Orange Polska

CONFERENCE CALL TO DISCUSS ORANGE POLSKA FINANCIAL AND OPERATIONAL RESULTS FOR THE THIRD QUARTER OF 2020.

Company: Orange Polska

Presenter: Julien Ducarroz, Chief Executive Officer

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Participants:

- Julien Ducarroz, Chief Executive Officer
- Jacek Kunicki, Chief Financial Officer
- Leszek Iwaszko, Head of Investor Relations

Leszek Iwaszko, Head of Investor Relations

Hello and welcome everyone to our conference summarizing Q3 and nine months of 2020. Let me introduce speakers of today's call. I have a pleasure to introduce our new CEO Julien Ducarroz. And we also have Jacek Kunicki, our CFO, on the conference. Let me now hand the floor to Julien to begin the presentation.

Julien Ducarroz, Chief Executive Officer

Good morning, ladies and gentlemen. Welcome everyone on our conference summarizing third quarter and nine months of this year. It's a pleasure for me to be here for the first time, and I'm looking forward to work with you. I will start with business highlight, and Jacek will follow on the financial review, and then we will conclude with the conclusion and take your question.

So, let's start on **slide number 6**, which is an overview where we stand after nine months of the year against our full year guidance and expectation. Our performance in Q3 was in line with our expectation and the full-year plan remained unchanged. First of all, we do confirm the guidance for growth of EBITDAaL, it was flat in Q3 and is growing by more than 5% on a year-on-year basis after nine months, despite the negative impact of the pandemic. These results from our underlying turnaround that we started combined with exceptional effort on the cost side that we did in Q2. However, the pandemic is still around, and we are cautious about our future performance. We also maintain full-year outlook for economic CAPEX, despite the visible shortfall in the sale of our real estate. The property market has not improved yet and we manage our CAPEX spending accordingly. We have this flexibility until the end of the year.

Going on the next **slide 7**, where we talk about the COVID and impact on our business. This is not so much different from what was presented after the Q3 -- Q2 result, sorry. What I can comment is that the core telecom services are still relatively resilient to the pandemic, except, as it was in Q2, the prepaid that is impacted, and our roaming as you figure out that still travel is not taking up and our roaming revenues are still impacted. But as you will see later, clearly, the fixed broadband remains very strong. As well, our sales in mobile recover after the Q2 downfall, both in consumer and business market. The churn rate, which was particularly low in Q2, when the lockdown was in place, has gone up in Q3, but still remain on pre-pandemic level. When we presented to you our Q2 results, we mentioned a weaker pipeline in the ICT area, as it was affected by the pandemic and there was a slowdown of orders. And we see now that in our Q3 result where the ICT results are lower than Q2; I will leave Jacek later on to comment on this.

Another impact is on the real estate. Obviously, disposal of our asset on the real estate market has been slower than expected. The process and cycle is taking more time to close the deal, so this has as well a negative impact on our plan. Looking forward, obviously, this is a daily changes in this pandemic, so it's kind of difficult to predict precisely what will be the effect. But as I just said, there is anyway a mix of positive or strong demand and some other area that we need to mitigate. When it's about real estate, as I said, this is coupled with the CAPEX, and we have the flexibility to manage in a way that we maintain our guidance. We are not yet in a lockdown, at least as of today. But we still see the last 10 days more or less, a decrease in our retail, so we are very careful and monitoring and ready to apply the learning we had during the first lockdown.

So, now going to the fixed broadband. **Next slide, slide 8**. We had another, as you see on those charts, very good quarter for the fixed broadband, where both value and volume are going up. Our net customer addition for fixed broadband wee 24,000. This is our highest number for the last two years. And as you imagine this is very much driven by fiber where we have added 54,000 net additions in the quarter, which is again by far the best achievement we had so far in this area. If I comment a bit what are the main drivers for this exceptional performance on fiber, we mention three points. First of all, we touch it before that there is a very high demand from the customers, and that obviously this crisis and the pandemic has accelerated appetite and need for very high quality and very high-speed connection to Internet, which is what fiber is about. The second one is as well our capacity to deploy fiber because we have continued to massively deploy fiber according our plan. But as well we became after a few years of experience, more precise in choosing the good area that has the good return, and the high penetration, which is a namely medium and small cities. And we are as well having more single-family houses in the mix of what we are deploying. And the third one, which I think is very important and promising for the future, we see as well the efficiency of the sales force getting better and better. And this is obviously a learning curve that we are on, and we see as a good result; on the chart, you can notice that now we have increased to 14.2% the occupation on our footprint, which is a very good. And the last point, equally important as the volume that you see the ARPO of fixed broadband is as well increasing by 6% quarter-on-quarter. And this is driven by the mix of customer that we are getting on the fiber out of the total fixed broadband. The share of a single household is as well helping to have a better ARPO.

