FINAL

Q1 2020 Earnings Call

Company Participants

- Alioune Ndiaye, Senior Executive Vice President of Middle East & Africa
- Fabienne Dulac, Deputy Chief Executive Officer and Chief Executive Officer of Orange France
- Helmut Reisinger, Senior Executive Vice President of Orange Business Services
- Laurent Paillassot, Senior Executive Vice President of Spain
- Paul de Leusse, Deputy Chief Executive Officer for Mobile Financial Services
- Ramon Fernandez, Delegate Chief Executive Officer of Finance, Performance & Europe
- Stephane Richard, Chairman and Chief Executive Officer

Other Participants

- Akhil Dattani, Analyst
- Andrew Lee, Analyst
- Frederic Boulan, Analyst
- Giovanni Montalti, Analyst
- Jakob Bluestone, Analyst
- Mathieu Robilliard, Analyst
- Nicolas Cote-Colisson, Analyst
- Roshan Ranjit, Analyst
- Samuel McHugh, Analyst
- Stephane Beyazian, Analyst

Bloomberg Transcript

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Orange's First Quarter 2020 Results Conference Call. The call will be hosted by Mr. Stephane Richard, Chairman and CEO; and Mr. Ramon Fernandez, Deputy CEO, Finance, Performance and Europe, with other members of the Orange's Executive Committee for the Q&A session that will start after the presentation. Thank you.

And let me hand over to Mr. Stephane Richard. Please go ahead, sir.

Stephane Richard {BIO 14012413 <GO>}

Good morning, everyone, and welcome to this presentation of our Q1 2020 results. I expect that you will certainly have some questions about the events that we are living

FINAL

Bloomberg Transcript

through, but I will first present the main highlights of this Q1, then, of course, ask Ramon to go through the business review in details.

And I suggest we start with Slide number 4, which presents the key highlights of this quarter. So the first thing that I want to emphasize is that for this Q1 '20, we have revenue and EBITDAaL growing, and this despite two weeks of lockdown impact. So this is, I think, a very interesting, important and positive news in the current situation.

Middle East and Africa is clearly still a solid engine of revenue growth. But in the same time, France, Europe and Enterprise are growing slightly at different paces but are growing. We have, and this is a very positive element, accelerating retail services revenue growth in France. And we are quite proud since we have been ranked number one in Net Promoter Score in France on the whole 2019, which is clearly a very important achievement for our teams after years of management focus on the quality of customer experience. We have not reached this number one ranking in NPS for more than 10 years.

A few information about the COVID-19 crisis. To say that -- the first thing that I would like to emphasize is that, clearly, our telecom services have become more crucial than ever. And we are continuing our business, our activity, and the networks are absorbing this amazing event and traffic very well.

For example, in France, fixed traffic increased by 40%. Our high-quality network is a strong asset, and quality of service has been maintained. Customer care was also maintained, leveraging on increased digitization. This has been made possible because Orange is a company that has never stopped working, in fact, in this crisis period. We have today around 100,000 people working remotely in the group. We rely on their agility and capacity of adapting very quickly to those new constraints. We have very efficient technical tools, and we've been able to switch to remote working very quickly.

Another example is OBS, the Enterprise business that has coped with the brutal and sudden increase in teleworking among teams throughout the world. To support our business, we can also rely on a solid balance sheet, as you know, with a net debt below 2 times EBITDAaL at the end of 2019 and on EUR17 billion of cash position, including a EUR6 billion revolving credit facility. This is also the result of years of effort, discipline and good financial management.

For sure, the telco sector will be one of the most resilient in these unprecedented circumstances. And Orange, I think, is very well positioned to deal with them even though it will be, of course, impossible to totally withstand the impact of the crisis violently affecting the economy worldwide. In fact, already known, our commercial dynamics slowdown, decrease in churn, which is nice, but also in SAC and SRC, which might be nice for the EBITDAaL and less for the revenue line, we have -- we will have a, clearly, a slowdown in G&A cost, which is nice, but also a slowdown in the roaming revenue, which is less nice. Those are a few identified impacts to date.

Due to this substantial drop in business activity, many proposals and discussions in progress with customers have been suspended. The same goes for many internal projects, such as Orange Concessions, regarding our fiber in PIN areas infrastructure, which had been postponed, of course.

There are risks and opportunities during every crisis, and B2B is a good example of that. It will be directly impacted by the economic slowdown while, at the same time, emphasizing the crucial need for telco services as well as security and cloud services. So it is too early. We need to assess the overall financial impact of the crisis for the group. But of course, as you can imagine, we are monitoring very closely those effects.

With this, well, evolution of the epidemic situation in mind, it is also time to prepare for life after the crisis, which will, of course, be very different and also different from one country to another. To start with, this crisis has underlined how important digital inclusion has become, and we will give priority to that. Everything that contributes towards providing better connectivity to our clients, fiber rollouts or mobile or ride sharing. And more generally speaking, optimized infrastructure management will be our priority.

Digitization, together with simplification, were already a priority, but it will be speeded up with regard to client relations or internal processes. Lastly, the crisis emphasized the place of home and family, totally aligned with our strategic choice to focus on home. Home LAN has to be accelerated, for example.

Let's switch to Page 6, which resumes the main achievements of this Q1. I think we can say that Q1 '20 was a successful quarter for Orange, and this despite the beginning of the impact of COVID-19 in our activities in the last 2 weeks of March. Let me give you a few illustrations of that.

Firstly, we now connect 42 million very high broadband homes, making us the absolute FTTH leader in Europe with 39 million FTTH lines in Europe. We confirmed that as of December 2019, Orange is the leader in terms of customer experience in France. As I mentioned before, we've turned number one in the Net Promoter Score indicator.

And in 2019, we gained 7.5 NPS points, which is just huge and reached this number one position. This turnaround is -- has been made possible, thanks to the strong decrease of customer pain points, such as network outages, lack of bandwidth and up-to-date devices, reflecting in the reduction of number of complaints, but also speeding up the deployment of fiber and 4G, especially in rural areas, and proactive repositioning of our customers' more-attractive offers with more data.

We are gearing up to launch 5G in some of our European operations. But of course, we need to think about it again in the light of two new issues. Firstly, the commercial launch in France and Poland will probably need to be postponed because of delays in spectrum auctions, even though we have still lack of visibility in the agenda of those spectrum auctions.

But, more importantly, in perspective of COVID-19, most of operators and B2C or B2B customers have observed that existing 4G networks associated with FTTH fully satisfy the customer needs. And this raises this, well, pressure question about the pace of 5G rollout

FINAL

Bloomberg Transcript

if you consider that the existing 4G networks did well the job. So those are very, of course, important topics that we will work about in the coming months.

Secondly, these investments enabled us to post a solid commercial performance with more than 70 million 4G customers and 7.8 million FTTH customers, which is an increase of 20% year-on-year, thanks to France, which posted the highest first quarter for FTTH net adds ever; and Spain, which reached 80% FTTH penetration rate in its broadband customer base. Orange remains the number one convergence operator in Europe with 10.8 million convergent B2C customers, growing by 3%; and convergent revenue growing by 4.5% year-on-year in Q1 '20, representing 40.5% of the total retail service revenues in our European countries.

