business customers, especially in the ICT area, we are obviously very closely monitoring the receivables collection. And, needless to say, our roaming revenues will continue to suffer during that summer period.

Jean-François Fallacher

So now let's have a look on the mitigation measures that we have launched, as I was commenting in the last meeting, in the end of Q1. So I am now on page 8 of the presentation. When we presented these Q1 results, we flagged that we were working to adapt to these unprecedented challenges caused by the pandemic. So here are the measures, that we have launched. They required a big effort from our

entire organization, and they're going to significantly help us to achieve our strong performance in Q2. Some of these measures were important enough that we reported them in separate announcement, so they won't be a surprise for you.

Jean-François Fallacher

You could read about the cancellation of the so-called Jubilee awards, and some amendments in the terms of the social agreement of the company. I would like to use the opportunity to thank our social partners, because they've been engaging with us in a dialogue, and agreed to make compromises that are really serving the best interests of our company and its employees. So on top of these measures, we've introduced rigorous cost-freeze in many business areas that generated material savings, for example, in general expenses, property maintenance, and marketing. We have also engaged our resources in renegotiating of certain rental contracts, that we are having, and we will continue this cost-freeze in the second half of the year. As I already mentioned, we also adjusted some of the CapEx, the investment projects in the light of a tougher real estate market. And Jacek will say a bit more when he will present our CapEx outlook.

Jean-François Fallacher

Let's go now on the slide number 9. I want to comment on the fact that the pandemic, unfortunately, also affected our 5G distribution process in Poland, 5G frequency distribution process. As you remember, the auction was suspended by the regulator in April, and then cancelled by the government in May. At the moment the timing of the new process is a bit unknown, and you know that there will be some soon a new head of the UKE, our regulatory office. Taking this into account, it seems to us not very likely that the process will conclude this year, but rather next year, in 2021.

Jean-François Fallacher

So in such circumstances, we decided, you have seen it, to launch 5G on another spectrum. It was launched on July, 1, on the 2.1 gigahertz frequency, that we are actually also using currently for 4G. We are using a technology called DSS, that allows dynamic allocation of the spectrum resources between these two technologies. And this is based on the user demand. So this launch of 5G on July 1, makes actually 5G available for around 6 million citizens in Poland, in some of the largest Polish cities. And in line with our value strategy, we position 5G to be available in the most expensive tariff plans, both for consumers and businesses. Obviously, the 5G that we will be able to offer in the future on the C-band will give customers even wider benefits. So, that's why we are hoping for the new distribution process to be starting as quick as possible.

Jean-François Fallacher

Let's please go to the next slide on page 10, where I want to commend the fixed broadband performance in the second quarter. As I already mentioned, it was very good for fixed broadband in the second quarter. As you can read, our total customer additions net were 22,000 in Q2. This was the best results in the last six quarters for fixed broadband. All technologies contributed to that. So despite these crises, the demand stays very strong, which is not really surprising, given how important internet access became for all our customers. However, we want to put a bit more attention on the lower chart on the left, which is the evolution of the ARPO, the Average Revenue Per Offer, in the broadband, only customer base. You can see real turnaround here, made over the last 12 months thanks to our last

year's price increase. And the growing share of fiber in the base. Fiber is contributing, as you can see, in a number of ways. Firstly, it has the highest share of TV services. Secondly, we have more and more customers in single family houses who are actually paying a bit more to cover the higher construction cost of this type of households. And thirdly, we see growing demand for higher fiber speeds, which are also helping this APRO growth.

Jean-François Fallacher

In fiber, as you can read here, we add plus 44,000 customers net additions in this Quarter 2, matching Q1, which was the second best ever quarter in the story of Orange Polska for fiber. And June was the best month ever for us. As a result, fiber penetration, as you can read here, stands now at 13.5% and continues to grow.

Jean-François Fallacher

Let me now take a few minutes to comment on our fiber plans, because they were, as you have seen some, media speculations about this recently. I can reiterate that we are actively, very actively working on a project that we call FiberCO, in line with what we said in the beginning of the year. Because we see room in Poland for more fiber deployment and that we are looking for an optimal way to finance this further rollout. That involves potential teaming up with a partner, with a financial partner to optimize our future CapEx. Let me underline that the final shape of the FiberCO is not yet fully determined, the project is still at an early stage. It is likely that we will include some part of the existing footprint, but it is too early to reveal exactly, how much. We're also analyzing how much fiber rollout would be optimal in the future. I mean, new built fiber rollout. These parameters are currently worked out, and we will start, hopefully, talking to investors very soon. This is all I can say today about this topic, I just want to confirm that this is a top priority for the company. And we expect to extract value from it. And our thinking is in value for the long term. I can also say that the ongoing management changes do not impact this, it is led by Maciej Nowohoński, that you all know very well, our former CFO, which is now in charge of the wholesale, and kept the responsibility of this FiberCO project.