Going on the next **slide number 9**, talking more precisely on convergence and mobile. Commercial performance in Q3 in these two areas also illustrate the combination of strong customer volume and improving underlying ARPO trends; that's what you see on the chart. On the net customer addition in convergence, we can report 31,000 which is the best quarter that we have for convergence. And again, this is strongly driven by our fiber result. On the mobile side, handset offer net addition in Q3 were the highest as well in a few years. This is as well a combination of strong demand after the Q2 lockdown and as well low churn. So, the result of those two is obviously helping us to deliver the net adds. As well here it is worth to notice that the value strategy that Orange Polska started a few years ago is paying off because both on convergence and on mobile, we see an increase of ARPO. Those results will be even better if the roaming impact will not be there; so, this is what you can notice on the chart. We have restated what they would have been without the impact of the roaming, and you see that for the first time on the mobile handset, we would have seen growth without the impact of roaming. So, very promising for me for the future and as well confirming that the strategy that we are pursuing now since three years, in the .One is the right one.

On the below chart you see about efficiency and transformation. So, you can see that on the yellow box, the saving on indirect costs which are still very strong, but as well, we are continuing Q3 with the savings. The pink box is showing that after nine months, EBITDAaL is up with 5%, and this is thanks to the cost optimization, but as well, including, as you remember, the exceptional Q2 measure that we had taken. So, now let me hand over to Jacek.

Jacek Kunicki, Chief Financial Officer

Thank you, Julien. Good morning, everyone. Let's start the financial review on **slide 11**, where we present the highlights of the performance. Our Q3 results were solid, and in line with our expectations. The top line contracted due to a predicted drop of ICT sales and less roaming. However, growth of our core telecom services was steady and as steady as in Q2. Our Q3 EBITDA was stable year-over-year. This is a tremendous effort, considering the adverse impact of the pandemic on both, revenues and on our direct costs. It was possible due to an enormous effort on the cost side compensating for the adverse impacts of the pandemic.

Our eCAPEX is much higher in Q3 versus last year. This stems from less proceeds from real estate sales; as the market is more challenging right now, while we recorded record high sales a year ago. Anticipating this we have adjusted our CAPEX spending accordingly, and we're confident to meet our full-year plans and objectives in this area. The difference in real estate sales is also visible in the year-on-year dynamics of our cash flows, which were strong with the exception of this item.

Let's look at the top line on **slide 12**. So, as mentioned our Q3 top line contracted by 2.7%. year-over-year. This change in dynamics was expected by us, as you remember from our prior communication. It is due to the impact on the pandemics visible especially in the marked drop of the roaming revenues, down by about 50% as well as in the decline of our ICT sales. Now, analyzing the main components of the top-line, revenues from core future-proof areas grew by 1.2% in Q3, and this is after they have enjoyed almost 8% growth rate in H1. They grow at a slower pace due to the previously mentioned change in ICT revenue dynamics. ICT revenues were down by 17% year-over-year in Q3, after they have been growing by more than 50% in H1.

This was expected since the lockdown in spring, when we observed many orders being postponed or canceled by clients. In addition, the comparable base was higher in Q3 as we started to consolidate our BlueSoft subsidiary in the third quarter of 2019. On the other hand, revenues from our core subscription services continue to grow. They grew by 2.3% in Q3, demonstrating the resilience to this situation. Revenues from convergence and broadband are the main growth engines fueled by the customers' appetite for fiber. Their growth helped us to offset less common traffic and more challenging trends in prepaid where we again observed a contraction of the customer base in Quarter three.

Finally, equipment revenues were 9% down year-over-year, despite growing by 5% since Quarter two. They have not yet fully recovered, as customers are more cautious than before in taking on additional commitments for handsets sold in installments.

Let's now switch to **slide 13** for overview of the EBITDA performance. Q3 EBITDA after lease was stable year-over-year. This is a strong performance as the pandemic driven drop of our direct margin was offset by another quarter of solid savings in indirect costs. The direct margin was down 42 million year-over-year. And this was due to the pandemic impact on our revenues, on our bad debts, as well as on other provisions for future risk areas. This was then offset with a strong result in indirect cost management. These were 5% down year-over-year, with savings coming from labor costs, advertising, and lower CRM expenses. This was achieved in spite of a steep increase in energy prices observed this year, which inflates our IT and network costs.

It's worth noting at this point that 2020 is a fourth consecutive year, in which we generate net savings in almost every quarter. And that this year costs reflect a truly exceptional efforts to mitigate the impact of the lockdown. It is achieved thanks to an underlying business transformation. But also, this year, this is thanks to some non-recurring items, such as the curtailment of jubilee provisions booked in Quarter two. So, any extrapolation of this very solid trend should be made with caution for the future. The EBITDA result after nine months of the year allows us to confidently reiterate our growth guidance for 2020. However, as we're observing a second wave of the pandemic, and we cannot be certain as to the countermeasures that will be taken by the government, we continue to cautiously monitor the impact of the crisis on our future results.

Let's quickly take a look on the bottom results on **slide 14**. We posted a 53 million net profit in Q3, so similar to the previous quarter, but much below Q3 of last year. The reason for the year-on-year drop were record high sales of real estate in 2019 when we sold the Nowogrodzka Real Estate Complex in Warsaw, and this transaction alone generated over 200 million of net gain last year. On the positive side, our net financial costs are 24 million down year-over-year due to negative foreign exchange differences last year.