Thirdly, we are successfully executing our strategy to become a leading multi-services operator. Orange Bank reached more than 580,000 customers in Q1 '20, thanks to an enriched portfolio of offers and the strong commercial performance in Spain since launch in Q4 '19. Our value approach is bearing fruits with 50% of new customers in France this quarter having chosen a paying offer compared to less than 15% two years ago.

In Romania, we reached 201,000 Orange Money customers, out of which 61,000 clients subscribed to a debit card after only one year launch of this product. Orange Money remains a major growth driver for our Africa and Middle East operations, and we continued reinforcing it with the launch of Orange Money in Morocco in March. We will also remain a major player in content aggregation and distribution to consolidate our position as a leading multiservice operator.

In Q1 '20, we had 10 million IPTV customers, adding 335,000 customers year-on-year, driven by France and Africa and the Middle East, while content revenues increased by 4.8% year-on-year. During the lockdown period in France, we saw our video-on-demand sales multiplied by twofold.

At this time of crisis, when telecom services to B2B has proven to be more crucial than ever before, OBS has successfully fulfilled the sudden and increasing connectivity needs of emergency medical service, hospitals and companies operating in strategic or sensitive areas, such as environment, energy or transport. We're also proposing tools to help them manage their emergency plans.

In Q1 '20, in line with the Engage 2025 plan, we signed a long-term electricity purchase contract with Iberdrola for a 328-megawatt solar plant -- power plant in Spain, covering almost 9% of Orange Spain's electricity consumption. This is just an example.

On Page number 7, you have our financial achievements for this Q1 '20. We posted Q1 revenues at 10.5 -- EUR10.4 billion, sorry, growing by 1% year-on-year, driven by a positive trend in all countries except Spain. The group reached an EBITDAaL of EUR2.6 billion, improving by 0.5% year-on-year this quarter, of which 0.1% for telecom activities, whereas eCapEx are slowing down by 3.1% compared to Q1 2019, reaching EUR1.6 billion at the end of March. This reduction is partly due to the COVID crisis and relates to both fiber

FINAL

Bloomberg Transcript

and mobile networks rollout. Thus, the group's EBITDAaL minus eCapEx reached EUR1 billion in Q1, significantly improving year-on-year by 6.8%.

A few more elements on eCapEx. To say that the acceleration of the fiber rollouts in France led to an increase of 1.6 million new connectable homes in this Q1. It's a 2.5 times increase compared to Q1 a year ago.

Overall, we reached a total of 41.6 million very high broadband connectable homes, of which 17.8 million FTTH connectable homes in France, 14.5 million in Spain and 4.4 million in Poland. The group has kept consolidating its leadership position in 4G, reaching a coverage exceeding 96% of the population in all European countries and already commercialized in 15 Middle East and African countries.

These continuous efforts we've done in the back of a slightly decreasing telecom eCapEx figure, down 3% this quarter versus Q1 2019, which came this quarter as the result of three main effects: the first also extending into the coming quarters and the two other more limited to Q1 2020.

Firstly, the COVID crisis started in the second half of March to slow down the pace of rolling out both addressable and connectable lines and connecting end customers.

Secondly, following an agreement signed by Orange and SFR in May 2018, by which Orange was to withdraw from 236 municipalities in the NE zone, we built SFR in Q1 for the remaining and larger part of these FTTH lines. Thirdly, following the sale announced in December 2019 of 1,500 non-strategic Spanish mobile sites to Cellnex, we booked in Q1 the remaining part of the proceeds not booked in Q4 2019.

After this overview of our achievements in Q1 '19 -- Q1 '20, sorry, let me now hand over the floor to Ramon to provide you more details about our operations. Ramon?

Ramon Fernandez {BIO 16369589 <GO>}

Thank you. Thank you very much, Stephane, and good morning. So I will start on Slide number 10 with France, where you can see that in Q1, total revenues increased by 0.5%, thanks to an improvement in the trend in our retail service revenue for the second quarter in a row, thanks also to an increase in our fiber-related revenues linked to the acceleration of our deployments, in particular in the PIN area. This quarter, the impact of digital content offers is really very small with only EUR1 million of tailwind.

So let's see -- in order to assess the underlying performance, as we do traditionally, let's see our retail activities, starting with retail services, excluding PSTN, which has been increasing by 2.2%, an acceleration compared to Q4, where it was increasing by 1.7%. And even if you take into account the PSTN impact, we were stable year-on-year in Q1. This is minus 0.1% compared to minus 0.6% in Q4 2019 and around 0.7% -- minus 0.7%, 0.9% in the previous quarter. So it's really a nice improvement.

The convergent ARPO grew by 2.3% to EUR68.6 in Q1 compared to plus 1.6% in Q4 2019, driven by bank book price increases in Open Mini effective from the end of Q4, driven also by the increase in the number of lines per convergent offer and by fiber penetration.

The mobile-only ARPO decreased by a limited 0.5% to reach EUR16.6, impacted by the decrease in out-of-a-bundle international voice calls related to EU regulation and also by international roaming linked to COVID-19.

In broadband-only, price increases in the front book effective since Q4 2019 and the reduction of the level of promotions in broadband helped to nearly stabilize the broadband-only ARPO with a limited decrease of 0.5% to settle at EUR36.2 in Q1.

Equipment sales decreased by 15.2%, which is minus EUR45 million in Q1 compared to a more limited decrease of 2.6% in Q4 2019, largely impacted by the impact of COVID-19 with the closing of our stores in France, as Stephane explained, and also by a decrease in global market demand in Q1.

Wholesale revenues grew by 2.6%, driven by FTTH, which offset the decline in unbundling and national roaming. Finally, the growth in other revenues of plus 29% in Q1 was driven by the start of the built-to-suit program in France, allowing Orange to accelerate the deployment and strengthen coverage of our mobile network in non-dense areas and also along transport routes while limiting investments.

Turning to the next slide, Slide 11, our commercial performance. We have delivered solid figures in broadband in this first quarter with a record Q1 in fiber. On fixed, we recorded plus 37,000 broadband net adds with the high-end customer mix improving by 0.2 points. This solid performance is supported by a record first quarter in fiber with 192,000 FTTH net adds compared to 168,000 in Q1 2019. In Q1, 54% of FTTH net adds are new customers to Orange. So this is still a very strong acquisition tool, consolidating our absolute leadership position with 3.5 million FTTH customers.

On mobile, we observed in Q1 an encouraging price recovery movement initiated by Sosh with the launch of a EUR15 Sosh lifetime offer at the beginning of March, which was followed by two of our three competitors increasing their own prices from EUR12 to EUR14. In the context of our value approach, we posted minus 58,000 net adds compared to a positive figure of 19,000 in Q1 2019.

This atypical negative performance is mainly due to a specific Sosh cohort. These very price-sensitive customers generated a peak of churn in Sosh in January and February when we decided not to renew a promotion after the 12-months promotional period. And this attempt of pricing traction turned out to be inefficient in the context of market aggressiveness with lifetime promotions. It's worth noting, though, that the launch of this EUR15 Sosh lifetime offer at the beginning of March was successful, but the whole market slowed down with the eruption of the COVID crisis.