Jean-François Fallacher

Let's now go to the next page. I'm page 11 of this presentation. This is the slide, the usual slide, that you know very well, where we are presenting the source of value creation through our commercial activity and transformation. Now, I want on this slide to focus more on convergence and mobile. If we look at the customer net additions in both categories, they're strong in Q2, actually better than the first quarter. Obviously, the lower churn during the lockdown period is here a supportive factor, especially in mobile. And the good trend in ARPO is continuing even if it was distorted significantly by roaming in mobile. As you know, we lost a lot of roaming during this period. If you look at the green box, you can look at the trend in mobile postpaid ARPO is deteriorating in Q2, but again only due to the roaming effect. If we exclude that factor of the loss of roaming, we would see further improvements driven obviously by our value strategy.

Jean-François Fallacher

In the lower part of the slide, we are also presenting the effects of our efficiency transformation. You see that our employment is down by almost 10% year-on-year. In the first half of this year, around 1100 employees left the company, out of the 1250, which we have planned for the entire year, according to

our social plan. The process of leaving of the remaining 150 people has been frozen, as it was agreed with our trade union during the negotiation, allowing us to reach these actions that I commented a few minutes before.

Jean-François Fallacher

In the yellow box, you can see the savings in indirect costs. For Q2 there were 3 times as high as in Q1, with around half thanks to the curtailment of the Jubilee awards. They're also encompassing other savings, generated with the framework of the mitigating measures that I presented a moment ago. Now in the pink box, bottom right, you can see the strong performance in the first half of EBITDAaL, you can notice that trend in the direct margin has slightly deteriorated. This is related to only COVID increased provisioning that we took. And Jacek will comment this in further detail. This is all for me now I give the floor to Jacek.

Jacek Kunicki

Thank you Jean-François. Good morning, everyone. Let's start the financial review on slide 13, where we present the highlights of the quarter. So our Q2 results were strong with both, revenues and EBITDA posting a growth. The growth was driven by our value strategy, coupled with continued very strong cost savings. These helped to offset the first adverse impacts of the COVID crisis already visible in our results. Lower CapEx reflected as slowing down our investment spendings in anticipation of a potential shortfall in real estate sales. Finally, we generated a particularly high level of cash this quarter. This stems from strong underlying performance, and also from a significant shift of payments to the second half of the year.

Jacek Kunicki

Let's review the top line on slide 14. So our Q2 revenues expanded by 2.5% versus the second quarter of 2019. The key underlying trends were unchanged from Q1. Revenues from core future-proof areas continued a very high pace of growth. And they increased by over 8% year-over-year. There were three main reasons for this extraordinary dynamic. Firstly, core subscription services, so convergence, mobile only, and fixed only. Their combined revenues expanded by 2.3%. This was less than in Q1 only due to the fact that we had a 50% drop of roaming revenues, a direct impacts of the COVID crisis. On the other hand, their strong underlying growth accelerated, driven by better ARPO trends in mobile and in fixed broadband. This benefited from the continuous implementation of our value strategy. Please note that we have a turnaround in broadband's only revenues, as they grew this quarter for the very first time in many, many quarters, thanks to the improving ARPO. The second reason for the overall revenue dynamics was ICT, as these revenues were up by 46% year-over-year, almost by as much as in Q1. This combined the contribution of BlueSoft and an over 20% organic growth of the revenues, achieved thanks to a project pipeline developed still before the start of the pandemic. Finally, similarly as in Q1, mobile wholesale revenues benefited from higher voice traffic, driven by the pandemic. It's also worth mentioning that equipment revenues were down only 13%, as demand for devices recovered relatively quickly after the end of the lockdown.

Jacek Kunicki

Looking forward, despite the solid H1 figures, we do not expect to achieve revenue growth for the full year. It is due to three main reasons. Firstly, the B2B segments. Our H1 revenues benefited from

exceptional growth of ICT, additionally fueled by the acquisition of BlueSoft in the middle of last year. Due to the crisis, we have a weaker sales pipeline for H2. In addition, we will have a much higher comparable base, as BlueSoft was already included in our results in the second half of 2019. Furthermore, companies were shielded from the economic crisis in Q2 by the help of the government. As this will not be as much of a case in H2, they might start to optimize their big purchases, both in ICT and in telco. Second reason, secondly, this will be, we will be affected by a further contraction of roaming revenues. This has already been visible in Q2. But this will especially be visible during the summer period. And lastly, we anticipate a smaller growth of wholesale revenues, versus what we have seen in H1, as this was largely driven by the lockdown.