Over to cash flow on **page 15**. We generated almost 60 million of organic cash flow in Quarter three. This is significantly less than a year ago due to the already mentioned difference in real estate sales. In addition, our Q3 cash flows included around 120 million of social security payments shifted from Q2 as part of the government anti-crisis shield. So, these two items apart, the underlying cash flow performance was strong, supported by good cash collection and lower cash outflows for CAPEX. Please also note that after nine months of the year, the organic cash flow is on a comparable level to last year despite the gap in real estate. This is thanks to operating cash flows being supported by EBITDA growth and by good working capital management.

Finally, let's take a look at our net debt on **slide 16**. The net debt is PLN 360 million lower versus last year. It stands at 2x EBITDA as compared to 2.2x a year ago. This is important for us in the context of the upcoming 5G auction, and the expenses related to the 5G rollouts, that are expected in the future. We are progressing with refinancing of some of our net debts as we have significant loan facilities maturing in June and May of next year. We expect to complete this refinancing by the beginning of the next year at the latest.

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 Julian for the conclusions.

Julien Ducarroz, Chief Executive Officer

Thank you, Jacek. So, to conclude, Q3 was very strong commercial and solid financial performance as we have just seen, despite still some negative impact coming from the pandemic situation. After these nine months, we feel absolutely confident regarding delivering growth for the full year in line with what we promised. I would like as well to mention that we are extremely proud that Orange continue to be the most recommended operator on the Polish market. We maintain number one position in NPS in this quarter, and this is a big tribute to all the employees in Orange which we are having obsession for customers and their satisfaction.

At the same time, the pandemic situation is now very dynamic, and we have to monitor this closely and adapt as we have done in the first nine months. And we have as well while we are preparing 2021 to look and stay and maintain this flexibility, as no one knows, how it will develop and how long it will be in 2021. We commented on the FiberCo and let me just reiterate that the process is in the full track; 10 days ago, we shared an info memo with quite significant number of interested parties. So, we are pleased with the development so far of this project, and we aim to close in H1 this project, which is very, very important for us as it relates to our fiber. And as you have seen, the fiber is the core of our strategy and our results.

Just a few words about what we are focused on and the big topic for the company at the moment. So, obviously, there is a 5G auction that we are waiting for more precision and exact timing, which for the moment, it's not known. Within this 5G there is as well the discussion, and we are waiting the final cyber security law. And obviously, there is a lack of clarity for us; we are not in the position yet to have all the financial and impact for the future. But we are prepared to act on it.

And then there is another point that was commented on around the Iliad. So, obviously, this is quite the news for the market. On our side, from my side, this is somehow a confirmation that the convergence is the right thing to do on this market. And the fact that we have been doing it for many years, and as I told you that what I believe that part of the reason of our good result is the fact that we know where and how to deploy, and we know how to sell; it's clearly an advantage. Nevertheless, we are integrating and doing some scenario regarding Iliad, because clearly, and they stated it publicly, they aim for convergence. But we are fully working on this.

And the last point I wanted to tell you is that I'm working with a team as well to formulate the next cycle of strategy as we are completing the .One Strategy. And I will be back to present to you during Q2 next year. And it will be the start of a new cycle. Thank you very much for your attention. We are ready to take your questions.

Leszek Iwaszko, Head of Investor Relations

I suggest -- we received a lot of questions electronically, but I suggest we start with those who listen to us on the call and are ready to ask the questions live. Operator, please.

Operator

Thank you very much Leszek. We will now be entering the Q&A portion of the call. If you have a question, please press star-two on your keypad and wait for your name to be called. Once again, start-two for the question. We will give it a minute or so. Well, thank you very much. We have the first question from Dilya Ibragimova from Citi. Please go ahead. Your line is open.

Dilya Ibragimova, Citi

Hi, thank you very much for the call. Congratulations on the strong results. I had two questions, please. First on the cyber security regulation that is still in the draft form. Your peer in September issued release saying that they expect the maximum impact to be just below PLN 1 billion if the restrictions were to be applied within seven-year perspective. Maybe you could quantify what you expect the impact would be if we just set similar parameters as Play did, just to give a flavor, an indication, just to have a number in mind, if you have one. A second is on FiberCo, you did mention that you have seen very significant interest. Can you share with us what are the interested parties are, the mix may be, is it a private equity infrastructure fund, is a mix of private and public companies, any -- whether you have a feel of what makes the potential investors interested in the FiberCo. Any color there would be very, very helpful. Thank you.

Jacek Kunicki, Chief Financial Officer

Thank you. Thank you for your question. So, regarding the cyber security law, this is for now, a draft, very, very draft bill. So, we're obviously an active participant of the consultation progress. Regarding the figures, obviously, we have some numbers in mind, but we could share that with you only after the concrete conditions of the law will be known, because there's too many uncertainties to speculate with a figure or a range of figures right now. So, we will come back to you with this, but when we will know what are the conditions for the cyber security law. I hope you appreciate that.