We have also seen price aggressiveness back in April, but it's too early to draw any conclusions from this latest move. Despite this atypical churn event on Sosh, the mobile

FINAL
Bloomberg Transcript

FINAL

churn continued to drop by 0.6 points year-on-year, and it stood in Q1 at 11.7% compared to 13.3% in Q4, linked with the fall in the churn in the whole market, obviously accentuated by the COVID-19 effect in March and also by the progress we are making with convergence. Convergence remained a strong acquisition tool, supporting our performance both in fixed and mobile with 30,000 net adds in mobile, reaching 1.68 lines per convergent offer, which is an increase of 2% year-on-year.

Let's now turn to Spain on Slide number 12. In Spain, the market is clearly polarizing. The development trend can be seen when looking at segmentation based on price points. The low-cost convergent segment, which is below EUR45, posted an acquisition share at 30%, up by 10 points year-on-year. And all operators now in Spain now have an entry price point below EUR40, while, on the other side, value proposals strengthened in the high-end segment above EUR70. Our commercial performance here reflects this trend and also our strategy, which has been focused on value over volumes.

On the high-end segment, the launch of our Love Unlimited offers on the Orange brand targeting customers with an ARPO higher than EUR80 in February was a clear success with more than 1 million subscribers. And our more-for-more moves and our football offers resulted in a convergent ARPO increase by EUR0.20 year-on-year to achieve EUR58.3, and even plus EUR1 year-on-year if you look at specifically the Orange brand B2C convergent ARPO. The trade-off was a volume down trend with fixed broadband and mobile net adds negative in Q1, respectively, at minus 59,000 and minus 127,000.

Mid-March, as part of the government measures regarding the COVID crisis, profitability and aggressive commercial campaigns were banned. And this effect -- the effect of this policy remains low in Q1, but should be a bit more visible in Q2 until the end of the lockdown, even though the profitability on mobile has now partly reopened.

As announced during the Capital Market Day and when we talked about the full year results, our target in Spain is to increase our market share in the low-end segment. We have managed Amena volumes to ramp up progressively, but with still a sizable potential to capture before the implementation of convergence on our low-cost brands within the next few months, and the launch of these convergent, low-cost brands have been slightly delayed due to the current portability limitation.

As a result, our revenues decreased by 2.4% in Q1, in line with Q4, with retail service revenue falling further still at minus 4.6% compared to minus 3.4% in Q4. And as you know, 2020 is the year of transition for Orange Spain, and the current crisis is putting some additional pressure on our margin performance. On the positive side, our wholesale business is more than ever a source of strength, providing a powerful hedge against the current economic volatility.

Bloomberg Transcript

Let's turn to our Europe 6 countries segment on Slide 13, where our retail services grew by 4.3% this quarter compared to 2.4% in Q4, with 25% of this growth coming from connectivity, namely convergence, fixed-only and broadband mobile-only; and 65% from IT and integration services.

FINAL

Our performance in connectivity reflects our ongoing focus on convergence with revenues from convergence which today represent 19% of retail services. So convergence maintains a resilient plus 25% growth this quarter compared to plus 28.5% in Q4. And our focus on convergence was also visible in our commercial performance with stronger mobile contract net adds at plus 28,000 and the resilient fixed broadband net adds at plus 51,000 with a stable or improving share of convergent contracts in our customer base.

After the last four quarters, which were declining, wholesale services are now back to positive growth at plus 0.6%, thanks to better MVNO trends compensating some losses from mobile termination rate cut and the ending of national roaming deals. This quarter for this Europe 6 segment also saw the decline of equipment sales, minus 8.3%, mostly because of the health crisis, and of other revenues at minus 30% [ph] due to lower originated sales in Poland. Although their impact on EBITDA was little, these two effects drove down the overall revenue growth in the Europe segment to plus 0.3% compared to plus 1.7% [ph] in Q4.

From a country perspective, we are reporting a seventh consecutive quarter of revenue growth in Poland at plus 0.9%, driven by plus 5.1% growth in retail services compared to minus 0.2% over the full year 2019. This result is a consequence of the more-for-more strategy initiated by Orange Polska in 2019.

Now filtering through to our results. It's also a result of a stronger performance in IT and integration services at plus 58%, of which 32% come -- excluding the BlueSoft integration. We acquired this company, BlueSoft, in 2019. And finally, it's also the result of a higher mobile wholesale revenue because of the health crisis. Our revenue performance at Orange Belgium is also worth noting, up 1.9% this quarter. This was driven by solid growth in retail services, plus 4.6%, itself driven by plus 36% growth in convergent sales, mitigating lower equipment sales and other revenues.

Let's now turn to Africa and Middle East, Slide 14, the main contributor to the group growth, with revenue increasing by 6.2% in Q1 and no significant impact from COVID in Q1. The revenue performance was driven here by a very solid growth of retail services at plus 9%, fueled by three robust drivers that you know well now: first, data with 26.5 million 4G customers, growing by 51%, and revenues associated growing by 27%; second, Orange Money, with an active customer base of 18.6 million customers, up 20%, and revenue growing by 22%; and, third, fixed broadband with over 1.3 million customers, up 21% year-on-year with revenue growing by 22%.

Looking at the commercial KPIs in Africa, Middle East, the mobile customer base increased by 4.8%, up to 123 million customers, including the impact of the exit from Nigeria. The customer base quality keeps improving, as reflected by an increase of plus 1 point in the charge-based rate and the reduction of 2 points in mobile prepaid churn.

From a geographical perspective, the top contributors to total revenue continued to deliver solid growth in Q1. Egypt grew at 10.6%, thanks to retail services and sustained by data and by a massive also equipment sale. Ivory Coast cluster grew at nearly 10%, 9.9%,

Bloomberg Transcript

FINAL

sustained by data development and market repair. And the Sonatel cluster keeps a good trend, thanks to data and Orange Money with Senegal, which has regained strongly its leadership in mobile net adds after a very competitive fourth quarter.

Turning to the Enterprise segment on Slide 15. You can see that enterprise OBS posted a revenue growth for the sixth consecutive quarter at plus 0.8%, driven by ongoing network leadership and solid performance of IT and integration services, notably cloud and cybersecurity. IT and integration services revenue growth reached 6.9% this quarter, and we now represent 38% of the total revenue of the Enterprise segment. This is an increasing proportion of plus 2 points year-on-year.

Beside, the group obtained several market recognitions this quarter, confirming our status of major player in our growth areas, in particular, cloud and cyber defense. And it's also worth noting that following up our latest acquisitions in cybersecurity, well, less than one year post acquisition, SecureLink and SecureData have been fully integrated and rebranded under Orange CyberDefense. So we are now fully set up for capturing value.

Data network services, still resilient, posted a revenue growth at plus 0.5%, driven by our leadership in fiber and software-defined networks. This performance more than compensate for the decrease of voice at minus 6.5% this quarter, structurally impacted by the decline in France and also a further drop in mobile to minus 5.8% in Q1, mainly due to the fall of roaming revenues in relation with the COVID crisis.

Let me also remind you that the Enterprise segment is going through a transformation and that we do not plan to be back to EBITDA growth before the end of 2021, as we said in December and in February.