Jacek Kunicki

Let's switch to the EBITDA performance on slide 15. Our Q2 EBITDA after lease grew by a solid 10% year-over-year. This included a drop of the direct margin, offset by very strong, by very strong savings in indirect costs. So first, our direct margin was 56 million down year-over-year. And this was due to over PLN 40 million of additional provisions, that we have booked, which were driven predominantly by the COVID crisis. These combined an additional allowance for prospective bad debts, as well as other provisions for other future risk areas. Lower direct margin was more than offset by very strong results in indirect costs. They fell by as much as 13% year-over-year. Substantial part of this was achieved thanks to the mitigating measures discussed early on, PLN 64 million from curtailment of employee benefits, but also savings in many, many other cost areas. These came on top of the ongoing cost-transformation program realized for the third year in a row.

Jacek Kunicki

Our H1 EBITDA is up by 8% year-on-year. This strong performance was much needed, ahead of the challenges that are expected in the second half of the year. It gives us more confidence than we had, after Q1 results, in our ability to deliver the EBITDA growth for the full year of 2020. However we are aware of the potential risks in H2, including more bad debts. And we will monitor the impact of the crisis on our outlook on a continuous basis.

Jacek Kunicki

Let's now look at the bottom line, discussed on slide 16. So for Q2, we posted a 52 million net profit, which was similar to the amount posted in the second quarter of last year. This combines a strong growth of EBITDA and also a number of cost elements, that increased below the EBITDA. Firstly, continued investments resulted in higher depreciation. This was more visible than last year because 2019 benefited from the extension of certain useful asset lives, and this is not the case in 2020. Secondly, we sold less real estates, due to the COVID-driven tougher property market. This translated into around 40 million lower gains from disposals. Finally, on the positive side, our net financial costs were 24 million down year-on-year due to less interest costs and the strengthening of the Polish zloty, as it regains some of the value since the end of Q1.

Jacek Kunicki

Over to CapEx now, on page 17. Our economic CapEx in H1 exceeded PLN 800 million and was 14% below the H1 of last year. As a reminder, from this year on, we look at the CapEx taking into account both the investment spending and also the inflows from the sale of assets. We call it economic CapEx

or eCapex. The pandemic adversely affected the real estate market, as mentioned before. And in result, we anticipate less proceeds from the sale of these assets versus our original goals. In order to compensate that, we have slowed down some of our investments in areas including network, fiber and IT. In addition, we've experienced some difficulties to execute the investment projects due to lockdowns of some of our customers premises. As a result, we anticipate the eCapex for 2020 in the range of 1.7 to 1.9 billion, so in line with the original projections.

Jacek Kunicki

Turning to cash flow generation, this is visible on slide 18. Here, we generated over 400 million of organic cash flow in Q2, significantly more than a year ago. The net cash from operating activities before working capital, expanded by more than 100 million or 20%. This is very strong result. This was driven by strong growth of the EBITDA and by lower interest payments, reflecting different timing but also lower cost of debt. It was coupled with 86 million less cash outflow for CapEx. Finally, we've reported an exceptionally positive change in working capital. And here, please note that over 100 million of this resulted from a shift of social security payments from H1 to H2, which was allowed under the anti-crisis legislation, so please have that in mind when you forecast our cash flow projections for the second semester.

Jacek Kunicki

Now finally, let's take a look at the leverage on slide, on the next slide, slide 19. Our net debt is lower by 300 million since the end of the last year, reflecting our positive cash generation. Our leverage is also slightly lower with net debt, now at 2.1 times the EBITDA. You will have noticed that the duration of our debt is below two years, as we have significant loan facilities maturing in May and June of 2021. And however, here please note, that these are loans from the Orange Group, and we are already in discussions about their refinancing.

Jacek Kunicki

So summarizing, we have a solid structure of the balance sheet and a safe financing position. Thank you for your attention. I hand the floor back to Jean-François for the conclusion.

Jean-François Fallacher

Thank you, Jacek. Let me wrap up our presentation of today. Our commercial and financial performance for Q2 and the entire H1, you have seen it, proved that our fundamentals are strong. Our core business is resilient. And we have shown that we can adapt to unprecedented challenges. As I already mentioned in the beginning, however, we remain cautious concerning the second half, Jacek mentioned the reasons. You have them also enumerated on this slide. Nonetheless, taking into account the strong performance that we are posting today on the first half, and the mitigating measures that we have initiated, we have, I would say, more confidence than previously in our ability to reach our full year growth target. Obviously, we are continuing to monitor the situation on a constant basis.

Jean-François Fallacher

Now, as you know, I am leaving Orange Polska at the end of next month. I accepted the offer from the Group to take the position of the CEO of Orange Spain. I want to state here in front of you, that I was, I am very proud that I was part of the Orange Polska management team and part of this organization for

the past four years and a half. I think together we manage during this time to break a multiyear negative trends, and proved that in Poland the growth is possible. Now I am very pleased that my successor will be Julien Ducarroz. I worked with Julien very closely in Orange Romania during five years. I'm convinced that he is the right person to continue this turnaround of our company and that he is the right person to continue bringing it back to the road of growth and value creation. I will ensure a smooth transition of my responsibility to him during this summer and hand him over on September 1.

Jean-François Fallacher

Thank you very much for your attention. Once again, thank you for those of you, who joined us physically in the middle of the summer. And we are ready now for your questions.

Leszek Iwaszko

Thank you. We have questions from the floor. We start as usually, please. Paweł. Paweł first.

Paweł Puchalski

Hello, Paweł Puchalski speaking, Santander. Can you hear me?

Jean-François Fallacher

Yes, very well.

Paweł Puchalski

Well, so let's start. One of the first slides. You cancelled out. Well, you said it earlier, but now officially, you're canceling your growth for top line, but this is not enough. Well, cancelling growth is, I would like to know, whether it should be flat, because there's one thing missing. It should be said: we are expecting flat revenues or we are expecting declining revenues. You are constantly deliver, providing us with growth, flat. And suddenly it's nothing but cancelling out growth. That would be my first question.

Jean-François Fallacher

Paweł, I think what this reflects is that we have high uncertainty over the top line with a lower possibility to compensate that then on the EBITDA side. And then, what we, the main uncertainties on the top line this is, basically, first of all, roaming. Second of all, the level of revenues, that we will be able to generate from ICT. This is a much less of a recurring business than our standard telecommunication services. Continued, I would say, uncertainty over the level of sales of equipment. And that basically led us to decide to not to guide for revenues for this year. We are not anticipating tragedy, we're merely reflecting on the fact that this is less predictable than it was before, and more driven by one-offs. You will have seen that already in Q1 and Q2. Revenues were driven up significantly by ICT, they were driven down significantly by loss of equipment revenues and also roaming. And they were again driven up by more wholesale revenues. So, not wishing to be, I would say, in a position to revise or to comment this every forecast that we make, we've decided not to guide for growth and not to provide a very specific guidance. But as I'm saying, we're not forecasting some kind of a steep decrease. We are, we know this, core of our revenues are very resilient, especially Internet, has proved to be very resilient. And so those revenues that are driving our margins, they are performing very well, so far. We

expect them to continue to perform well. I think the uncertainty is rather in the lower margin revenues which might be much more volatile.

Paweł Puchalski

Okay, so coming back. Well, I've heard a lot of times repeated uncertainty, no tragedy. Well, shall I read it as: we expect decline but we don't want to say. But because we are not forced to say anything and it's better to say nothing than to say: decline?

Jean-François Fallacher

Well, Paweł, we can play on words and discuss. I think this is very clear, we just want to be cautious of what we are telling you about revenues in H2. That's all. I mean, as Jacek is rightfully saying, there is no drama, we do not expect a sharp decline, especially after what we see in the first months after COVID. However, again, in ICT, there are some question marks. In B2B, there are a few question marks. On device sales, obviously, we've lost some revenues in H1. And you know, we're still in the middle of this pandemic. So you know, some people are talking about potential, which we hope not, but future lockdown, so we just cautious. That's all.

Paweł Puchalski

Another question, on fiber in general. Firstly, well, I need to address FiberCo. It was a hot topic recently. And you've said things today, and I want to make sure. Are you looking for a partner for new projects? Because you said a moment ago, that you are looking to reduce your future CapEx or you are taking into consideration an option to invite partner to your current, I don't know, 3 billion worth of investment. So would you potentially invite a partner or sell your current fiber network, or you are just looking for a partner for future investments?

Jean-François Fallacher

So it's actually, the project is something, it's a mix between those two. So what we are aiming to, is to clearly creating a vehicle, which will, on one side, take, what we call the new build for the future. So we are looking at the upcoming five years. So that would be the role of Julien Ducarroz, the new CEO, to come back to you with a new strategic plan, probably in the beginning of next year, with this plan. So it's about, indeed, the new build. But we are also looking to put in this vehicle a piece of the existing build to make this company more attractive to financial investors clearly. So it's too early to tell you exactly how much will be these new builds in terms of number of household passed, and how much, what share of the existing footprint we would like to put in there. That's precisely what we are fine-tuning right now. And going to present to the investors actually, very soon.

Paweł Puchalski

Okay, and the final question, also on fiber. Well, for many, many quarters, you've been so proud of your fiber investments. You are today so proud of your high fiber additions. And suddenly, well, I understand you are cutting CapEx because you do, in uncertainty. But I noticed somewhere there, that you're also cutting capex on your fiber investment. So.

Jean-François Fallacher

We're not, not on fiber.

Paweł Puchalski

I found it somewhere, I think. Or maybe it's my mistake. But I think it's said somewhere there that fiber is also cut. So.

Jacek Kunicki

We are saying some of the projects were delayed, not cut.

Paweł Puchalski

Well, the wording between delayed and cut. So you're not cutting, you are delaying fiber.

Jean-François Fallacher

No, this is just to be very clear. We are not cutting our fiber investment. We are not delaying our fiber investment. There was linked to, again, this lockdown that started mid-March a bit of a slowdown. This is linked to that. That's all. Fiber is something we are preserving. I mean, especially after what we saw during these last months, where it's been very resilient, and there is even more demand than before.

Paweł Puchalski

Okay, and very, very last, I think. Well, your results are strong. I know there is uncertainty about the second half, but again, results are strong, free cash flow was strong. I know it's one-off driven, but still. Your net debt is down, your net debt to EBITDA is 2.1. It looks like quite a healthy situation, and then you are saying you are cutting CapEx. Isn't it too early to cut CapEx? I know that your real estate in 2020 will not go as smoothly, as they were expected by you. But you are cutting CapEx right after, well, four months of problems. It looks like, either you've got long term visibility and the outlook is not great, or maybe you've got your internal net debt-to-EBITDA targets, which might limit future dividends. Which of these might be correct?

Jean-François Fallacher

Yeah. So just to say again what Jacek has been saying. The reason why, first of all, we are not cutting CapEx. We are delaying some of the projects that can be delayed. Not fiber, but other projects. So it means that, you know, instead of engaging them now, we will prefer to engage them probably next year. And the reason why we do that, is because we are cautious. We want to respect our eCapEx budget basically, and we are worried that we will not sell as much as real estate, as initially anticipated. That's the only reason. There is no long term outlook reasoning in this, this is just being cautious, respecting our budget in terms of eCapEx. That's it.

Jean-François Fallacher

I mean, clearly, we believe Orange Polska is on the good path to turnaround, you've seen it. These results of the first half are confirming that. So if you look also at the country, Poland, compared to all the European country and the macroeconomics of the country in these complicated times. I mean, this is quite a positive outlook, actually, if we look further than this crisis. Because we all hope that COVID will be gone in, we don't know exactly when, but in some time from now.

Paweł Puchalski

And that's why I'm surprised you are cutting your CapEx, you are delaying your CapEx right now. Well, okay.

Jacek Kunicki

Paweł, these are very uncertain times right now.

Paweł Puchalski

Thank you very much.

Jacek Kunicki

This is just a response to those uncertainties

Dominik Niszczyński

Hello, Dominik Niszczyński from Trigon Brokerage. So just, if I may, if you could comment a bit more and so that we could understand, how flexible you are in these FiberCO projects. So, in Portugal, we had Altice extracting significant part of EBITDA at very high multiples. Which could be understood that the infrastructure fund has lower weighted average cost of capital, so it's kind of immediate value created for shareholders. So is this an option to extract meaningful part of your EBITDA, like more than 10% into FiberCo and then sell it?

Jean-François Fallacher

I mean, this is not the way we are building this FiberCo. I mean, the, I would say, the strategic rationale behind this FiberCo is clearly one, we believe there is really still room to deploy fiber on a profitable basis and creating value in Poland, further than the 4.6 and the 5 million households that we are planning to build at the end of the year. So what we're really looking, at is a way actually to share the necessary investments in a way, also, that would keep our room of maneuver, Orange Polska, for actually potential future 5G investments because, let's not forget, even if, I was explaining, this auction has been delayed for the frequencies, we hope that this auction will take place as soon as possible. And we will need to pay for spectrum, one, and second, deploy the 5G networks. We will need CapEx for that. And as well, you all know, because this is what all our investors are requiring, that at some point we should return to dividend. So this is this kind of equilibrium that we are having in mind, and this is the main strategic rationale of creating the FiberCo.

Jacek Kunicki

I think this was clearly said, I think you're right about the lower cost of capital for the infrastructure funds. But while, you know, we may benefit from this and this is one of the factors that need to be taken into account, the idea of the project, it's not to 100% take benefit of the financial engineering. It is, it has a much wider strategic rationale, as Jean-François mentioned. It is about continuing to roll out and continuing to exploit the opportunity that we see, to create really more long-term value. And I think it is important. This long-term is important in our thinking. We will be structuring this deal, this project to extract long-term benefits. It's not just for the short term, it's for the long-term benefits and value creation of Orange Polska.

Dominik Niszczyński

Okay. So when do you think we could hear more newsflow from your side on the project, like end of this year or the beginning?

Jean-François Fallacher

Sorry, the future management will always keep you posted every quarter on the progress of this project, clearly.

Dominik Niszczyński

Okay, and the second question. Thank you for this. Maybe if you could comment on the fiber in general, because we had this very good quarter, really in ARPO. So do you think this was kind of one-off COVID effects or do you see this as a new trend on the Polish market, that's this high-speed Internet is gaining?

Jean-François Fallacher

I think it's both. To me, it's quite obvious. I mean, probably most of you have been locked down with your families in your apartment or in your house with yourself working remote, probably your wife as well, the kids doing remote learning. So, basically, more than ever, it is key and important to have a very good internet connection at home. So, what we have seen is that fiber but actually, more generally, as you saw it, fixed broadband was very resilient, because people really badly needed it. So that is the one-off effects that you are describing, but it will stay. Because there is still the fear of the potential second lockdown. And there are still a lot of people still working from home. I mean, if we look at Orange Polska, we have still a lot of employees working remote, not everybody came back full-time to the offices, as you can imagine. So this need is still there for a time, that we're not capable to say, how many months this will last now. But I think it's really going to be deeply rooted in the mind of the consumers that the fixed Internet broadband at home is important. So this crisis has a positive side for us that it's really reinforcing the need of, and fiber is king in the fixed broadband obviously. Is the king or the queen, whatever you prefer.

Dominik Niszczyński

So, in the retail business, you think, this pace of client additions could be maintained for the second half?

Jean-François Fallacher

That we will see.

Dominik Niszczyński

Okay, and the final one, if we could address the mobile business, the mobile market, we saw Play adding extra promotion for mobile number portability clients. So could you comment on how is the situation here, and if you will see in the second half of the year still this ARPO effect from previous year's price hikes?

Jean-François Fallacher

So yes, we believe, we will see this effect from previous price hikes because, as you know, I mean, we have been doing it in such a way that it's not the immediate effect on all the base, but it's through a

retention and acquisition that these price hikes are taking effects. So the more time is going on, the more this effect is actually, these effects are actually benefiting us. That's one. Concerning mobile, it's quite interesting what happened. I mean, there was a complete freeze of the mobile network portability during this lockdown period. So because half of our retail network, not only ours, but our competitors' was closed, people had something else in mind than switching providers. So churn was almost zero during this month and a half lockdown. Now we are back to normal. What we can see on the mobile network portability is that everybody is, first of all, it's quite a reasonable number of people that are porting between different operators, even if it's back to normal. So, I will not comment what our competitors moves are on this, but what we see happening on the market is still, I would say, very reasonable and value-driven moves from, I would say, the main key competitor.

Dominik Niszc

Okay, thank you.

Leszek Iwaszko

Thank you very much. Let's now switch to our teleconference listeners. Operator, please.

Operator

Thank you very much. We will be now moving to the Q&A part of the call. If you have a question, please press star two on your keypad. That star two on your keypad for any questions and wait for your name to be called. We'll give a minute or so for the questions to come in.

Operator

Thank you. Our first question comes from Mr. Marcin Nowak from IPOPEMA. Please go ahead, sir.

Marcin Nowak

Good morning. Thanks for the presentation. There are just two questions from my side. I would like to clarify, because it was said that, it is considered the part of the existing fiber network may be moved to the FiberCo. Could you comment how large part of existing network and what would be the possible decision, parameters for such a decision? Or what are the restrictions for not moving part of the network to the FiberCo?

Jacek Kunicki

Thank you for the question. So, as we mentioned, we are quite early on in the process. And to be honest, we're fine-tuning the answers to your question as we speak. So, I will not be able to elaborate on that extensively. What we can say is we are not ruling out to put some of the existing network into this vehicle. Well regarding the parameters this would obviously be long-term consideration of which potentially part of the network moving, which parts of the network could give us the good benefits. Obviously, fiber is critical for us, fiber is a strategic asset. That's all we can say right now, we are considering to move parts of the existing footprint, this part which will create the most value for us in the long term.

Marcin Nowak

Sure. And regarding the monetization model, do you plan for the FiberCo to work as a wholesale operator for all operators in Poland or only for Orange Polska purposes?

Jacek Kunicki

Now, I think realistically, we're saying that, you know, we want to extract value, this would need to be value extracted through an open network, open access network. This is pretty the only model which enables you to extract reasonable value.

Marcin Nowak

Okay. And second item, I just saw that on the Orange France call the CEO of Orange said that share of Huawei in Europe, that it will shrink, and that the decision regarding Huawei presence in 5G in Poland and (?) is yet to be decided. Could you comment on your plans regarding possible decrease of, resignation from use of Huawei in 5G in Poland maybe even in 4G. And what would be the possible cost for it, because I also remember that just this week you also said that cost for Poland and in general of a resignation from Huawei will be quite large. What are your thoughts about it?

Jean-François Fallacher

So first of all, the question of Huawei, the risk concerning Huawei is obviously, and what you see happening in many geographies, is the question of Huawei is an equipment supplier for 5G. So, what we are clearly stated, and I was recently having an interview in the Polish press and I reiterated the fact that obviously you're limiting the number of suppliers in this field. Whatever the reason this would be for, would limit the competition and therefore might have implication on the future prices of 5G equipment, and therefore our capacity to roll out as fast as it could the 5G network. For that's I believe, still valid. While at this stage, I think we are analyzing different scenarios. But it's much too early to have any statement concerning this matter as regards Poland. Because we are, as you know, first of all waiting for the nomination of the new regulator. His name has been published by the press recently. So he must still be nominated. Then, together with the government, they will add some, let's say security considerations in the future of 5G frequency tender, which are, as we speak, in discussion. So, at this stage, it's too early to have a very firm, let's say, standpoint on this matter, concerning Poland and therefore concerning Orange Poland. On the other side, we also, I'm also reiterating what I'm saying to the press, that we are a citizen of Poland and we will obviously comply to any rules or regulation that would be decided by the Polish authorities. That's, that's very clear.

Marcin Nowak

Thank you.

Operator

Thank you very much. So, just once again, start two for questions, please press star two if you have a question.

Leszek Iwaszko

Let me maybe now follow up with the questions that I received online from Konrad Książopolski from Haitong. There are four questions. First question, if EU or Poland force telecoms to switch from Huawei

network equipment on already installed 3G or 4G, what would be the cost for Orange Polska. This is the first question. Maybe I will go, we'll go one by one.

Jean-François Fallacher

At this moment in time, there are no such questions or discussions in Poland. The impact of that, not only on Orange Polska, on the sector, would obviously, if such discussion would take place, be major, and that would have a major impact on obviously the capacity of all the operators in this country to deploy 5G. So again, this is not what is, I think the potential risk is around 5G.

Leszek Iwaszko

The second question is again on FiberCo. So just to clarify OPL plans, the plan is not to cash out on fiber, but to invite business partner to finance further fiber outlook, so that OPL future FTTH CapEx would be lower. An idea to invite business partner to FiberCo means that you consider speeding up or rolling out more than you expected a year ago.

Jean-François Fallacher

So the question is not to speed up, but the question is rather to find the right equation, which I believe we can, to continue rolling out indeed.

Leszek Iwaszko

The third question is, do you expect any speed-up in real estate sales in the next quarters. Current situation on real estate market apparently shows some revival.

Jean-François Fallacher

So, we do not unfortunately expect to speed up but rather, as you say, revival. And we see this also happening, so we have restarted, we have slowly restarted discussions. So we hope the market will basically recover and that we will be able to start selling again. Just back-to-school period.

Leszek Iwaszko

The final question is, do you expect receivables impairment to maintain, to be maintained at around 50 million level in the coming quarters?

Jacek Kunicki

Well, I think what we, how we stand versus the accounts receivable. First of all, the payment pattern that we have observed in Quarter 2 was nothing out of the ordinary. Our customers continue to pay, continue to pay on time, and the aging of receivables did not deteriorate versus the historical patterns. So from the, I would say lag indicators, we do not see anything bad happening to the quality of our bad debt, to the quality of our accounts receivable. Having said that, what we did provide for was the prospective of future risk. This is something which all companies must assess. And we have made simulations as to, what could be the future risk on our accounts receivable, taking into account the consensus for the macroeconomic impacts of the COVID. Hence, the provisions that we took, the over 40 million which I mentioned, this was not just bad debt allowance. This was bad debt allowance as well as some cost provisions for other areas, or commitments that we might not meet or it looks like we will not meet due to the slowdown of activity, linked with the crisis. This is one of the most volatile areas

and one of the areas which carries the most uncertainty for the future. So, obviously, we will continue to monitor every quarter both, the quality of the accounts receivable that we observe every single month, and also the prospects. So, the prospective approach for risk and we will reflect that in the provisions. So, that's what we can say right now, we will need to observe more data, both our own data as well as the macroeconomic outlook, how that will change in time.

Leszek Iwaszko

We have one more question from teleconference.

Operator

Yes, please. Our next question comes from Ms. Dilya Ibragimova from Citi. Please go ahead, ma'am. Your line is open.

Dilya Ibragimova

Hi, thanks very much for the opportunity and congratulations on a good set of results. And just a quick follow-up on FiberCo. And just maybe, if you could share your thoughts, I know a lot of questions have been asked, on your approach to what include. I think you did mention earlier this year or in today that you're now considering including some of the existing footprint into the FiberCo and in addition to the new rollout. Could you maybe give a bit of color, what, why you have reconsidered what to put or you're thinking of potentially changing or adding existing footprint into the FiberCo. Is it driven by the appetite demand from investors or you're thinking that it will make the package overall more interesting to an investor.

Jean-François Fallacher

Thank you very much, first of all, for your congratulations. And then just, clearly, I mean, the reason why we are considering to put a bit of the existing footprint is, indeed what you were just quoting, is to make the package more interesting for investors because we would like this vehicle to start actually operating with some, let's say, existing revenues and EBITDA in order to make it more attractive, not only for the investor but also for the potential financing banks. So that's the reason behind that.

Dilya Ibragimova

And then, in the, just looking at, if you could give a bit more color on what, how you thinking about how much of the existing footprint to add into the package. What would be from your side, key considerations? Is it the location or whether or not the fiber has been taken up. And yeah, if any, any color.

Jean-François Fallacher

At this stage they will be premature. This is precisely what we are discussing with our counsel at this moment and fine-tuning. So that, that's premature.

Dilya Ibragimova

Okay. That's very clear. Thanks very much.

Jean-François Fallacher

You're welcome.

Operator

Thank you very much. We have a follow-up question from Marcin Nowak from IPOPEMA. Please go ahead, sir.

Marcin Nowak

Yeah, sure. Just one more follow-up. Because a lot of was said about this FiberCo project and your plans. And I just want to ask a question regards, if it turns out that after the careful deliberation about the potential benefits from value creation from FiberCo, it turns out that the more value will be created if you leave the network on your own balance sheet, will you prefer, will you decide, you know, just not to create a FiberCo and not to invite an investor to it? Or the promise of the return to the dividend at some point will be, you know, more, will weigh more in the decision process?

Jean-François Fallacher

I mean, if we, to be very precise and very clear, if we are working very seriously and we, believe me, we engage a lot of efforts and energy into creating this FiberCo, is that we want to do it. So, we do not want to continue rolling out on our balance sheet. I mean, else we would not speak about that, we would not actively do all this work, all this preparatory work. So, now, we are beyond this point. I mean, we really want to pursue this direction.

Jacek Kunicki

And obviously we're convinced that creation of this will create value for us in the long term, because this will mean that there is further rollouts. There is further rollout for a number of years. And it means that we have more opportunity to reap the benefits both of the retail and wholesale sides from this further rollout. So I think we were quite convinced today that there are significant future benefits from continuing this project, and continuing rollout in such a way.

Marcin Nowak

Yes, sure, sure. But you said that, it seems that the most, this nimble model for extracting value in the long term will be the wholesale operator. And the wholesale, it will mean that you will simply invite all of your competitors, who currently have not such a large exposure on the fixed broadband market to be, to this project. And I'm just wondering if you know this part of the equation is also considered in it.

Jean-François Fallacher

This is absolutely considered as Jacek was saying. Clearly this vehicle will be an open access vehicle. Like some of the fiber in Poland is already today, because the fiber we are deploying under POPC is under an open-access regime. So, some other operators, which are having fiber in Poland, are opening their fiber. So, this is definitely something that we have more than taking in consideration in the, I would say, the models and the equation of this FiberCo clearly. I'll remind that basically, T-Mobile is already having access to a big chunk of our fiber infrastructure. And I remind that all other operators went into this convergent field, so, with different types of agreements, I mean obviously, you will remember that our competitor Polkomtel bought Netia to be a convergent operator and Play made a deal with a cable operator. So, we are not fearing this, on the contrary. I mean this is something we are quite confident

with, we are not fearing competition. On the contrary, we believe that this is quite interesting to see that all our competitors are coming to the field, we have chosen to the battlefield that we have chosen. So, clearly this is something we have in mind, and we have taken obviously in account before we took this decision to go in the FiberCo direction.

Marcin Nowak

Sure, just one more thing. It seems that you are convinced that you will proceed with this project but you still haven't talked with investors, possible investors in (?). And what if it turns out that the financing parameters are not attractive enough, you know. Would it make you cancel the project entirely at that point?

Jacek Kunicki

I think, you know, we're at a very early start of the process. And as you have mentioned, we haven't gone through the speaking with the investor. So I think these are the very good questions, and I'm sure we will be in a better position to answer those in a quarter time. But they're not the kind of questions that I can answer today. Clearly, what we are saying is that we believe that there is a value, there's a long-term value. This is a project which has an aim to create this long-term value. You know, we're not a distressed company. So this is not about lowering the leverage, this is about creating long-term value for the company. And really we are in the early stage of this project. So, we will inform you whenever we have meaningful progress in it, and we're equipped with more information, more discussions, so that we can share this information with you. But not yet today, this is quite early we are discussing about the ideas, we are discussing about our goals. And you need to let us work on developing this project further.

Marcin Nowak

Okay. Thank you.

Leszek Iwaszko

And I think we have the last question that was asked online from the investor. The question is about roaming, How does roaming impact, what is the impact of roaming on revenues and profitability, resulting from the pandemic?

Jacek Kunicki

So, I think we've lost about 50% of roaming revenues. The impact of this on Quarter 2 was not yet hugely significant because this is not a quarter which is peak season. So I would say small tens of millions in terms of revenues and dozens of million in terms of the EBITDA. The main risk for the roaming, the main impacts that we do envisage, this is Quarter 3, which is a holiday period, and we will need to see how many visitors we do have into Poland, which generates business roaming and then, how many Poles will go abroad, so that we will have extra roaming revenues and costs from this. We do expect this sharp contraction year-on-year to stay in place in Quarter 3. And hence, the impact in absolute terms that I would expect for Q3 would be more than we observed in Q2.

Leszek Iwaszko

I think we have no further questions. So I think we can conclude today's presentation. Thank you very much for coming. Thank you very much for listening to us. If you have any follow-up questions, you know how to reach us. So, again, thanks and see you back in October. Thank you