Regarding the FiberCo interests, the discussions that we are and will be having is on two fronts; it is with the equity partners on one hand, it's also with the financing banks, on the other hand. What we can say is that there is interest right now, you will appreciate that since these are not non-binding offers that this interest is not yet fully representative. I think we will be again able to share more when we will have some more progress and more binding offers. We only hope to close this deal, as we mentioned in H1 of next year. Thank you.

Dilya Ibragimova, Citi

Thank you very much.

Operator

Thank you very much. Our next question comes from Mr. Piotr Raciborski from Wood & Company. Please go ahead sir. Your line is open.

Piotr Raciborski, Wood & Company

Good morning. Piotr Raciborski, Wood & Company. I have two questions. First considers Iliad. Do you think that Iliad will be interested in a fiber wholesale deal with Orange? And would you be interested in such cooperation?

Julien Ducarroz, Chief Executive Officer

I cannot comment on their intention, I would say more on a general perspective, what we are aiming on the FiberCo is an open model, which therefore, we will be interested to any player that is willing to buy from this model. But regarding their interest, I am not going to comment their interest.

Piotr Raciborski, Wood & Company

I don't mean the FiberCo deal, I meant wholesale deal just like you had with T-Mobile, wholesale access to your fiber networks.

Jacek Kunicki, Chief Financial Officer

I think obviously, we are in both FiberCo projects and our earlier project with T-Mobile demonstrate that we are open to benefit with both retail activity but also with our wholesale activity on the fiber front. I think the footprint of the future FiberCo and the footprint of the existing built, this is not the same, obviously geography is not the same level of competition, so conditions will obviously vary. But well, I think on the existing footprints in a number of areas we are regulated, in a number of other areas we are non-regulated, but the cooperation with T-Mobile shows that we are open for commercial agreements. And then the FiberCo which will be the main vehicle to roll out fiber in the future, obviously that is something where we are also quite open for wholesale cooperation. This will be realized on an open network.

Piotr Raciborski, Wood & Company

Okay. And my second question considers your plans for the mobile network. I know that you're currently focused on FiberCo, but in general, would you consider monetization of your mobile network? Recently we've seen the news about Iliad partnering with Cellnex, considering Play network in Poland, Play gets quite attractive valuation. Would that be an argument for you to consider monetization of mobile networks? And from the other point of view, would you be interested in cooperation with Play Iliad tower company, if there was such opportunity? And in general, would anti-monopoly regulation allow for such cooperation in network sharing?

Jacek Kunicki, Chief Financial Officer

Thank you for those set of questions. I think first of all, what we should remember and should have in mind, when comparing the two potential, I would say, spheres of infrastructure projects are the main goals that we have for the for the FiberCo. And these are, I would say, a bit different to what you could contemplate from any type of infrastructure project on the mobile side. So, on the FiberCo, I think the main idea is, first of all, to be able to continue to roll out fiber, we see still quite a lot of potential in rolling out fiber. If you take a look at the penetration of internet in Poland, it's around 62% versus 80% in EU; so, there's a lot of space for all operators to gain clients. And fiber is the way to go, we are quite convinced about that. So, first is to significantly extend our reach. Second of all, what we would wish to do is to build this in an open network, and to build this new infrastructure in rather medium and low competition areas from the infrastructure perspective. So, here to gain both, our retail, increase our retail capabilities, but also to gain wholesale customers. We think that, in this context, using the FiberCo is a smart way to finance the build of this infrastructure, rather on the balance sheet of the FiberCo than on our balance sheet, which we think we will preserve the flexibility which is needed in front of the 5G auction, in front of the rollout of the 5G network; and this is something which is one of the benefits of this infrastructure project.

And in addition to that, you have the potential to monetize upon this project, because I would say, we think that the value of this infrastructure could be worth quite a lot and it would be beneficial to us and all the stakeholders for us to monetize on this. So, there is a big roll-out part and infrastructure build part to this agreement. Now, if you compare this to any potential, I would say, mobile projects, again keep in mind that we already have a RAN sharing agreement with T-Mobile, so a lot of, I would say, efficiency benefits have been already explored. So, this is, I would say, a part which is very different from the FiberCo, and here, we would say, FiberCo is more about new build. Any transactions which I have seen on the market for any towers, it's more about the existing build. So, it's a very different transaction for us, currently not on the agenda. I would say, the FiberCo project is very demanding for us. So, first let us work on the fiber project, which is with a long horizon anyway, because we are thinking about closing the deal somewhere in H1 of next year. And then we can contemplate anything on the mobile. But it's not on our agenda at the moment.

Piotr Raciborski, Wood & Company

Okay. Thank you for your answer. And my last questions, you plan to publish the strategy update in second quarter next year. Can we expect that you will declare something on the dividend payouts, potential dividend payouts?