Regarding the commercial activity, Orange has been chosen by Abu Dhabi for its smart cities tailored solutions and by AkzoNobel to provide a range of services for global connectivity transformation, including SD-WAN, SD-LAN and security solutions.

Last, but not least, I would like to emphasize that in the context of this unprecedented crisis, Orange Business Services teams activated our worldwide business continuity plan, which demonstrated to be crisis-proof, as commented extremely positively by numerous customers in France and around the world.

Let's now hand over back the floor to Stephane to conclude this presentation.

Stephane Richard {BIO 14012413 <GO>}

Thank you, Ramon. So before going to Q&A and as said during our April 17 call, I want to confirm that based on the information available today, we do not expect a significant deviation from our 2020 objectives, but we are closely monitoring the situation and its developments. We will consider an update of our 2020 financial guidance, along with Q2 results, once we have improved visibility on the effects of the COVID-19 crisis.

Bloomberg Transcript

This concludes this presentation, and we are now ready for the Q&A session.

Questions And Answers

Operator

Thank you. (Operator Instructions) We'll take our first question from Stephane Beyazian from MainFirst. Please go ahead. Your line is open.

Q - Stephane Beyazian {BIO 3321002 <GO>}

Yes. Thank you. Two questions, if I can, then. On the CapEx, are you able to differentiate between the slowdowns that come from the COVID-19 and your own willingness to sort of slow down the CapEx and meet the free cash flow guidance? I'm just trying to understand if you're going -- I mean if you want to catch up as fast as possible and at any cost in the coming quarters once the lockdown are easing.

And my second question is also there again about trying to limit the spending. Looking at Orange Bank, can you say anything about the -- how it is performing commercially in the current situation and if there is any change in your plans? Because I have in mind that you have more launches under way, and that remains an investment line for the group. Thank you.

A - Stephane Richard {BIO 14012413 <GO>}

Thank you, Stephane. Regarding your first question, there's no doubt that the current conditions will bring about reduction and slowdown or postponing of some CapEx during 2020. As you can imagine, the building of new lines, FTTH lines, is very much impacted by the lockdown constraints and the fact that our subcontractors are not today in conditions to keep on the pace of rolling out as previously.

So it is difficult to say how long it will take to get back to, let's say, a normal production pace, but no doubt that it will take a few months, and this will have clearly a significant impact on our eCapEx numbers. I think that we cannot say that we had a specific plan to reduce CapEx this year. But once again, I would say that the mechanical effect impact of this crisis and especially of the lockdown periods will be significant in our 2020 figures.

Maybe I'll ask Ramon to answer to the second question and, of course, to provide any additional comments on the first one. Ramon?

A - Ramon Fernandez {BIO 16369589 <GO>}

Well, I think Paul de Leusse is with us this morning, Stephane. So maybe on the bank, we will ask Paul to take this. And on CapEx, I really don't have anything to add, except that, clearly, when we look at our target for the year, this is an area where we have some space for monitoring, obviously.

A - Stephane Richard {BIO 14012413 <GO>}

FINAL

Bloomberg Transcript

So Paul, on the bank?

A - Paul de Leusse {BIO 16663978 <GO>}

Yes. Hello, can you hear me?

A - Stephane Richard {BIO 14012413 <GO>}

Yes.

Q - Stephane Beyazian {BIO 3321002 <GO>}

Yes.

A - Paul de Leusse {BIO 16663978 <GO>}

Okay. Just to answer on the current impact and perhaps the future impact of the crisis on the bank. Well, obviously, as a large part of our sales rely on the physical shops of Orange, this part of our sales has dramatically reduced. On the other side, we have made strong efforts to develop our digital sales during this period with quite a strong take-off as around now -- we have increased our digital sales by around 40%, which is good news.

We will have very much on the mobile payment because, obviously, the mobile payment is by far the most secure way of payment right now because with your mobile, you can pay without touching any physical cash or any device when you are in a shop. And we have seen a strong increase on the average amount of money which is paid by the mobile. So it's good news for us. That's why we will be launching a TV campaign beginning of May to promote mobile payment. I remember that Orange Bank represents 17%, 1-7, of all mobile payment made in France. So we believe that in a way, this crisis is an opportunity for us to promote this wealth payment. That's on the activity.

On the revenue, there's a limited impact because as opposed to many new banks which are in a freemium model, where most of the clients would pay nothing to the bank and the bank would earn money only by the interchange, which are dramatically reduced, our model is slightly different because, as it was said by Stephane in the introduction, 50% of our new clients pay us something on a monthly basis. It could be a commission on our premium card or it could be an interest rate on the consumer loan.

But with 50% of our new clients paying us something, even if our clients are less active during this period, we still gain revenue from them, which is very, very different from many new banks where the client -- or the bank pays nothing. If the client doesn't transact with his card, well, the bank gets nothing in terms of revenue. Now that makes us much more comfortable going through this crisis.

And you also ask if we are to release some new product. The answer is yes. We plan to release in next September, October, a family account, which would be quite an innovative product allowing all family to have -- to monitor one single account. And obviously, this -- it fits very well with the family strategy of Orange with the open model of Orange. So we plan to go deeper into the integration between Orange Bank and Orange.

FINAL
Bloomberg Transcript

FINAL

Bloomberg Transcript

Well, I hope that answers your question.

A - Stephane Richard {BIO 14012413 <GO>}

Thank you, Paul.

Q - Stephane Beyazian {BIO 3321002 <GO>}

But, overall, we should still be expecting lower losses this year than last year for the total Orange Bank operation in EBITDA?

A - Paul de Leusse {BIO 16663978 <GO>}

Yes. Clearly, for France, the losses will be reduced this year compared to last year. Don't forget, we have launched Spain as well, which will produce some losses, but much more limited than the French one. But yes, for France, we are limiting losses compared to last year. Thank you.

Q - Stephane Beyazian {BIO 3321002 <GO>}

Thank you.

A - Stephane Richard {BIO 14012413 <GO>}

Next question?

Operator

Thank you. Our next question comes from Nicolas Cote-Colisson from HSBC. Please go ahead. Your line is open.

Q - Nicolas Cote-Colisson {BIO 3777728 <GO>}

Well, thank you. Some operators have already indicated higher provisions for bad debt. So could you tell us a bit more about the situation for Orange? And what are the learnings from the global financial crisis a decade ago? What happened then? And have you a different setup now in terms of these monetization or securitization programs? And also a comment on the change in the working capital requirements would be great, too. Thank you.

A - Stephane Richard {BIO 14012413 <GO>}

Okay. So Ramon?

A - Ramon Fernandez {BIO 16369589 <GO>}

So on the first question, for the time being, we don't see any increase in bad debt figures. We are monitoring this on a weekly basis. And the way customers are behaving on both the B2C and B2B market is an issue of endurance. But for the time being, we don't see any impact. And on the contrary, in fact, from time to time, we see some customers who pay in advance, which seems to signal the fact that the telecom services are really an essential service that is going to be protected for quite a long time. So no evolution there, but very strict monitoring.

