



# Orange Polska 2Q'2020 results

30 July 2020

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## Forward looking statement

This presentation contains 'forward-looking statements' including, but not limited to, statements regarding anticipated future events and financial performance with respect to our operations. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words like 'believe', 'expect', 'anticipate', 'estimated', 'project', 'plan', 'pro forma', and 'intend' or future or conditional verbs such as 'will', 'would', or 'may'. Factors that could cause actual results to differ materially from expected results include, but are not limited to, those set forth in our Registration Statement, as filed with the Polish securities and exchange commission, the competitive environment in which we operate, changes in general economic conditions and changes in the Polish, American and/or global financial and/or capital markets. Forward-looking statements represent management's views as of the date they are made, and we assume no obligation to update any forward-looking statements for actual events occurring after that date. You are cautioned not to place undue reliance on our forward-looking statements.

# Reconciliation of operating performance measure to financial statements

Disclosures on performance measures, including information on data restatements for the year 2019 in connection with changes in accounting policies, have been presented in the Notes 2 and 3 to Condensed IFRS Interim Consolidated Financial Statements of the Orange Polska Group for the 6 months ended 30 June 2020 (available at <http://orange-ir.pl/results-center/results/2020>).

<i>in PLNm</i>	2Q 2020	2Q 2019	1H 2020	1H 2019
<b>Operating income</b>	<b>109</b>	<b>139</b>	<b>197</b>	<b>213</b>
Less gains on disposal of assets	-5	-44	-15	-48
Add-back of depreciation, amortisation and impairment of property, plant and equipment and intangible assets	636	575	1,244	1,158
Interest expense on lease liabilities	-16	-17	-32	-33
Adjustment for the impact of employment termination programs	-	6	-	4
Adjustment for the costs related to acquisition and integration of new subsidiaries	4	3	7	3
<b>EBITDAaL (EBITDA after Leases)</b>	<b>728</b>	<b>662</b>	<b>1,401</b>	<b>1,297</b>

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# Highlights

**Jean-François Fallacher**  
**Chief Executive Officer**

## Good 1H results helped by our mitigating measures: full-year EBITDAaL growth guidance maintained despite 2H uncertainty

	2020 guidance/ outlook	1H 2020	
<b>Revenue</b>	growth	PLN 5.63bn +1.7% yoy	<ul style="list-style-type: none"><li>• Resilient performance of our core services</li><li>• Continuation of strong growth in IT/IS</li><li>• Wholesale reflects surge in mobile voice traffic during pandemic</li></ul>
<b>EBITDAaL</b>	growth	PLN 1.40bn +8.0% yoy	<ul style="list-style-type: none"><li>• Underlying EBITDAaL turnaround supported by significant impact of mitigating measures</li></ul>
<b>eCAPEX</b>	PLN 1.7-1.9bn	PLN 819m -14% yoy	<ul style="list-style-type: none"><li>• Slowdown of investments to offset potentially low proceeds from sale of assets in 2H</li><li>• Full-year outlook confirmed</li></ul>

# 2Q proved our relative resilience to the pandemic; cautious outlook for 2H due to economic downturn



## Limited impact of the pandemic on 2Q performance:



### Key impact on commercial results:

- customer traffic gradually recovering to pre-pandemic level
- high demand for fixed broadband maintained
- mobile sales affected by lockdown: recovering in B2C not yet in B2B
- much lower new pre-paid card activations
- demand for smartphones gradually rebounding helped by our commercial actions



### Key impact on financial results:

- much lower roaming affected mobile revenues and ARPO
- lower equipment revenues
- increased provisioning for bad debts and certain contractual obligations
- significantly helped by mitigating measures
- low real estate disposals



### Key areas of uncertainty in 2H:

- impact of the economic downturn (bad debts, real estate sales )
- performance in B2B, in particular ICT
- further impact of lower revenues from roaming

# Mitigating measures significantly contributed to financial performance in 2Q

- Operating costs
  - Curtailment of jubilee awards scheme resulted in provision reversal in 2Q; less cash outflows in the years to come
  - Rate of basic salary increase in 2020 reduced from 3.5% to 1.0% against freeze of further dismissals in 2020
  - Implementation of rigorous cost freeze in all non-essential business areas
  - Successful renegotiations of certain contracts (e.g. rents)
- Adjustment of capex projects portfolio in the light of tougher real estate market
  - Lower fibre rollout preparation capex
  - Some IT projects postponed
  - Real estate sale preparation projects scaled down



# Delay in C-band spectrum allocation. 5G launched on 2.1GHz in high end tariff plans

## C-band auction cancelled

- as of today limited visibility on the launch of the new process; finalisation of the spectrum distribution most likely in 1H21
- new head of telco regulations office (UKE) in the process of nomination



5G launched on 2.1GHz spectrum in DSS technology in July

- Coverage : ~6m population mainly in the biggest cities
- 5G option available in the high-end tariffs only
- 12 smartphones available



1600 sites



40 cities and 330 smaller towns



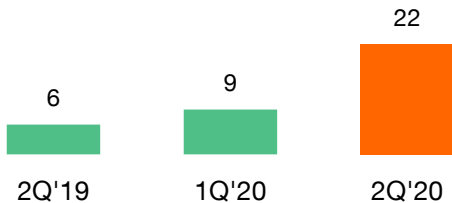
## #hello5G

B2C MV post-paid	Plan Mobilny 35 <b>35 pln</b> 3 GB	Plan Mobilny 45 <b>45 pln</b> 7 GB	Plan Mobilny 55 <b>55 pln</b> 15 GB	Plan Mobilny 75 <b>5G</b> <b>75 pln</b> 70 GB
<b>Convergence Love</b> 	Orange Love Mini <b>79 pln</b> 10 GB	Orange Love Standard <b>109 pln</b> 10 GB	Orange Love Extra <b>5G</b> <b>149 pln</b> 20 GB	Orange Love Premium <b>5G</b> <b>219 pln</b> 40 GB
<b>B2B</b> 	Firmowy S <b>45 pln</b> 20 GB	Firmowy M <b>60 pln</b> 30 GB	Firmowy L <b>5G</b> <b>75 pln</b> 70 GB	Firmowy XL <b>5G</b> <b>100 pln</b> 150 GB

# Robust performance of fixed broadband in 2Q fuelled by yet another strong quarter for fibre

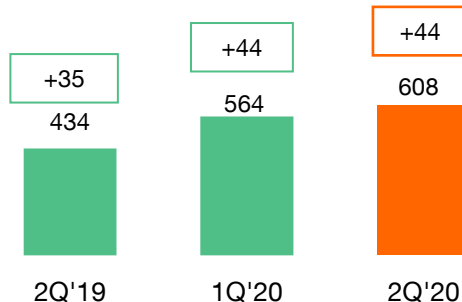
Improving total FBB net additions driven by resilient sales and low churn

(in k)



Fibre customer base up 40% yoy (the 2nd best quarter ever repeated)

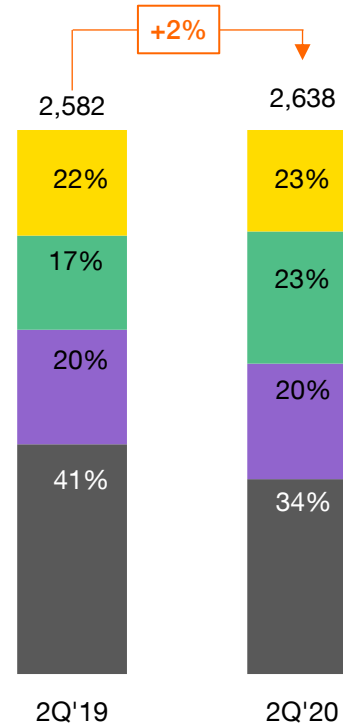
(in k)



net adds in k (retail only)

VHBB (fibre+VDSL): 43% of total broadband customer base

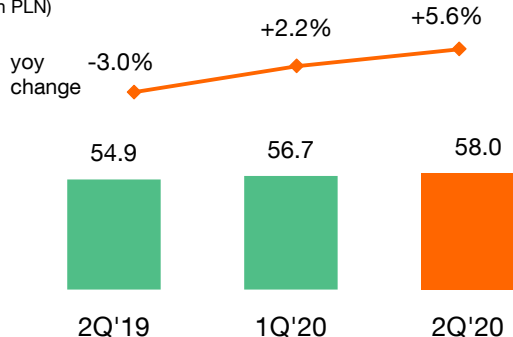
(in k)



Wireless for fixed Fibre  
VDSL ADSL

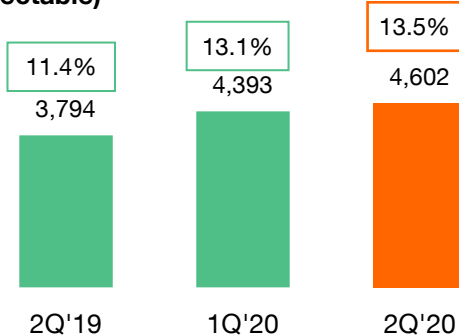
Turnaround in FBB mono ARPO trend driven by our value strategy

(in PLN)



No material disruptions in the fibre network rollout in 2Q (209k new households connectable)

(in k)

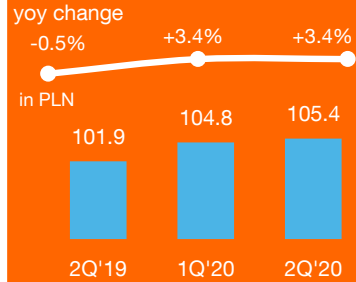


adoption rate % (retail + wholesale)

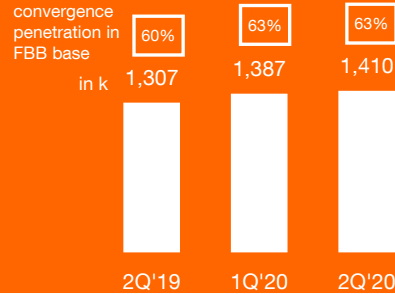
# Value creation visible through resilient commercial performance and strong cost optimisation

COMMERCIAL

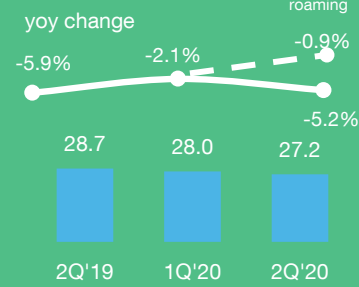
## Growing convergence ARPO



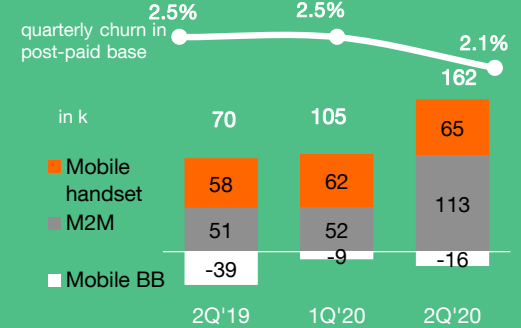
## Growing B2C convergent customers



## Mobile handset ARPO trend affected by roaming

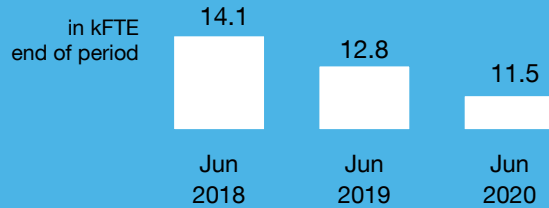


## Strong mobile post-paid net adds



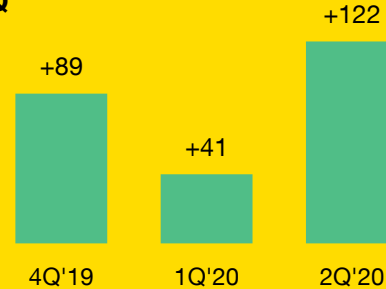
TRANSFORMATION

## Simplification and automation drive employment evolution



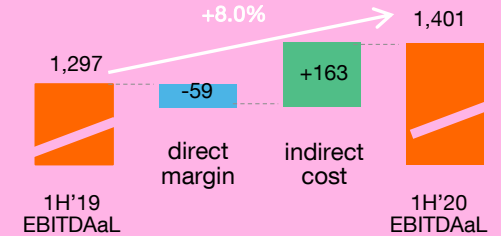
## Exceptionally strong reduction in indirect costs in 2Q

yoy change in PLNm



## Strong EBITDAaL growth

yoy change in PLNm



# Financial review

**Jacek Kunicki**  
**Chief Financial Officer**

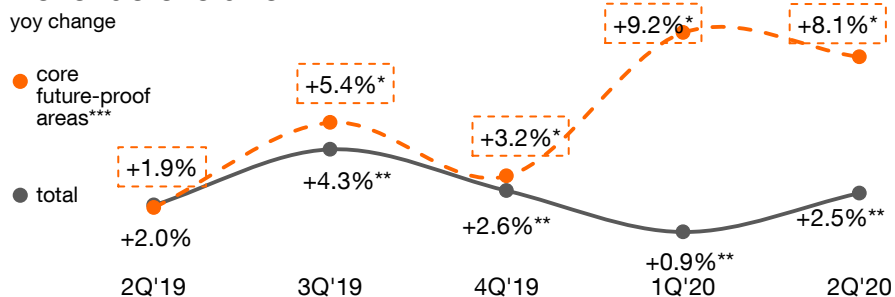
## 2Q'20 financial results key highlights

in PLNm	1H'20	yoy	2Q'20	yoy	key points
revenues	5,632	+1.7%	2,828	+2.5%	<ul style="list-style-type: none"> <li>+8% yoy growth of core revenues driven by resilient telco services and another strong quarter for IT/IS</li> </ul>
EBITDAaL	1,401	+8.0%	728	+10.0%	<ul style="list-style-type: none"> <li>Direct margin trend affected by higher provisions linked to COVID-19</li> <li>Indirect costs benefitted from further optimisation and mitigating measures</li> </ul>
% of revenues	24.9%	+1.5 pp	25.7%	+1.7pp	
eCAPEX	819	-13.6%	476	-4.2%	<ul style="list-style-type: none"> <li>Reflects slowdown of investments to offset potentially low proceeds from sale of assets</li> </ul>
% of revenues	14.5%	-2.6 pp	16.8%	-1.2 pp	
organic cash flow	360	+376m	438	+355m	<ul style="list-style-type: none"> <li>Reflects strong EBITDAaL growth and c.PLN 120m shift in payments to 2H</li> </ul>

# Revenue growth thanks to resilience of core telecom services, strong IT/IS and surge in mobile voice wholesale traffic

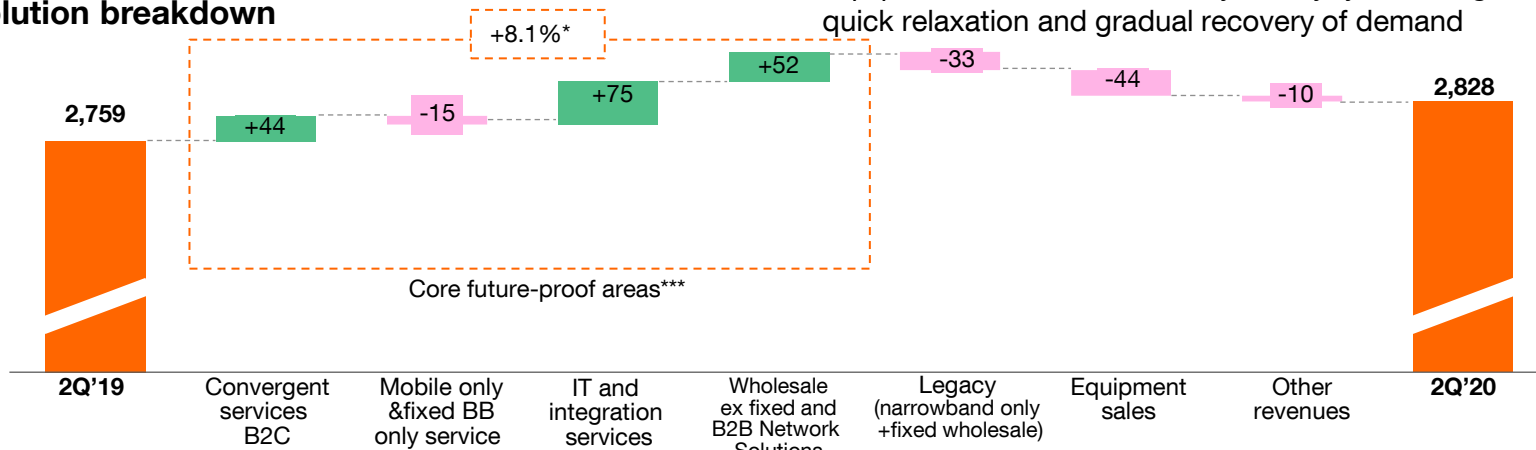
## Revenue evolution

yoy change



## Revenue evolution breakdown

in PLNm



- Mobile only revenue trend affected by c.50% yoy lower roaming revenues; roaming and pre-paid to affect 2H
- First ever growth (+0.5% yoy) of fixed broadband only revenues driven by strong ARPO performance (+5.6% yoy)
- +46% yoy growth of IT/IS combines robust 22% organic growth and consolidation of BlueSoft (PLN 39m); uncertain project pipeline for 2H
- Surge of traffic boosting mobile wholesale revenue (+13% yoy)
- Equipment revenues down only 13% yoy reflecting relatively quick relaxation and gradual recovery of demand

\* core future-proof areas: ex. BlueSoft: +3.0% yoy for 3Q'19, +1.3% yoy for 4Q'19, +7.2% yoy in 1Q'20 and +6.1% in 2Q'20

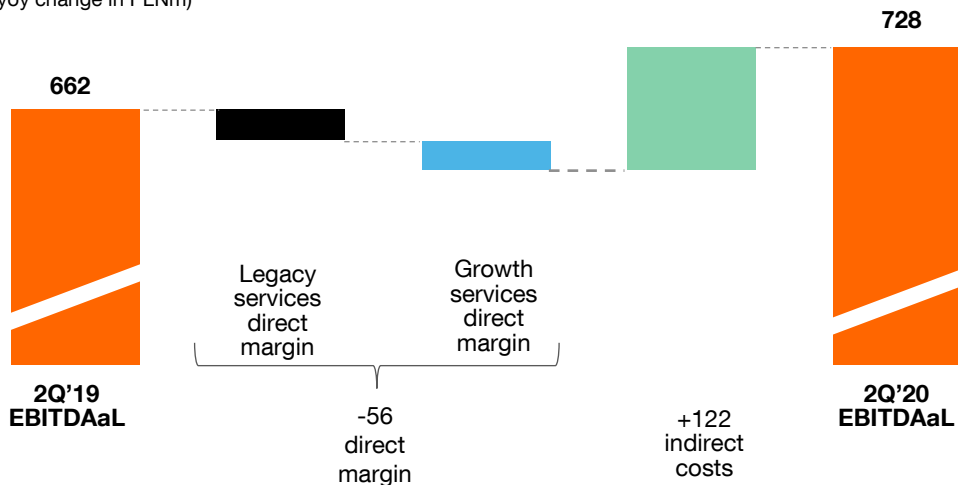
\*\* total revenues: ex. BlueSoft : +2.5% yoy for 3Q'19, +1.3% yoy for 4Q'19, -0.4% in 1Q'20 and +1.1% in 2Q'20

\*\*\* areas core to future margin generation

# 2Q EBITDAaL +10% yoy reflecting underlying turnaround supported by significant impact of mitigating measures

## EBITDAaL evolution

(yoy change in PLNm)



### Direct margin affected by the pandemic:

- Reflects strong performance on core service revenues and IT/IS
- Affected by pandemic related provisioning for bad debts and certain contractual obligations

### Indirect costs supported by mitigating measures:

- Labour costs reflect headcount optimisation in line with the new Social Plan and PLN 64m of reversal of provisions for jubilee awards
- Rigorous cost freeze including significant savings in advertising & promotion and general expenses
- IT&Network costs reflect growth of energy costs (higher unit price)

### employment down

**9.6% yoy**

(in kFTE end of period)

12.8

2Q'19

11.5

2Q'20

## 2Q flat bottom line reflects higher depreciation, lower gains on asset disposals and lower financial costs

in PLNm	1H'20	1H'19	Change	2Q'20	2Q'19	Change
<b>EBITDAaL</b>	<b>1,401</b>	<b>1,297</b>	<b>+104</b>	<b>728</b>	<b>662</b>	<b>+66</b>
D&A of PPE and intangible assets	-1,244	-1,158	-86	-636	-575	-61
add-back interest expense on lease liabilities	32	33	-1	16	17	-1
adjustments	-7	-7	-	-4	-9	+5
gains on disposal of assets	15	48	-33	5	44	-39
<b>operating income</b>	<b>197</b>	<b>213</b>	<b>-16</b>	<b>109</b>	<b>139</b>	<b>-30</b>
net financial costs	-181	-153	-28	-49	-73	+24
income tax	-2	-13	+11	-8	-14	+6
<b>net income</b>	<b>14</b>	<b>47</b>	<b>-33</b>	<b>52</b>	<b>52</b>	<b>-</b>



# 1H eCapex reflects slowdown of investments to offset potentially low proceeds from sale of assets in 2H

## Investment areas

(in PLNm)

### Capex

■ Mobile Network

■ FTTH program (incl. CPE)

■ Other network (optical, convergent, core)

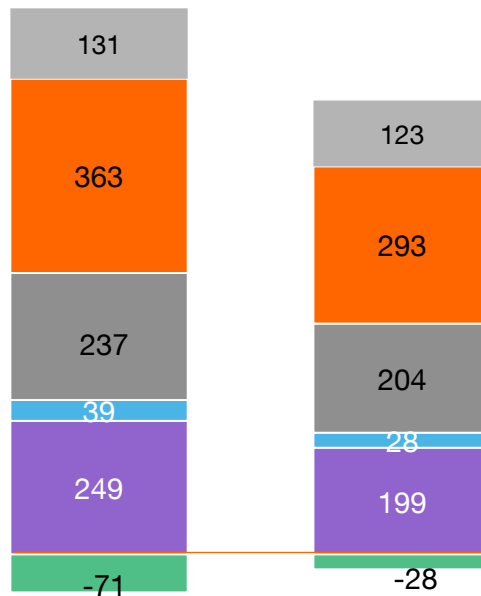
■ Customer Premise Equipment (CPE excl. FTTH)

■ IT Systems and Infrastructure and others

■ Proceeds from assets disposal

1,019

847



**eCapex**

948

819

1H 2019

1H 2020

- Fibre capex down 19% yoy reflecting:
  - Lower investments in backbone for future network rollout
  - Lower CPE capex due to lower sale of TV and disruptions in supply chain caused by the pandemic
  - Focus on POPC project
- Lower other network capex mainly due to disruptions caused by the pandemic among business customers (closure of facilities)
- Lower IT & infrastructure capex reflects slowdown and completion of certain transformation projects

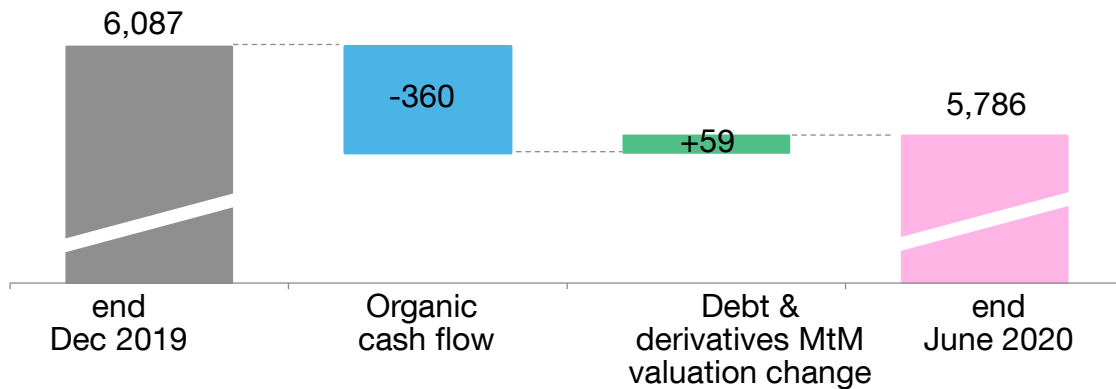
## Cash flow in 2Q reflects strong EBITDAaL growth and shift of some PLN 120m of payments to 2H (visible in working capital)

in PLNm	1H'20	1H'19	Change	2Q'20	2Q'19	Change
Net cash flow from operating activities before change in working capital	1,406	1,244	+162	695	591	+104
Change in working capital	192	-4	+196	287	97	+190
<b>Net cash flow from operating activities</b>	<b>1,598</b>	<b>1,240</b>	<b>+358</b>	<b>982</b>	<b>688</b>	<b>+294</b>
CAPEX	-847	-1,019	+172	-489	-556	+67
Change in CAPEX payables*	-217	-185	-32	35	16	+19
Cash proceeds from sale of assets	30	133	-103	15	30	-15
Repayment of lease liabilities	-204	-188	-16	-105	-98	-7
Adjustment for payment for costs related to acquisition and integration of new subsidiaries	-	3	-3	-	3	-3
<b>Organic cash flow</b>	<b>360</b>	<b>-16</b>	<b>+376</b>	<b>438</b>	<b>83</b>	<b>+355</b>

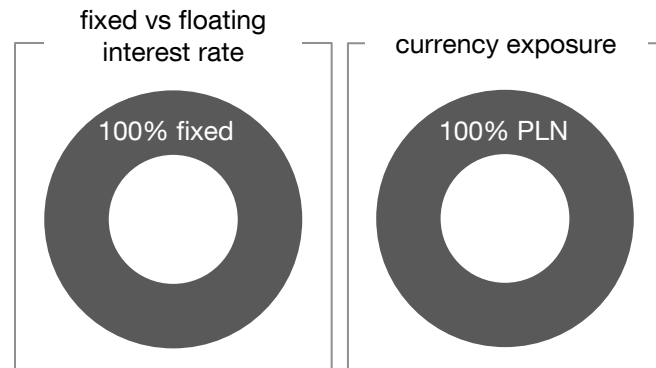
\* including exchange rate effect on derivatives economically hedging capital expenditures, net

# Net debt lower by PLN 300 million

## net debt evolution in PLNm



## Debt after hedging breakdown



1.9 years – debt average duration

2.2x	net debt to EBITDAaL	2.1x
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3.1%	effective interest rate on debt	3.1%
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# Conclusions

**Jean-François Fallacher**  
**Chief Executive Officer**

# 1H results prove resilience of our business and ability to adapt. Full-year plans confirmed despite cautious outlook for 2H

- Strong commercial and financial results in 2Q
  - Monetisation of more for more strategy coupled with ongoing cost transformation
  - Illustration of strength of OPL fundamentals and ability to adapt to unprecedented challenges
- Cautious outlook for 2H:
  - Poland's economy in contraction...
  - ... causing uncertainty mainly for the business market (ICT, demand for telecom services, risk of bad debts)
  - Lower roaming will further affect revenues
  - Uncertain prospects for real estate disposals
- Taking into account strong performance in 1H and launch of mitigating measures, **we maintain our 2020 EBITDAaL growth guidance.** However we continue to closely monitor the situation
- Julien Ducarroz to replace Jean-François Fallacher as CEO on 1st September

# Q&A

## Glossary (1/2)

4G	fourth generation of mobile technology, sometimes called LTE (Long Term Evolution)
ARPO	Average Revenue per Offer
data user	a customer who used mobile data transmission in a given month
Convergent services	Revenues from B2C convergent offers (excluding equipment sales). A convergent offer is defined as an offer combining at least a broadband access (xDSL, FTTx, cable or wireless for fixed) and a mobile voice contract (excluding MVNOs) with a financial benefit. Convergent services revenues do not include incoming and visitor roaming revenues
Core future-proof areas	Areas core to future margin generation consisting of: convergent services B2C, mobile only, fixed BB only, IT and integration services, B2B network solutions, wholesale revenues excluding fixed wholesale
EBITDA	Operating income + depreciation and amortization + impairment of goodwill + impairment of non-current assets
EBITDAaL	EBITDA after leases
FBB	Fixed Broadband
Fibre	fixed broadband access network based on FTTH(Fibre To The Home ) /DLA (Drop Line Agnostic) technology which provides the end user with speed of above 100Mbps
Fibre access network project	rollout of fixed broadband access network based on fibre technology which provides the end user with speed of above 100Mbps
Fixed broadband-only services	Revenues from fixed broadband offers (excluding B2C convergent offers and equipment sales) including TV and VoIP services
FTE	Full time equivalent

## Glossary (2/2)

Growth services	Convergent services, mobile retail and wholesale, fixed broadband, IT and integration services, equipment and B2B network solutions and adjacent services
Households (HH) connectable in fibre technology	Households where broadband access service based on fibre technology can be rendered
IT/IS	IT and Integration Services
LTE	Long Term Evolution, standard of data transmission on mobile networks (4G)
LTE user	a customer who used LTE service at least once in a given month
M2M	Machine to Machine, telemetry
VoIP	Voice over Internet Protocol
Mobile-only services	Revenue from mobile offers (excluding consumer market convergent offers) and Machine to Machine (M2M) connectivity. Mobile only services revenue does not include equipment sales, incoming and visitor roaming revenue
Wireless for fixed	fixed broadband cell-locked wireless access offered by Orange Poland for home/office zone with rich data packages
Organic Cash Flow	Organic Cash Flow = Net cash provided by Operating Activities – (CAPEX + CAPEX payables) + proceeds from sale of assets
SIMO	mobile SIM only offers without devices
VDSL	Very-high-bit-rate Digital Subscriber Line
VHBB	Very high speed broadband above 30Mbps