Jacek Kunicki, Chief Financial Officer

Well, I think as any strategy we will need to adjust this very vital point of the dividend. We are aware that our shareholders would like us to return to the dividend, and we would like to return to the dividend as well, someday. We want to make sure that we return to the dividend on a sustainable basis. So, in this context, this is the information which we've always been sharing with you, there are a few items and checks that we need to ensure. First of all, we need to ensure that we have sustainable growth of our margins, sustainable growth of our EBITDA, sustainable growth of our free cash flows. We need to make sure that the structure of our balance sheet is safe enough. So, in this context reasonable pricing of the 5G is something that is vital. Obviously, the FiberCo project would help us and could help us with both when you're thinking the longer-term perspective. And I'm sure we will address the question of the dividend in the upcoming strategy.

Piotr Raciborski, Wood & Company

Thank you very much.

Operator

Thank you. Just a reminder, start-two for additional questions. We have a follow-up question from Dilya Ibragimova from Citi. Please go ahead Dilya. Your line is open.

Dilya Ibragimova, Citi

Thanks very much. My question is on working capital. I think you've mentioned it Q3 you had to pay off the payables related to the second quarter, and that looking at the working capital, it was neutral in Q3. Was there an offsetting release elsewhere? If you could comment there, and maybe anything to expect in the fourth quarter or it will be more business as usual.

Jacek Kunicki, Chief Financial Officer

Okay. So, no special additional non-recurring circumstances that influenced the working capital, particularly in Q3. It was apart of the payment of the 120 million for the social security. I think generally, when we comment on the working capital first of all, we are satisfied and quite happy with the cash collection, so customers are continuing to pay and pay on time, despite this economic crisis. And this is and was and will be one of the key areas which we are monitoring in terms of the potential adverse impacts of the crisis, this is not materializing. So, this is obviously helpful. You will see that for the last three quarters, the sales of equipment were not particularly high. And in this sense, the accounts receivable are not growing in the pace that they would have normally grown, because we are not selling a lot of handsets in installments, at least in comparison to last year. And obviously, we've maintained solid discipline on our inventories and our standard trade payables, but nothing out of the usual that we have made, or that happened to influence the Q3 results. In terms of Q4 outlook, it's the vital question that we will be asking ourselves, but this is the same for Q1 of next year or Q2 of next year. It's how will trade receivables behave and what will be the cash collection at the end of the day. Thank you.

Dilya Ibragimova, Citi

Thank you very much.

Operator

Thank you. Our next question comes from Mr. Marcin Nowak from Ipopema Securities. Please go ahead sir. Your line is open.

Marcin Nowak, Ipopema Securities

Good morning. Thank you for the presentation. It was said at some point during the Q&A that it is smart to finance the deployment of fiber with FiberCo instead of balance sheet. But could you answer if you consider the financing new deployments of fiber with leasing? Because in your presentation, in net debt you do not include leasing and present leverage without leasing. So, also, we saw the examples of the Orange Group in Spain especially that new deployments are financed with leasing. So, I would like to ask whether this option is on the table.

Jacek Kunicki, Chief Financial Officer

Thank you for your question. I think we can do better than leasing to answer your question directly. So, what we are contemplating is to set up this FiberCo vehicle which would be co-controlled by us and by the equity partner. When you're thinking co-controlled, it means we do not consolidate this entity, we rather treat it as an affiliate company rather than a subsidiary.

So, the balance sheet of this company is not included in our net debt. This company will have its own debt facilities, which will finance vast majority of the rollout. That's why I mentioned banks, not only the equity partners as the interlocutors that we are talking with when progressing on this deal. And in such a way, what we are aiming to do is, not only to finance this off our balance sheet, but also through the sale of the 50% stake to monetize the value of this infrastructure, both current and future and to try and well, bring this value to Orange Polska. So, I would say, we have thought about leasing, but we think we can do a project which will be more beneficial for us than the simple use of lease in network rollout. Thank you.

Marcin Nowak, Ipopema Securities

Okay. So, follow-up to this. So, if there is such value in leasing off balance sheet finance for it, so why not to sell entire fiber infrastructure outside the company and not to consolidate the entire fixed infrastructure, because you want to with some new development and some 600,000 households will be put on it, not the entire current network?

Jacek Kunicki, Chief Financial Officer

Thank you for this follow-up question. So, as we've been communicating in the past and right now, the future rollout is contemplated at around 1.7 million of households which are mostly located in areas where there is very little alternative infrastructure. So, I would say, from an infrastructure perspective, this is low competition area or medium competition area. The infrastructure that we are contemplating to move to this FiberCo the aforementioned 600,000 households, it is also this infrastructure from our current footprint, which is located in mid and low competition areas making this quite a coherent, I would say, vehicle.

Now the other parts of the infrastructure that we are using and that we have built, they are of a different nature. Some of it is in high competition areas from the infrastructure perspective, such as Warsaw or other big cities, and as such, their characteristics is very different and less suitable for the FiberCo vehicle, not to mention the infrastructure that we are building as part of the EU subsidized funds, which is -- well, it's more rural, it's with the subsidy. It will be an open network. It has already been financed with EU subsidies. So, there is no further benefit or use to move this to the vehicle. So, to answer your question, it depends on the profile of the infrastructure, mid and low competition areas that we were planning to build. This will be in the FiberCo. The more density, I would say, competition areas from the infrastructure perspective will stay with us. I hope that answers your question.