When you look at the lessons from the past global crisis, you can see that if you look at 2008, 2009, 2010, that the telecom sector has a limited relation with the macro figures. It does not mean that there is no impact, but it is an area where elasticity to macro figures is quite low. So depending on the countries, depending on the type of services, of course, this can vary.

But if you look at, for instance, in 2009, 2010, 2011, you will see a very limited impact on the evolution of, at the time, France Telecom Orange revenues. So we are also monitoring this because the telecom sector cannot be totally immune, obviously, from a major macroeconomic shock. But we are in an area where we are now looking at the B2C market massively postpaid with an economy of (foreign language), the English term is failing me, but you see what I mean.

And you have a massive intervention of governments in many countries, and France is not the last one, where you have a very heavy public policy support in terms of cash to the enterprise, but also, in fact, to households through unemployment schemes which are supported by the government. And so this impact should be mitigated at least for some time. If you look at the B2B market, here also, for the time being, we see some light signals from some customers asking for delays, but it's not significant yet.

What we have done in order to make sure that we are going to help part of these partners, customers or suppliers to go through the crisis and to be in a position to bounce back when we are out of the peak of the crisis with getting out of confinement, we've been accelerating our own payments to our suppliers and we have mobilized an envelope of roughly EUR300 million to pay all of the bills to our suppliers below EUR50,000 in order to help them go through this two months very critical period.

And looking at the customers, we have a very pragmatic case-by-case approach in order to make sure that we can also support these customers to go through the more complicated parts of the crisis.

So we have very strong credit management teams in the group who are mobilized to have the good monitoring and good handling of potential issues with different customers or suppliers. And if you look at the working cap requirements, we will see by the end of the year if all these positive measures we are taking will have some impact, but it should be limited.

Q - Nicolas Cote-Colisson {BIO 3777728 <GO>}

Okay. Thank you very much.

Operator

FINAL
Bloomberg Transcript

Thank you. We'll take our next question from Akhil Dattani from JPMorgan. Please go ahead.

Q - Akhil Dattani {BIO 7190509 <GO>}

Yes. Hi. Good morning. Thanks for taking the questions. My first question is just on Spain, just to follow up on some of the comments that you made in the introduction. As you said, you've been much more focused on value of the volume. But I guess it's fair to say the KPI trends this quarter are probably softer than we would have expected. Can you just talk us through the steps that you expect to take as we look forward, particularly given the expectations that we would hope to get back to growth in revenues in 2021. And I guess with that, just any thoughts around whether or not you consider the Euskaltel national expansion plan a source of a concern or not would also be interesting.

And then moving over to France, I guess interested in the comments you made again through the introduction around French competition. As you said, Sosh was constructive on pricing. There's been a bit of volatility from your peers year-to-date in terms of what they're doing. Any sort of comments around why you think price increases haven't stuck and how you think about your local competitive environment would be very useful as well. Thanks a lot.

A - Stephane Richard {BIO 14012413 <GO>}

Okay. So on the Spanish situation, do we have Laurent on the call?

A - Laurent Paillassot {BIO 17978517 <GO>}

Yes.

A - Stephane Richard {BIO 14012413 <GO>}

Sure. So Laurent, go ahead.

A - Laurent Paillassot {BIO 17978517 <GO>}

Yes. Thank you for the question. On Spain, basically, as we said in February, right, the overall trend remained the same in Q1. We've had a lot of promotions and discounts. A lot of the low-cost growth is happening and it's driving the overall value of the market. As we said, we would launch a convergent offer in the low-cost brands in the low-cost segments to capture fair share in Q2. So Q2 is not yet in Q1, right? So basically, what you see there is really the follow-up on the trends that you already had end of 2019. So our plan on that has not changed. We are focusing on value on the Orange brand. As you've seen, we have launched limited offers, which is driving our ARPU significantly. So the value mix is improving.

What we are missing and still missing is obviously the low-cost volumes. And we said we will launch low-cost convergent offers in Q2 using Republica Movil, using Simyo, using Amena. We are ramping up slowly Amena. But obviously, with the lockdown period, which is correlated to fixed portability ban, there's no sense for us to accelerate or to

FINAL
Bloomberg Transcript

FINAL

anticipate any convergent launch. So this remains on our plan for Q2. We will be launching convergent offers.

And, as we speak, we are working on the whole portfolio of customers to preserve and to maintain the value on the existing customers. So again, the crisis there is just making even more important what we're doing, which is to remain focused on value in the high end of the segment and to push for volumes on the low end. We're also working, obviously, taking into considerations the crisis on optimizing even more our -- all our processes, streamlining our processes, streamlining and simplifying our offers. Obviously, the digital has to take a higher share in the future. So there's a lot of things going on to try to optimize even further our OpEx base.

So on the B2C, we remain focused on what we've said to you in February. We're missing volumes in the low-cost segments. The crisis is going to make the local segment even more important in the Spanish context even without Euskaltel launching the Virgin offers in this part of the low-cost movement in the Spanish market. And we are not present there. So we need to be present, and we will be there by end of Q2 with Amena, with Republica Movil and then with Simyo and even with Jazztel, a significant market share in these low-cost segments.

And, again, also as we mentioned, part of the growth that we are expecting for 2021 will have to come from the B2B segment. That's something where we need to see what's going on with the market context. But we are obviously in a situation of attacker on this segment because we are number four in the market. So we're going to come strong on this B2B segment.

And keeping in mind that the wholesale is also providing us with a huge hedge on this market. So we have also good news, and we expect to remain with good news on the wholesale segments. So again, it's -- I think with the crisis, it's making even more important for us to deliver this value focus on the high end and this volume focus on low-cost. And that's what we are implementing.

Bloomberg Transcript

A - Stephane Richard {BIO 14012413 <GO>}

Okay. Thank you, Laurent, and maybe Fabienne, for the French market?

A - Fabienne Dulac {BIO 19180347 <GO>}

Yes, you hear me?

A - Stephane Richard {BIO 14012413 <GO>}

Yes, very well.

A - Fabienne Dulac {BIO 19180347 <GO>}

Yes. Okay. So in Q1, there is two periods. In January and February, specifically, the market is still very highly promotional, especially on the mobile. We observed, and it was a good news at the beginning of March, an encouraging price recovery movement initiated by

FINAL

Bloomberg Transcript

Sosh, when we launched a new offer, a Sosh lifetime offer, and it was the first time, at EUR15. This move has been followed by two competitors. They increased their price from EUR12 to EUR14, EUR15. So it was a very significant move and very interesting move. If you remember, one year ago, we were around EUR5 for the same offer. So it was a very significant move for all the markets.

In April, and we are in a very specific period during the lockdown, we observed a context of price aggressiveness back. But it's due to the closure of stores for all competitors and the ways of digital business and the low-cost business. So it's too early to have any conclusion now on the sustainability of the pricing movement recovery or aggressiveness.

We have to wait the end of the lockdown. And when we all reopen our stores, we can be confident. Because we launched two weeks ago, three weeks ago, a new Sosh offer, EUR15 lifetime, and it's very efficient and very sustainable. So I think we have to wait and to see. But the last move made by all competitors are really encouraging for the future.

Q - Akhil Dattani {BIO 7190509 <GO>}

Thank you, Fabienne.

A - Stephane Richard {BIO 14012413 <GO>}

Next question?

Operator

Thank you. Our next question comes from Roshan Ranjit from Deutsche Bank. Please go ahead.

Q - Roshan Ranjit {BIO 16270518 <GO>}

Hi. Good morning. Thanks for the question. Two for me, please. Just a follow-up on the fiber rollout. Now despite the record connections this quarter for Q1, you mentioned the slowdown. How does that roll out in the slowdown compared to the obligations that you need to meet from Arcep by the end of the year? I think it was 95% or so of your coverage area in the mid-term.

So any update there would be good. And second, a quick follow-up on the previous question. Anything you could say on the churn metrics in these last few weeks, given you have seen competitors increase their pricing as well because that was clearly the driver of that reverse in your mobile adds this quarter? Thank you.

A - Stephane Richard {BIO 14012413 <GO>}

Well, on your first question, we have clearly started a dialogue with the regulator, with Arcep, on the fiber rollout agenda. Let's say, I think that, of course, the regulator understands and takes into account the very specific circumstances that we are knowing now and, of course, will take into account the consequences of the current situation on the rollout calendar. So it's probably too early to give you more details about that. But I

FINAL

Bloomberg Transcript

can just confirm that we have started to talk with the regulator regarding this very important issue of fiber rollout agenda in France. There is no doubt that we will have to adapt and clearly to postpone some of the main steps in this rollout.

And we have a regulator who is open-minded, of course, about this. It is just impossible to imagine that the operators globally could do this rolling out as if there was no lockdown, as if there was no particular problem in -- with the subcontractors and with the thousands of space in which we are running out. So I am, I would say, relatively confident in our capacity to find the proper, let's say, new agreement or new frame on the FTTH rollout agenda with the regulator, taking into account, of course, the impact of the current crisis. Fabienne, on the churn topic?

A - Fabienne Dulac {BIO 19180347 <GO>}

Yes. During the lockdown, both on mobile and broadband, we observed the same movement. From March 11, our growth has dropped by 60% due to the closure of the stores. And it's true for the mobile and the broadband. At the same time, the churn also decreased significantly and at a similar pace. So at the end, the result is a neutral impact on the net adds level. But so-random [ph] positively due to the high-end position we have and the mix premium we have, it's a better value mix we can deliver. So the churn is very low. We divide it by three. And this helped us to maintain the value and to improve the value and the mix value of our customer base. So it's such a good move.

Q - Roshan Ranjit {BIO 16270518 <GO>}

And just quickly on the mix, are we still looking at a 80%, 20% high-end versus Sosh split in France?

A - Fabienne Dulac {BIO 19180347 <GO>}

What is the mix between Sosh and high end during the lockdown period, this is your question?

Q - Roshan Ranjit {BIO 16270518 <GO>}

Yes. So it's still around 20%?

A - Fabienne Dulac {BIO 19180347 <GO>}

Yes.

Q - Roshan Ranjit {BIO 16270518 <GO>}

Great. Thank you.

Operator

Thank you. We'll now take our next question from Andrew Lee from Goldman Sachs. Please go ahead.

FINAL

Bloomberg Transcript

Q - Andrew Lee {BIO 18737078 <GO>}

Yes. Good morning. I have a couple of questions, one on France and one on Africa. On the French competition, just kind of following up on the questions we've had earlier. As you highlighted, your weaker net adds but strong ARPU -- ARPO shows a rational incumbent, which is supportive for the market. And obviously, you commented on how your competitors have responded to various things you've done. I wonder if you think that, that positioning that you've taken of being a rational supportive pricer is sustainable with or without COVID?

And then second question on African top-ups and broader COVID impact anticipation in the African market. We heard from Telenor that in Asia, while new subs have slowed, digital top-ups have picked up dramatically to make up for a lot of the reduced physical top-ups. Do you see this cushion opportunity in Africa? Thank you.

A - Stephane Richard {BIO 14012413 <GO>}

So Fabienne, again on the French market?

A - Fabienne Dulac {BIO 19180347 <GO>}

Yes. It's too early to have any definitive conclusion about this one. But what we can observe during the lockdown period, and now we are at again some commercial action, we observed that our customer base, and specifically our premium customer base, is very vigilant. No churn and specifically on the premium customer base. This is due to all the efforts we make to deliver convergence on our base and as well some assets due to the quality of our measures, mobile and fixed, due to the quality of customer relationships, as reflected by the NPS (technical difficulty) before, and the way we support our customers during the lockdown.

The second point we observed is the quality of the network and connectivity is a really strong asset. And we can observe from few weeks lag [ph] time for fiber. And we are convinced that we grew because the connectivity at home, I think, will be maybe the most important learning from this period.

The third point we can see is that the COVID period highlights this play of home and stemming [ph] and it's totally aligned with our strategy with the services we launched around pay-TV, (inaudible) all these plans are very significant and strong. So we confirm our strategy and that we can maintain a value strategy. It's exactly what we think and it's what we can observe from these two last weeks, where we launch again different commercial actions. So this is the plan we have in front of us.

A - Stephane Richard {BIO 14012413 <GO>}

Okay. Thank you, Fabienne. Do we have Alioune on the call?

A - Alioune Ndiaye {BIO 16324075 <GO>}

Yes, I'm on the call, Stephane.

FINAL

A - Stephane Richard {BIO 14012413 <GO>}

Okay. So Alioune, you can take the second question on the digital top-ups and maybe broadly the opportunities that this crisis may generate for Africa.

A - Alioune Ndiaye {BIO 16324075 <GO>}

Thank you, Stephane. Thank you for your questions. Let me, first of all, say that this COVID-19 crisis started a bit later in Africa than in Europe. So we have suffered from some decrease of the activity for the first weeks, but we have already recovered the level we had before the crisis in terms of top-up and in terms of also usage from our customers.

So more specifically on your question, of course, yes, with the crisis, the level of electronic top-up have increased by 19%, and we encourage also all our customers to move from scratch card to electronic top-up. And also the merchant payments have increased by 20%. So this kind of usage from our customers are really growing up. And I think for the future, this tendency will certainly be maintained or retransmit by the policy we are putting in place now. I hope I've answered your question.

Q - Andrew Lee {BIO 18737078 <GO>}

Very. Helpful. Thank you.

A - Stephane Richard {BIO 14012413 <GO>}

Thank you, Alioune.

Bloomberg Transcript

Operator

Thank you. We will now take our next question from Jakob Bluestone from Credit Suisse. Please go ahead.

Q - Jakob Bluestone {BIO 2533591 <GO>}

Hi, good morning. And I'll keep it to one question, please. You touched a bit on bad debts within the telco business earlier. But I was wondering if you could maybe expand a little bit about the credit risk within the Orange Bank. You obviously haven't taken any provisions for bad loans, which is obviously in contrast to many banks around Europe. So could you perhaps just sort of expand a little bit about how you manage the credit risk and why you're not expecting any sort of additional bad loans in that part of the business? Thank you.

A - Stephane Richard {BIO 14012413 <GO>}

Thanks. So maybe Paul, bank?