Marcin Nowak, Ipopema Securities

Yes. Partly. But let me put the question differently. In this low competition area, what possible uptake penetration of users on this 1.7 million households do you think is possible to achieve, if assuming that we will be deploying this fiber on your own, 30%, 40%? And how it compares to your target penetration in the high competition area?

Jacek Kunicki, Chief Financial Officer

Well, I think, first of all, when you're thinking about infrastructure, then the perspective that we have is quite a bit different from what we -- the time perspective is quite a bit different from what we as a telecom company usually have. So, while we will look at the business cases and paybacks with a 10- or 20- or 25-year perspective. The infrastructure perspective is much longer. And in this case, if you're thinking about infrastructure in areas where there is no real alternative, then the Internet penetration be it current or be it future Internet penetration is your ultimate benchmark, especially if we are thinking of opening this network up. So being the only infrastructure that is there, if the infrastructure is open, there is no real rationale for somebody else to overbuild. And here you are benchmarking yourself to the future forecasted penetration of Internet in Poland and in those areas. So, I would say that could be above the levels that you are mentioning. You know, today, when we are building them that the EU subsidized infrastructure, we already see that the penetration can be strong double digit within months and we can expect something like 30%, 35% within a year. So, there is an uptake and there is an appetite for this type of product. I think we think we've found a way to deliver and finance it. And if you're taking long-term perspective, it's really high penetration rates that you can count on.

Marcin Nowak, Ipopema Securities

Okay. And last question from my side. How many current customers on all the technologies do you already have on those 1.7 million new potential FTTH deployment?

Jacek Kunicki, Chief Financial Officer

What we estimate is that by the end of the year, this will be around 150,000 customers on the footprint that we will be moving to the FiberCo. That obviously may and will change as we are continuing to sell, but this is the rough number that we would migrate together, well, the rough number of accesses for which we would need to buy wholesale access from this FiberCo at the moment that we set it up. Because there will be no customer migration, so customers -- our retail customers stay our retail customers. We will buy wholesale access from the FiberCo for those customers that are in that footprint.

Marcin Nowak, Ipopema Securities

Okay. So, should we understand that within those 1.7 million households, there are no currently fixed broadband customers in I don't know, VDSL or LTE for fixed, so there will be no cannibalization of your...

Jacek Kunicki, Chief Financial Officer

So, I was mentioning what is the amount of fiber customers in our 600,000 footprint.

Marcin Nowak, Ipopema Securities

Yes. But I am asking whether there our current existing customers within those 1.7 million?

Jacek Kunicki, Chief Financial Officer

There will obviously be a strong migration potential within the 1.7 million.

Julien Ducarroz, Chief Executive Officer

And the other point that we can add is that the exact location of 1.7 million is not yet finalized, but it's fair to take given our penetration on the ADSL, VDSL that there is an overlap, but at the moment, as 1.7 million have not been yet frozen for different operational planning perspective, we cannot give you a precise number.

Marcin Nowak, Ipopema Securities

Okay. Thank you.

Leszek Iwaszko, Head of Investor Relations

Let us now switched to questions that we received electronically. There's a lot of them. Questions from Santander, from Pawel Puchalski. The first question, can you discuss risk of Iliad and its potential market disrupting convergent offer to your operations going forward. Is this a risk or you have some mitigants here?

Julien Ducarroz, Chief Executive Officer

Let me take the question. So, obviously, Play has demonstrated that they are a strong competitor on the mobile side and the shareholder of Iliad is as well in a stronger signal, as Iliad has a track record in some of the country they're operating. So, clearly, we are looking at this, but equally I think as I said in my presentation, we have already a few years of doing convergence. We are becoming more and more mature in execution and commercially. And I would just say that this is part of our marketing plan and we are contemplating different scenario. And when Play will enter on convergence, we will be ready, but we are confident that what we have built so far and the result that we are showing today, give us reasonable confidence that we know where we are going.

Leszek Iwaszko, Head of Investor Relations

The second question is from Santander. What could be the scale of bad debt risk in coming periods? The same question, scale of risk originating from B2B segment, if I understand correctly.

Jacek Kunicki, Chief Financial Officer

Okay. So, I can take this one. Thank you, Pawel for your question. You've probably seen in our financial statements that we have created a prospective bad debt allowance for around PLN 25 million. This is PLN 15 million that we created in the second quarter of the year. It's been increased by PLN 10 million in the third quarter of the year. Well, this reflects the current conditions that we are observing, but also the future economic outlook that is being forecasted.

We are using our past experience with crises to extrapolate this based on a number of scenarios. So, to answer your question, we are trying to -- each time that we are publishing financial statements, we're trying to estimate the potential for the future and it's currently estimated at PLN 25 million. This is the allowance that is in our books already. We will continue to monitor the situation. We will also continue to monitor the cash collection, the quality of our accounts receivable, and we will be updating this allowance, this bad debt allowance for the prospective losses in every quarter. And always, you will see what is our best knowledge at the moment for the prospective future bad debt. It stands at PLN25 million right now.

Julien Ducarroz, Chief Executive Officer

And maybe just to add on the B2B, which on one side for sure we will be affected in case there is a severe degradation in some of sectors that might happen. But I think as well equally, what we did in the past by investing in ICT with BlueSoft is as well making us quite resilient on the B2B side because while this crisis will certainly affect some sector, there will be maybe with a delay like we have seen in Q3, but in the long run, digital transformation. That where we are more and more investing and supporting our client, will drive the demand and our result on the B2B. So, I think, yes, obviously, depending on the economy, we will suffer, but I think as well, we are position quite well to benefit from some area that will see a growth independently of the crisis.

Leszek Iwaszko, Head of Investor Relations

The third question is from Santander. Should we expect the long unseen dividend to be paid out in 2021?

Jacek Kunicki, Chief Financial Officer

So, I think I've tackled the dividend question already. We will obviously come back with the answer as soon as we can. And I think we've discussed the main areas where we need to have more clarity on to be able to answer this question. So, I will reiterate that it is important for us to reinstate the dividend. We know it's important for the shareholders to reinstate the dividend. We wish to do it in a sustainable basis and so we need a bit more time to answer your question, Pawel. Thank you.

Leszek Iwaszko, Head of Investor Relations

Another question comes from Pawel Szpigiel from mBank. The first question is, please give us an update on FiberCo, which I think has already been tackled. So, the second question is to the CEO, to Julien. Could you please share your first impressions about Orange Polska? What are your opinions, what are your opinions about the key points that constitute the strength of the Company on the Polish market? And how do you assess the entry of Iliad into the Polish market and its plan for the development of the fixed mobile convergence? I think the last one was already tackled as well.

Julien Ducarroz, Chief Executive Officer

Okay. Thank you for the question. I will not comment on Iliad again, but regarding my first impression, so I would say that, they reflect a bit what we have presented today, which is a very strong result considering the market and the pandemic situation. Clearly, the convergence has been the right -- better done in the past and now it's being off and it's even accelerated with this higher demand of high connectivity. Then there is as well the B2B, as I commented. I think it's a very strong as well area and we have ICT and cyber defence, which I believe are two strong growth potential for the company. That have been accelerated with pandemic situation but are trends that are here to stay in the longer run.

So, yeah, I'm very impressed with the company, very honoured to have been nominated in this position, and we are going to continue the convergence, which is the right strategy. Some, probably more segmentation will come as well given the market condition and the potential change of the competitive landscape. As well, you will see, and this will be part of the new strategy, we will put forward much more accent. We were doing in the past, but maybe not enough communicating about it around Green and the sustainable company. 5G will be part of our agenda for the future. As Jacek said, it will be as well parameters to be able to return to a dividend together with the FiberCo proceeding. And there is another chapter that most likely we are going to open in the new strategy, which is a much more data-driven company, where we will invest -- ICT is one of the areas, but internally in our capacity to leverage big data and artificial intelligence.

Leszek Iwaszko, Head of Investor Relations

We're switching to question from PKO BP Securities, from Malgorzata Zelazko. It's on FiberCo and related. Do you consider including more than 600,000 households in FiberCo in case of high interest among financial investors? Is financing the future investments the only goal or do you consider improving your balance sheet? Could you share some estimates for us -- and this is a different topic. This is about Huawei. Could you share some estimates for a scenario in which telecoms wouldn't be allowed to by Huawei equipment in the future? How does this impact your CAPEX? I think that was already well covered. So, let's concentrate on the FiberCo question.

Jacek Kunicki, Chief Financial Officer

So, for the FiberCo, thank you for your question. For the FiberCo after analysing the structural differences of our existing fiber footprint, we think really the optimal solution is the 600,000 that we are planning to move to the FiberCo. The goal is to do both. The goal is to achieve smart financing for the future and also to help increase the flexibility of our balance sheet as we do expect to monetize on the sale of the 50% shareholding in this FiberCo. So, to answer your question, it is both. We want to improve our balance sheet and to smartly finance the future rollout. And we think the 600,000 is really the optimal structure for this vehicle. Thank you.

Leszek Iwaszko, Head of Investor Relations

For a change, we have a set of questions from Konrad Ksiezopolski from Haitong about commercial performance. So finally, something different. About net additions in fiber, because in the past, we were showing how much of the net additions were coming from outside of OPL versus migrations from other technologies? Could you share what was in this third quarter, of this 54,000 figure? So, let's maybe tackle the questions one by one because there are several of them?

Jacek Kunicki, Chief Financial Officer

So, our fiber continues to bring vast majority of the clients which are new. It's around 70%, the new versus the migration.

Leszek Iwaszko, Head of Investor Relations

He would like to also know fiber net breakdown. What is the percentage coming from big cities and what percentage coming from less dense areas, where you mostly develop fiber network? I don't think we have such...

Jacek Kunicki, Chief Financial Officer

No, right now, we don't provide the data. Thank you.

Leszek Iwaszko, Head of Investor Relations

We don't provide such detailed information, but obviously one of the factors behind such strong net adds is the fact that we are developing more in the less dense areas and in single-family houses in particular. The third question is about mobile. Of course, part of the reason of decent net adds in M2M are the strong overall net additions, but I would like to ask about mobile handset net adds which grew to above 100,000 from 60,000 to 70,000 in the past three quarters, are there any special commercial story behind that growth?

Julien Ducarroz, Chief Executive Officer

There is no. I think this is just the consistent execution of our plan, the quality of our services and networks, especially when it comes to data quality. We were rewarded over the quarter for our performance of download and obviously in the current, since seven months, the appetite both on fiber, but as well on mobile Internet to have access has rise.

And we have as well to say, when we are talking gross adds, net adds, the churn is still at a good level, which is as well linked with our effort related in the customer experience and customer satisfaction. That is, as I stated, we are number one. So, this translate in obviously very good result that we are pleased with on the mobile.

Maybe one comment we didn't touch is about handset, where if you will relate the good gross adds and our performance of handset which are as well explaining a bit why the revenue don't grow as much as last year is that, last year, we had an exceptional Q3 quarter when it came to handset, because we were running a promotion with voucher. So again, I think this indirectly answer your question on specific action.

Leszek Iwaszko, Head of Investor Relations

That was exactly the next question of Konrad. So, you've front run the question that not even knowing it. And the next question is what do you expect -- when do you expect equipment sales to come back to previous levels seen before COVID-19 pandemic?

Julien Ducarroz, Chief Executive Officer

Well, this is difficult question. I would say Q4 should be a bit better due to iPhone and I think this is usual cycle. iPhone has launched a bit later. So, when we will do the comparison, we might benefit as well from on the Q4, again a bit penalizing on the Q3 year-on-year basis due to the shift of iPhone launch date. But yeah, this is an area we are working on. As well, we have to say that there has been an increase of the open market. People as well are moving more on digital to buy independently of the closing or not closing of the shop. So, this is something we are working on. We adapt and we are confident that we will not lose ground on this front.

Leszek Iwaszko, Head of Investor Relations

Next question is about the ICT. Could you elaborate more on outlook on ICT revenues, especially as you see ICT among short-term challenges? Do you think Q4 ICT dynamics could be under pressure as well? How do you see ICT clients in their budgets and how your ICT clients see their budgets in 2021?

Jacek Kunicki, Chief Financial Officer

Thank you for your question. Well, ICT is one of the more I would say volatile categories since the pandemic has started. We expect Q4 to pick up versus Q3 definitely. However, we must remember that there is a different phasing of sales between the different years. I think we've had an amazing H2 of last year. We had a very, very good H1 of this year, where we have benefited from projects that were started in the second part of last year. And revenue growth in H1 of this year was 50% in ICT. So, the year-on-year dynamics will obviously be still under pressure for ICT for quarter four. It will be better than Q3, but it will be under pressure year-on-year.

And as for the next year, that will, I think we should have a pickup because some of these delays are just delays and we will have customers going back to their digital venture and we will assist them with doing that. Now, how soon will this pick up, I would say, take place? That really depends on the severity of the economic crisis. Short term, it's -- we know that it will be there. We know that the long-term trends are very positive for ICT and we are confident to that respect. Now, it's difficult for me to tell you if this will be Q1, Q2 or Q3. The situation is moving very dynamically at the moment.

Leszek Iwaszko, Head of Investor Relations

And the final question from Konrad is about real estate. How do you see real estate market in Q4 and coming quarters, do you expect some rebound to come?

Julien Ducarroz, Chief Executive Officer

Well, we do expect rebound in the sense of, we have some very attractive assets that we have put on the disposal list. Now, I think it's a bit -- not exactly the same as ICT, but there has been a slowdown, which we understand from the people. I think what is different from ICT, which is just the generic landscape and probably the process of approval are bit longer, there is as well for some of the real estate we have that were planned to be office investment. That obviously the potential buyer is waiting a bit as well to better understand whether the post-COVID in term of office will be the same. So here, again, for me, it's not a question whether it will happen or not, because those assets are there, they are good quality, good location, but still the question that is very difficult to answer is, when they will enter into our proceed, because some of the investors obviously are waiting to have more clarity about the post pandemic. But again, the quality of the asset are there, they are not getting down due to the crisis and I'm confident that in the mid-term, we will dispose them.

Leszek Iwaszko, Head of Investor Relations

The last question electronically that I will ask is, again, it's a follow-up from Pawel Puchalski. On the basis of pandemic risk, do you see that the risk that 2021 EBITDA coming in lower year-on-year?

Jacek Kunicki, Chief Financial Officer

We will comment on that in February, Pawel, traditionally, when we will issue the guidance for next year. Thank you.

Leszek Iwaszko, Head of Investor Relations

Okay. Thank you. Thank you very much. There was a lot of questions, interesting conference. Thank you, a lot, and see you back in February for the summary of the full-year results. Thank you. Bye-bye.

Julien Ducarroz, Chief Executive Officer

Thank you very much.

Jacek Kunicki, Chief Financial Officer

Thank you. Have a nice day.