A - Paul de Leusse {BIO 16663978 <GO>}

Yes, on the bad loans, well, we have two different types of portfolio. One is the SME portfolio, which is a portfolio of around EUR250 million of assets. And then we have the pure retail to individual customers portfolio, which is made of mortgage and consumer

FINAL

loan, which represent EUR1.7 billion. On the SME portfolio, we have made some provision on bad debt.

We have seen so far 25% of these customers asking to delay the repayment of the loan, which is allowed and encouraged by the French government. So we have obviously accepted that. And we have taken a little bit of provision. But as these customers are mostly former Groupama clients, we are quite confident about the risk. But we have taken some provision.

On the pure retail portfolio, which is mortgage and consumer loan, so far, we do not see any major risk. Only a very tiny proportion of these customers have asked to postpone the repayment of their debt, less than 2%. So we don't see any major risk arising on that part. That's on the provision. On the risk acceptance, yes, obviously, so far, a large part of our loan were accepted automatically and we have changed that. And now most of our consumer loans need a human analysis before being accepted because we want to tighten our risk policy as many banks have done so far. That's it, I think.

Q - Jakob Bluestone {BIO 2533591 <GO>}

That's great. Thank you very much.

Operator

Thank you. Our next question comes from Giovanni Montalti from UBS. Please go ahead.

Q - Giovanni Montalti {BIO 7059389 <GO>}

Thank you. Good morning. You were mentioning on Orange Concessions that you are planning to put the project on hold for the time being. I wanted to know if this applies also to the other projects you were working on, particularly on tower or on fiber in Spain and Poland. Thank you.

A - Stephane Richard {BIO 14012413 <GO>}

The short answer is no. So yes, we have postponed Orange Concession because the timing to have the due diligence process, et cetera, was not really easy in this time. So this will be brought back at a later stage. But obviously, it's -- work has not stopped, and we will be putting through the project at a later stage. And then on all what we said in December and February about preparing for setting tower companies for France and Spain to begin with in 2021, this is still the intention.

Now we will need to check obviously if the current time has an impact on precise timing. But overall, I would say that there is no significant change there, but this will need to be confirmed. And looking at how we can fundamentally accelerate and continue to maximize value creation with fiber in Poland and in Spain, we are still working. Work has never stopped on our projects both in Poland and in Spain. So nothing has changed there.

Bloomberg Transcript

FINAL

Q - Giovanni Montalti {BIO 7059389 <GO>}

Thank you very much.

Operator

Thank you. We'll take our next question from Mathieu Robilliard from Barclays. Please go ahead.

Q - Mathieu Robilliard {BIO 3800915 <GO>}

Good morning. Thank you. I had a question on the B2B segment. You made some interesting comments about the impact of COVID-19 on the Enterprise segment at the beginning of the presentation, driving some positives and some negatives. Could you elaborate a bit on the positives? Specifically, I'm thinking about what kind of percentage of your revenues or your activity can be positively impacted by the current trends and maybe the more structural trends of more video conferencing, work from home, et cetera, et cetera.

And then a second question on Spain. So you talked about a polarizing market between low and high end. You also mentioned a shift towards low end. If we think about the market as a whole, and considering that the economy is going to slow as in other countries this year due to COVID, do you think the market can grow? Or do you expect the economic slowdown to actually push more and more people towards low-end bundles and therefore have a negative impact on the total size of the market. Thank you.

A - Stephane Richard {BIO 14012413 <GO>}

So, maybe, Helmut, on the positive outputs of the crisis on OBS business.

A - Helmut Reisinger {BIO 18448279 <GO>}

Thank you, Stephane, and thank you, Mathieu, for this question. Now indeed, in terms of enabling in our first phase of the response to this crisis with Orange Business Services, of course, focused on resolving and the resilience for our customers. So resolving means short-term demands that were there because, like us, we are 27,000 staff across the world.

And when we went into lockdown in France, China already came back, our staff into our offices. So you see we have quite a mixed bag even internally. And more than 90% of our staff are actually working from home. So in short, resulting in resilience, we had, for example, to multiplied by seven around about, particularly on the multinational customer segment, all the teleworking capabilities. This is a positive trend. Also a positive trend is to provide the security, the cyber defense solution around this because you need all this an end-to-end cyber-secured solution if you do those secure remote accesses.

So the collaboration platforms on video also have seen a nice uptick. And therefore, Ramon has mentioned it as well, the IT and integration piece is seeing some positive impact. If you think about cloud, which again has seen a notably nice double-digit growth

Bloomberg Transcript

FINAL

Bloomberg Transcript

in our services part. And of course, short term, there were also some capacity upgrades that were needed by customers to cope with the situation. These are the positives.

But answering specifically to your question, what's the revenue mix on that? The revenue there, I would say, this touch is around about 25% of our revenues. Yet there is one clear trend that we have seen in Q1. And Stephane also has mentioned this, and I think we're going to see this continuing floating along with this COVID situation, which is that the roaming impact, as we are serving also global clients, could be already seen in a slowdown in January. But it was basically almost coming to a halt on the roaming side also on the mobile. That's why you see quite a decreasing trend on the mobile revenue section on our presentation on Page 15. I hope, Mathieu, this answers the question.

Q - Mathieu Robilliard {BIO 3800915 <GO>}

Thank you.

A - Stephane Richard {BIO 14012413 <GO>}

Yes. There was a second question. I think there was a second part of the question.

A - Laurent Paillassot {BIO 17978517 <GO>}

Yes, I think it was on Spain. Yes, we've seen the figures for Q1, the GDP growth in Spain decreased, it's minus 5%. Bank of Spain has communicated also recently that they expect the GDP to decrease by between 7% to 14%. And so obviously, we -- it all depends on how deep and how long is going to be the economic crisis better. It's true that the trend towards low-cost is the name of the game for the coming months, right? So again, for us, it makes even more important and urgent to be capturing our fair share on this segment.

And, again, we have assets there, right? We have fiber networks, which we own, which allows us to not depend on any big stream prices. So we can price aggressively in these segments while maintaining margin. So the issue for us is the same. We want to defend value on the high end of the portfolio, and we are doing it with content. We're doing it with also multi-services strategy. We have the bank now. We have announced an agreement with Zurich, insurance products we will be launching in September. So we're adding up services into the high end of the service part.

And in the low end, we need to be there and we need to be very strong. And that's what we're going to be doing in the coming months with all the brands that we have. So again, yes, to your question, I guess, yes, the impact on the economy is going to accelerate the trend towards low cost. That's a possibility. But the response that we have, the same one we have to be present in this segment, which we have not. So we are maintaining the value. And what we've done with the unlimited offers has proven right. We're improving the overall average ARPU on the portfolio. But we need to have more volumes in the low end, which we will do without cannibalizing the rest. And that's the name of the game for Spain.

Q - Mathieu Robilliard {BIO 3800915 <GO>}

FINAL

Thank you very much.

A - Laurent Paillassot {BIO 17978517 <GO>}

Thank you.

Operator

Okay. Thank you. We'll pass to our next question from Sam McHugh from Exane. Please go ahead. Your line is open.

Q - Samuel McHugh

Yeah. Good morning, everyone. Just two quick questions. First one is on football matches in Spain. Do you see any scope to get refunds on your football costs in Spain? And then secondly, a bit of a longer question, sorry. On towers and your MSA, I'm not sure how far along you are in terms of defining an M&A for -- MSA for Orange towerco with the independent tower operators in Europe generally charging a much lower rent for secondary tenants. So for Orange Towers, how do you think about charging for secondary tenants philosophically? Would Orange be happy to give your competitors access to towers at a lower rate than Orange itself pays? Or do you think you'd adopt a different business model from the likes of Cellnex? Thanks so much.

A - Stephane Richard {BIO 14012413 <GO>}

Laurent on Spain and Ramon on the second question.

A - Laurent Paillassot {BIO 17978517 <GO>}

Well, my understanding is that on Spain, La Liga is willing to complete the season. So if it's the case, there is no questions really about claiming anything if it is completed. If it were not to be completed, then we will have a right to claim for these matches not happening, right? But keeping in mind that even though we don't have live content as today, we do have content for football.

So we have customers which are still looking at football, even though it is not the online or the actual matches for La Liga, right? So to your question, if we have a season that is interrupted and is not finishing, we will claim. If it's supposed to be maintained, which my understanding is that everyone is working to make sure that this season will be completed, then there's no necessity to claim or right to claim anything.

A - Stephane Richard {BIO 14012413 <GO>}

Thank you. And maybe, Ramon, for the second question?

A - Ramon Fernandez {BIO 16369589 <GO>}

Yes. Well, I think, honestly, it's a bit premature to enter into this discussion now because for the time being, what we are going to do in the next year is really once again, for France and Spain, working on the carve-out of all our towers to put them in a dedicated

Bloomberg Transcript

FINAL

entity. And so honestly, looking now to the other questions, which are extremely relevant, of course, that you put on the table is a bit premature.

So we are going to go step-by-step and also to reflect with some of our other colleagues, Jean-Francois Fallacher, for instance, for Poland is also on the line. So we said we would start with France and Spain. We are also reflecting, as you know, on a broader scheme at some point with going towards a European tower company. So let's do it step-by-step and then we will go to the specific model when the time is right. But this is a bit too early.

Q - Samuel McHugh

Just to follow up very quickly on that, if I can. I don't know if you would be willing to say what kind of the policy is today for secondary tenant. Is it similar to the -- or maybe you don't want to give details.

A - Ramon Fernandez {BIO 16369589 <GO>}

Well, once again, you will have to be a bit patient. What you can do in order to see what we have done in other countries, where we have already some JVs, where we share some of our towers in Poland, in Romania, soon, very soon in Belgium. You can look at the history of what we have done when we partnered with Deutsche Telkom, with Vodafone, with Proximus, and it will give you some information about how we can view the answer to this question. But now for the rest, once again you will have to be a bit patient.

Q - Samuel McHugh

Thank you so much.

A - Stephane Richard {BIO 14012413 <GO>}

Okay. I think, we've time enough for last question.

Operator

Thank you. We will now take our final question from Frederic Boulan from Bank of America. Please go ahead.

Q - Frederic Boulan {BIO 5837427 <GO>}

Hi. Good morning. Thanks for taking the question. Question is on COVID-19 and impact for the year. So I understand it's a bit early to give us a full detail. But if you can clarify, a, what is your exposure to roaming? And then detail some of the mitigating -- mitigation actions you have in place. You mentioned lower churn, acquisition costs. Any other levers you can pull, for instance, on the marketing side, where you could curb some of the spending. So just for us to understand where you could end up from an EBITDA standpoint.

And then I just have a quick follow-up on France. So you mentioned kind of a bit of a specific situation in Q1 on your mobile churn at Sosh. However, if you look at the numbers, the base at Sosh was down a little bit. But the overall base was down much more. So you

Bloomberg Transcript

FINAL

Bloomberg Transcript

still seem to have some, call it, net losses at the Orange brand. So is there anything specific going on there, any dynamic we should be mindful of? And what's your expectation going forward? Thank you.

A - Stephane Richard {BIO 14012413 <GO>}

So Ramon and then Fabienne.

A - Ramon Fernandez {BIO 16369589 <GO>}

On the COVID-19 expected impact, you've seen what we said regarding events, we do not expect with the information we have today that we will have a significant deviation compared to our objectives for 2020. But that, obviously, the situation is evolving extremely rapidly. There is a lot of uncertainties. And so we will consider an update of what we say now when we will be meeting or talking end of July, looking at H1. So this is the very general picture.

On roaming, and I'm talking here under the control of Jerome Barre, who's also with us, it's clear that COVID has a mechanic impact on the roaming traffic, where you don't have anybody playing basically, so no roaming. It's not structural. It's into the current situation. And we do expect a significant impact on the wholesale result. Because here, you will have in and out compensating.

What will be impacted on a mechanical basis is the retail revenues because of the absence of travelers. And it's too early to see the early impact. But you have to know that the roaming retail revenues yearly represent less than 1% of total group revenue. So it's not really massive. It's not very important.

About mitigation actions. You have listed a number of them. SG&A also, obviously, will be part of the game, going back to traveling. Well, these are costs that are going -- could be faced. You will be looking at consulting fees. You will be looking at all the indirect cost base. And you know that we also have this objective by 2023, which is still there, to obviously to reduce our indirect cost base by EUR1 billion.

So everybody is working in the company both on short-term measures but also medium- to long-term measures on how we're going to work on our cost base. And it will be linked to risk-specific situation. But we will not, of course, stop working on the more, let's say, structural long-term measures, looking at the impact of digitalization, of smart spending, et cetera, et cetera. So there is, in fact, a lot of work which has been done. And this will be on the OpEx side.

And as we said at the very early of the call, you also have the CapEx side, where here, there will be some kind of mechanistic impact of the lockdown period. We talked about it briefly. But then we can also have a voluntary approach in order to make sure that at the end of the day, in 2020, we are where we want to be and you have understood what we wanted to achieve when we talk about avoiding any significant deviation compared to our objectives.

FINAL

A - Stephane Richard {BIO 14012413 <GO>}

Thank you, Ramon. And very quickly, Fabienne.

A - Fabienne Dulac {BIO 19180347 <GO>}

Yes. Just as I explained just before, despite the lockdown, we observed that our customer base, and as I said, the premium customer base is very resilient. So we are really confident that in the future, due to the strategy we have and all the effort we made, we can come back and have the same kind of trend we have in the past. This period can be an opportunity, too, for the business driven by fiber. Because fiber, it's the best answer to have a good quality and good connectivity at home, both on mobile or fixed through the voice on Wi-Fi. And this will be the same for the convergence and the multi-service strategy.

So I am not worried about that. And I think we will have reopened our stores, and it's what we want to do in the -- from the 11th of May, all the dynamic will be back on the mobile, on the broadband, both on the low-cost and the last offer we launched, EUR15 lifetime plans for Orange is very efficient and very successful, and both on the high-end market because we will have all channels to be complete in our strategy to deploy.

Q - Frederic Boulan {BIO 5837427 <GO>}

Okay. Thank you.

A - Stephane Richard {BIO 14012413 <GO>}

So I think it's time to leave. So thank you very much for being with us. Thank you for also your questions. Have a nice day.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2020, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript