Orange Polska

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

Company: Orange Polska

Date: 18.02.2021

Participants:

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

Leszek Iwaszko, Head of Investor Relations
Hello. Welcome, everyone. Good morning. Welcome to Orange Polska Conference summarizing Quarter Four and Full Year of 2020. I have a pleasure to introduce the larger group of speakers today starting from Julien Ducarroz, our CEO; left to him Bożena Leśniewska, Deputy CEO in charge of Business Market, and Jacek Kunicki, our CFO. Let me now hand the floor to Julien to begin the presentation.

Julien Ducarroz, Chief Executive Officer
Thank you. Good morning, ladies and gentlemen. Welcome everyone on our conference summarizing fourth quarter and full year 2020. We will also quickly summarize our Orange.one strategy that has ended at the end of the last quarter. As usually as it was said, we will take the opportunity to zoom on one of our key strategic activities around B2B. And at the end, we will take the answer.

So, let's move on the next slide, summarizing our financial performance. So, in 2020, as you can see, we have delivered fully our financial commitment. We guided for growth of EBITDAaL and it was almost 3% year-on-year. Please note as well, this is the third consecutive year that we have been growing our operating profitability. Thanks to a very strong Q4, we managed to achieve small growth of revenue as well, almost 1%. I'm very pleased with this because you might remember that at the beginning of the pandemic, we revised our outlook on revenue, given the uncertain outlook and environment; and despite this, we have been able to deliver this growth of almost 1%. On the CAPEX side we are exactly in the middle of the range, despite significant difficulty to sell our real estate due to the slowdown in this market. So, we have been able to adjust our spending on the technical side.

So, having said that, I will move to the next slide, which summarizes I will say the environment and what we have been doing. So, obviously 2020 was not what we expected at the beginning. But I think despite those unprecedented challenges we did good. So, if I look back when we were in March, we immediately revised our priorities giving top focus to our employee, to our customer and as well to the business continuity. So, we had to adapt very quickly. Almost 85% of our employees went to work remotely. But we didn't stop only on those three points. We participate and answer the call of society to provide different mean and support to different organizations. Let me name some of it. So, we supported hospitals with better connectivity as well providing smartphone and data bundle for people to stay in touch with their family. We supported as well teachers and students with a special offer on Orange Flex and we provided as well modem and tablet for those to continue and not stop education. Orange Foundation has as well delivered a lot of seminar to help teachers to adapt to this new environment and provide tools and techniques to keep education online. For the elderly customer we have as well provided facilities to delay payment and as well free delivery at home of material. So, I think we did a good job for our employee, which was very important as well to continue the business, but as well to support the society with all the assets that Orange Poland has.

If I look now on the core subscription services, which you know, this is our main margin contributor; we can say that our business has been very resilient during this period. We are as well very satisfied with the commercial performance, especially in H2 and I will come back on this one. But we have to mention as well that this crisis has put pressure on our business, and I will name some of the area that has been affected. So, obviously, the reduction of mobility, whether it was internal or international, has impacted the roaming but as well the prepay business. One of the areas that I think was the most impacted for us, as you know, we have a plan to dispose our real estate and this was obviously slowdown. It is not a cancelled plan, but this is a postponement, and we are currently working and remodelling our offer. And we do expect that the market as soon as the crisis will go away, that the market will pick up again.

So, we had as well, given those plus and minus, do some exceptional measures. You might remember some that we named last year on the OPEX and as well on the CAPEX in order to compensate for this real estate shortfall. I think as we are still in the crisis, obviously, we are looking cautiously about the future evolution economically, but as well in terms of customer payment.

Going on the next slide, showing a more deep dive on the commercial performance. Obviously, this crisis has created an acceleration of the demand for fixed and fast and high-quality connectivity, which we have been extremely well positioned to answer this high demand. So, you can see on the graph the growth; and if I look at Q4, we had obviously a very strong quarter both in volume but as well on value, as you see the evolution of the ARPO. We recorded 40,000 net additions, which is the highest in the last three years. This is obviously driven by fibre, where we added 63,000 customers in Q4, and we can see that our base has increased by 10% in a single quarter. The driver as I said is a high demand and as we commented in Q3 are still the same in the sense of we became very efficient in deployment plan; so choosing the right new household but as well, our sale is becoming more and more efficient, and we are able to increase utilization rate of our network. So, this is confirming for me that our bet of investing in fibre was the right one and what we have been working on the FiberCo is the right direction for the company.

So, we have reached an important milestone of 5 million household reach in Poland in more than 150 cities. And within this 5 million, we can say that we have already 15% utilized by the customer, which is bringing us around 750,000 fibre customers. Important to notice and you see that on the graph that in terms of value we follow this increase of volume as we have a strong increase of 5%. And this is obviously driven by the technology mix inside the broadband where fibre has a higher ARPO than the other technology.

Going on the next slide, where we have tried to illustrate the main driver that is delivering this good growth of EBITDAaL of almost 3%. So, as I said, the two main top line drivers are convergence and mobile. So, we commented on the convergence, a very strong growth of volume but as well on ARPO for those two business segments. So, for convergence, it was as well a record quarter, the best in the last two years with the underlying growth of the fibre. We are as well monetizing quite well this convergence in terms of value. And what we can say is that the total trends in revenue are sustained by those two pillars and Jacek will comment more on it. On the lower box on this chart, you can see two of the main reasons we are able to deliver the transformation we aim for. The first one is related, you see the decrease of the headcount or the labour cost which has been consistent over the last years, thanks to social plan negotiated with our partner. And this is clearly as well helping us to transform, and we will come back on the .one strategy as it was an important factor for this transformation. We see as well that indirect costs are going down by 4% in 2020 versus 2019. And as well, we have to mention that that was supported with an exceptional mitigation measures that we cannot expect to see back this year. So, if I look at this graph, the message for me that we have a successful combination of growing value from the core business, thanks to volume and values so ARPO of the customer. And at the same time, we continue to transform our cost structure, which those two result in this good growth of EBITDAaL.

So, let me now hand the floor to Jacek to go more in detail of the financial.

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 our performance. We are pleased with the solid financial results for 2020; we delivered on our goals. Our revenues expanded strongly in Q4 with rebound driven by the ICT business. This allowed us to finally report a small top line increase for the full year. Our EBITDAaL for 2020 increased by almost 3% year-on-year, thanks to an exceptional effort on the cost side. Q4 stand-alone was down 4% due to around 35 million impact of claims and litigations accrued in the fourth quarter of the year. Economic CAPEX in 2020 increased slightly year-over-year, reflecting much lower real estate disposals due to a very challenging market environment. In order to mitigate this, we adjusted our CAPEX spending accordingly. Lower real estate sales also marked the year-on-year dynamics of cash flows. We should note however that these were relatively strong with the exception of this item.

Let's review the top line on slide 12. So, as mentioned, our Q4 revenues expanded by 2.8% in quarter four year-on-year, driving the full-year dynamics into the positive. The key factor behind it were IT and IS revenues, which grew by 27% year-over-year in the fourth quarter. Towards the year-end, we benefited from a surge of demand for software licenses and solutions to digitalize our business customers. We are pleased with the ICT performance in Q4. However, it's not a repetitive subscription-based service, so please do not extrapolate this growth rate directly into the future. What is even more important is the performance of our core telco services, so convergence, mobile and fixed broadband, as these build vast majority of our profits. These continue to increase, and they have even accelerated their growth rate. They were up 3.6% year-on-year in Q4 as compared to an annual growth rate of 2.3% in Q3 or 1.4% registered one year ago. Going forward, we expect to further benefit from customers' appetite for fibre and for mobile connectivity. Mobile prepaid revenues will however be slightly affected by new regulation in 2021. It allows prepaid users to claim unused top-ups when they churn, which will decrease the revenue recognition for us.

Switching now to EBITDA performance on slide 13. Our Q4 EBITDA contracted by 4% year-over-year. This was driven by PLN 35 million of provisions for claims and litigations. These types of provisions are not new for us. However, they do influence the growth rate of this particular quarter, so that's why we are mentioning them separately. The evolution of indirect costs also reflects a very low comparable base in Q4 of 2019, which was then boosted by a record collection. What's particularly important in our Q4 performance is the dynamic of the direct margin, so the effect of our commercial activity on our profits. In Q4, it expanded by 2% year-on- year, thanks to the growth of core telco services and despite COVID impact on roaming. This is a very positive sign for the future. We are progressively transforming the way in which we achieve EBITDA growth, striving to grow through profitable increase of revenues. Achieving this will make our EBITDA growth much more sustainable. Our full-year EBITDA increased by 3% year-on-year and we are pleased with this performance. It was achieved thanks to solid 4% year-on-year drop of indirect costs. This reflects the underlying business transformation but also an exceptional effort made in 2020 in the face of the COVID crisis. It included some non-recurrent items, such as the curtailment of employee benefits in the second quarter, so further extrapolation should be made with caution. Finally, throughout 2020 we've closely monitored the quality of our accounts receivable. As of today, cash collection continues to be solid. Nonetheless, we are all aware that the COVID crisis is far from over, so this area remains one of our key concerns and risk areas for the future.

Let's now look at the bottom line at slide 14. We posted a 46 million net profit in 2020, which was PLN 36 million down versus the previous year. There were two reasons for this. First of all, much lower gains from real estate disposal as in 2020 -- in 2019 we sold a very valuable Real Estate Complex in Warsaw, which enabled us to generate record high results. While in 2020, obviously, this activity was hampered by the pandemic. Secondly, our finance costs were PLN 34 million up year-over-year. This was due to noncash foreign exchange losses on long-term lease liabilities for rental of our offices.

Now over to CAPEX on slide 15. Our economic CAPEX amounted to PLN 1.8 billion in 2020, roughly PLN 100 million more than in 2019. It was pushed up by less proceeds from real estate sales. In order to mitigate this, we've been more selective in our CAPEX spending. And as a result, our gross CAPEX spent was around PLN 250 million lower than in the previous year. That affected most areas of spending, including mobile where 5G rollout was obviously postponed versus the original plans, also including fibre, albeit this was made without slowing down the expansion of our reach. We have invested slightly less into our backbone for new cities and relied more on expanding our reach through access to third-party networks.

Let's now look at cash flows on the next slide, slide 16. We generated 640 million of organic cash flow in 2020. This was 95 million less than in 2019 due to less sales from real estate. Excluding this factor, cash generation would have been higher than the year before. This resulted from two items. Firstly, the growth of our EBITDA and lower working capital requirements translated into 147 million higher cash from operating activities. Secondly, cash out for capital expenses was 260 million lower than a year ago, due to less investments. Growing EBITDA and solid cash generation translated into a decrease of our financial leverage, with net debt now standing at 2x the EBITDA. Finally, just as a reminder, in January, we've concluded an agreement to refinance PLN 2.7 billion loan of our debt. And in consequence, our average cost of debt will fall to around 2.8% from Q2 of 2021.

Thank you very much. That's all for me for the financial review and I hand the floor back to Julien.

Julien Ducarroz, Chief Executive Officer

Thank you. So, after this 2020 financial review, we wanted as well to spend a bit of time today on presenting a summary and probably as well a conclusion that will help us to guide you through our next strategy that we intend to present in Q2. So, we wanted to summarize the .one program. So, on slide 18, we just have put back what were the main area that we had announced at the moment in 2017 when the program started. And you might remember that one of the ambitions was obviously a turnaround in the key segment and as well to become a more efficient operator. We can probably say that to move from a legacy operator to a modern telco. So, we have met all our goals, and we will review this. You know that we were on a multi-year negative trends and it was very important to reverse. Hence the creation of this .one program. So, on this slide, if we look at the five different area and objective we have set, obviously, the very important one was around the decision to invest on fibre network, because the fibre has been the bedrock for our growth and our I will say commercial success. And obviously, as we commented in the past, the current crisis has only amplified this need and I will say confirm the right choice we made in 2017 to go on an ambitious program of deploying fibre.

We changed as well our approach on the commercial and that was one of the objectives that was to be much more focused on value, what we call in marketing, the more for more strategy, and as well contribute to the market repair with some price increase that we did over the year and that we see now materializing on the ARPO of the customer. One other very important point, which I think was central in this strategy was around the customer obsession that we turned the company much more attentive toward customer satisfaction and for this, we are measuring the NPS, which is net promoter score. And I remind you that we were number 3 in 2017; and we are very pleased to report that in 2020, we have been a number 1, sometimes ex aequo, but we have been number 1. So significant progress has been made in this area.

As well, another very important and I think reason of the success is the change of the culture that has been implemented in the company because those results are obviously the contribution of the employee and we have been able to change the mindset and the culture to be much more customer-focused and as well to be more cost-discipline-driven as a company. And that I think this is what we have already demonstrated in terms of cost base and as well NPS. But nevertheless, I will as well conclude this part at the end by highlighting some of the area that we failed in this program or let's say we could have done more, and we will certainly embark them in our next strategy.

So, let's a bit deep dive on next slide, on some of those topics to illustrate in more detail to which extent we have delivered those results. So, starting with the fibre. Remember in 2015 a bit before the .one strategy, we made a decision to invest in fibre, which was basically at that point a decision whether we wanted or not to stay in the broadband market because legacy technology was being, I will say challenged by cable operator. So, we made this bet. And in 2017, we had a very ambitious target of going to 5 million households. And as I commented about 2020 results, we did this target. So, this we have achieved, and we have seen that it was a clear support for the current commercial performance and as well amplified by the current crisis. So, now, we are the clear leader in this fibre infrastructure on the market. You probably know the number for the rest. But we are by far the number 1 and I think this is an asset that will stay for few generations as, obviously, fibre is very competitive for the future and the technology is scalable. And we are very happy with this achievement compared to the rest, and we will not stop there. That's why we are as well contemplating the FiberCo, which will allow us to continue this direction of keeping advantage of infrastructure.

You see the numbers. So, we have increased by 3.4x since 2017 in terms of customer base on the fibre. We have increased obviously the utilization. As we commented in the past, we are becoming more and more efficient. So, this is translated in obviously utilization of this 5 million that we have 750,000 at the end of 2020. In the total base of broadband, so including legacy technology, we have recorded 11% growth, which is as well quite impressive over the start of this .one period '17 to '20. And as well what is important is that fibre is not by far a migration from copper to fibre. So, when we look at where the fibre customers are coming from, 70% to 80% of our new fibre customers are coming from the market and not from legacy, so this is complementary. Over the time obviously we want to accelerate the migration as well in order to step by step decommission the copper.

So, obviously, fibre is a technology enabler for what we call convergence for the customer. So, if you move to slide 20, we have a recap of the convergence. The convergence is more the customer proposition that we have put under an umbrella called Orange Love. You might remember that in beginning of 2017 we were the first on the market to come with a hard convergence bundle, which is basically putting multiple services of a telco under one package that we called and we still call Orange Love, which has been and is still very successful. We can say as well that the majority of our broadband base and clients are acquired under convergence, that the convergence penetration on our base is around 65%. Which is, if I compare to other peers in Europe, showing that we are getting more and more mature, but there is still room for growth in this area. What we see as well is that convergence, and this is one of the principles more loyal customers. So, we have better or less churn in convergence than in other type of product, which is very important for us. And as well, we have been able throughout this period to increase the ARPO of this convergence customer, thanks to more up-sell, but as well change of technology mix, which has helped us to grow the convergence ARPO.

So, moving to slide 21, focusing on mobile. And we can say as well that the .one strategy has been successful for our mobile business. We have recorded 11% growth over the period, which is an average of 3% to 4% every year of growth of the mobile base. This has been achieved, thanks to our rich value proposition for the customer that is going from a single SIM, SIM-free and as well multi-SIM family and complemented with a rich portfolio of devices. Behind this, we have discussed before, but we have implemented the value management, this more for more strategy, which has helped us to improve the value. As well, the churn went down and that was a focus of .one. And the reduction of the churn I think is a lot due to this customer obsession that the company has put since three-four years, illustrated by the number 1 position on NPS. So, basically, it is proven that when you have happier customer, then they become more loyal to you. And this is proven in our numbers because the churn has been decreasing by almost a quarter if I compare to 2017. The ARPO as well, we have stopped the decline. It was declining double-digit in 2017. And if I look at 2020, obviously still declining, but if we remove the impact of COVID, which is impacting us in roaming we will be much lower, and it will be only 1% decline. So, a clear stop of erosion of value on mobile.

Going to slide 22, where we have highlighted some of the areas that I do and with the management team we do consider we could have done more or more remain to be done, if I might say so. So, obviously on digital, we have done some good progress. It was one of the strategic directions for .one. You see on the chart that we grew from 8% to 14% share of online commercial act. But we have a high ambition than that. We have seen for example that during the lockdown this share went to 20%, obviously helped by the closing of the shops or some of the shops, but nevertheless showing as well the willingness of the customer to buy. And this will help us to be more efficient because an increase of digital will allow us to reach a customer base that today might only buy online. But as well will help us to restructure our cost in terms of distribution that we could foresee to optimize our points of sales both in numbers, but as well in format.

Then we had as well planned in this .one to go on adjacent business. So, we have to be humble and recognize that our tentative on Orange Finance was not successful, and we decided to close this operation that was the wrong setup in terms of partnership parameters. We will reconsider in the short-term whether and how we could still go. We know from other market that there is opportunity and there is synergies and capillarity between telecom and banking. And this is something we will come back to you when we review the strategy for the coming three years.

There has been other less successful in terms of revenue or margin, but still that need to be further developed. I'm thinking about Orange Energy, where we are stepping still not to a big scale that is worth to report dedicated on it, but I do see and we will have the opportunity to talk in the strategy that there is a bright future I believe for Energy as well when we combine that with the green angle we want to have more now in Orange Polska.

On devices as well we have been able to grow by specifically launching some innovative proposition like instalment that has helped us to compete on the device market. But again, this is an area that I do consider we can do more, and not only on devices but as well on connected object and accessories. We had a good result, but I think we need to go further around what we call Orange Smart Care, which is a shoot or a portfolio of products that allow you as a customer to be protected and protected physically, but virtually as well. So, this is about insurance and security; and we have some good revenue, and we aim to grow further. So, as you can see, we did some successful and some I think still remain to be done.

Now let me pass to Bożena to look more in detail on one of our key priorities on B2B.

Bożena Leśniewska, Deputy CEO
Good morning, everyone. Now we are on slide 23. Whenever I think of our achievements of B2B over the last three years, I see a long journey that we went or even flew when we take into consideration the speed, from the pure telco provider to partner in digital transformation for business. Overall, we achieved 6% growth of revenue. In 2017, the situation seemed rather bleak; almost 90% of our revenue was derived from telco services that were declining. Just to mention a few. Mobile voice based ARPO was constantly declining. Fixed broadband revenue decreased yearly by 5%. Over the three years we succeeded in not only fixing our legacy, but grow in the new businesses, meaning ICT, which now represents 26% of our top line.

How did we do it? First of all, we capitalized on the investment in fibre network. Over the time we more than tripled the number of the fibre accesses among our network. Thanks to this, we could escape battlefield of copper-based services and capture potential for the high speed, high reliability internet and WANs. The most vivid example is a rebound-on data transmission market. After long years of continuous decline, we started to grow whilst keeping our undisputable leadership position on the market. It's worth to underline that fibre is not only the ultimate access type for business customers, but it's also an important foundation for ICT services. Starting from security through clouds towards software, all making a comprehensive positioning for the digital world. From 2017, we more than doubled in ICT area, reaching revenue of almost very close to PLN 1 billion in 2020, exceeding by far my personal ambition.

Let's now look at ICT area more closely on the next page. Over time we developed this area considerably. Back in 2017, we were already privileged by having a separate entity, Integrated Solutions, to provide our customers with the first-class solutions based on networking, security and integration. Over the time, we expanded competence of integrated services, which secured a solid organic growth. Integrated Solutions is nowadays the third integrator on Polish market. But we didn't stop here. We decided to capture the immense growth of software and applications domain and acquired first in 2019, leading business systems integrator BlueSoft. And then in 2020, December 2020, the company Craftware, an expert in connected CRM.

Craftware has been on the market since 2009 and has the status of the platinum Salesforce partner. Among its clients are large companies from the pharmaceutical, FMCG, retail and finance industries. The CRM/Salesforce competence of Craftware perfectly complements the ICT offer, both BlueSoft and all Orange ICT. Thanks to that, our ICT revenues come from not only the fast growing but also high-margin services like cybersecurity, horizontal and industrial specific software-as-a-service solutions (SaaS) and application-related services. ICT coupled with some more emerging domains like Big Data and AI will be the important line of our business in the future and the part of our future strategy.

That's all from me, and I hand the floor to Jacek.

Jacek Kunicki, Chief Financial Officer
Thank you, Bożena. Let's look at slide 25. This slide shows a table with our financial recovery ambitions exactly as we have presented them during the strategy announcement in 2017. It's worth to underline that we have delivered on all of these promises in each of the years. In some cases, we've even exceeded the initial expectations. Our revenues have been growing for the past two years and EBITDA for the past three years. We have kept CAPEX within limits, and we have significantly progressed with debt reduction.

Let's look on the details of this on the next slide, slide 26. While executing the Orange Advance strategy, we broke a long-term negative trend of our financial performance. Both EBITDA and revenues are now growing after more than a decade of constant decline. It has been achieved through the combination of progressive commercial turnaround, coupled with a great cost optimization effort. We've successfully implemented our convergent strategy. It was possible thanks to dynamic growth of fibre, as monetization of our considerable investments in this area has begun. We have also paid particular attention to value in our commercial activities, including more for more price increases in mobile convergence and fixed broadband.

Simultaneously, we've achieved a very high rate of cost savings. Since 2017, we've optimized indirect costs by almost PLN 600 million or 15%. This was done in spite of inflationary pressures in areas such as labour or electricity costs. So, the effort to achieve these savings was even greater. We had a particular focus on automation. To give you the magnitude of our efforts we decreased our workforce, so both permanent and outsourced staff by almost one-third during this period.

Summing up, this turnaround has put us in a much better position than we were in in 2017, with growing revenues, growing EBITDA as well as a much safer balance sheet.

Thank you very much, and I hand the floor back to Julien for the conclusions.

Julien Ducarroz, Chief Executive Officer

Thank you, Jacek. So, on slide 28, I wanted to share with you our outlook and specifically our direction and priorities as business and I will conclude with our guidance for 2021.

So, related to priorities obviously I hope you understood that we have a strong commercial momentum that we have built over H2 2020, and we aim to sustain this good momentum that we have both on consumer, on the convergence, and on mobile, but as well on B2B and ICT, as we have just heard from Bożena. And the second one is obviously the pandemic is not yet over, which obviously as well is putting some cautious view for us regarding what we can expect in 2021. So, we remain obviously cautious in terms of outlook and especially when it comes to payment and as well related to our customers on the B2B side. But I think as well for us, it's an opportunity not only on the fibre demand but as well to review our ways of working and as well our premises, real estate that we are today occupying. And we do foresee that once the condition will allow us to come back to the office, we will certainly come back in different ways of working, and we are going to adopt very soon a hybrid working model which will certainly create some opportunity in terms of cost related to a building.

We will obviously continue our transformation. So, we have largely shared with you today what we did up to now. And some of the topics are not finished. They have delivered results, but they will continue to deliver results. And here, I'm thinking about automatization and much more digital processes inside the company. An area that you heard probably that we start to talk more and more, and we will come back in the next strategy with commitment and target, but obviously the green is a very important part of our company now and it will be one of the core element of the next strategy. So, it's about reducing our carbon footprint but as well helping our customer to manage this challenge and transition toward a greener economy. And just to mention and to remind you that we have already purchased 10% of our energy needs coming from green energy.

We have two have big topics in front of us that will be structural for the future of the company. The first one is FiberCo. So, we are not going to go too much in detail on this one as we are as you know in the middle of it, and we do expect to come to a conclusion during H1 or before H1, as we are already in H1, but before H1 on this topic. And the second topic that will be very important for the future is related with the 5G auction that as you know today, we don't have yet full clarity regarding to condition. We know that it should happen very soon, but we don't have the full visibility on the detail and in which conditions. So, those two are very important for us financially, but as well strategically. And I hope we will certainly have the opportunity to talk about it in our next result presentation. So, that's for the direction. As I said, we plan to announce our strategy in Q2, which will be as well a good timing hopefully in relation with these two major strategic topics.

So, going to the slide 29, on the 2021 guidance. So, to start with, we aim, we want to achieve growth on both EBITDAaL and revenue. This is clear. The revenue driver, I'm not going to comment too much, because I think we have explained to you how we did in 2020. And basically, we aim to do the same in 2021. As I said, we have a good momentum, we want to keep this momentum from fibre, mobile and B2B growth coming as well from ICT, and the integration of Craftware and BlueSoft.

We should not forget, as Jacek commented that there are some regulatory headwinds in 2021, namely around the prepay and the new cashback regulation that was already implemented in January. And the second one will be on wholesales as a cut in MTR and FTR that will start in May. That will have a significant impact on the revenue, less obviously on margin but still will impact our ambition regarding the revenue.

What is important to notice on EBITDAaL while the guidance is obviously growth, it will be the first year in 2021 where this growth will come from direct margin. And I think this is very important because this is showing that our core business is growing. And this is healthy, and I think helping us to have more kind of sustainable forecast when it comes to our profitability. So, we are counting on growth of the core business to deliver growth of EBITDAaL. And not only just by optimizing a cost but we do expect for 2021 to be I will call it a healthy growth of our profitability. We will continue obviously to optimize as well on the stand-alone basis cost, but we have as well to be aware that it will not be at the size of 2020, where we did some exceptional measures that Jacek commented previously.

On the guidance for economic CAPEX, we assume more or less the same range as last year. And let me maybe a bit explain in light of the FiberCo that we do expect to happen in our forecast is that even if the FiberCo will take over our CAPEX in H2, we still have a lot of deployment coming from POPC. I think we commented in the past that this is the European Fund Program where we are covering difficult areas, white zone, so called, and we are arriving at the peak of this POPC. We are bit delayed. But because it's a difficult condition, as well the pandemic has not helped us to accelerate in this area, but we are very confident in this area, because the first one that we have deployed is obviously bearing very high utilization because this is on high demand. So, we are very confident that this CAPEX will be well spent. And therefore, as well, we have a high ambition on real estate. Because we believe that hopefully the environment will be better than 2020. And what we have not been able to sell in 2020 will materialize in 2021. We have as well the construction of a new data center that will as well mobilize some of our CAPEX, which is a result of the sales of Nowogrodzka Real Estate Complex in 2019 for which now, we need to migrate our data center and we will open this new data center.

So, that concludes my part, and we are now open for your questions.

Leszek Iwaszko, Head of Investor Relations
Thank you very much.

Operator
Thank you very much for the presentation. We'll now be moving to the question-and-answer session of the call. [Operator Instructions]. Our first question comes from Mr. Titus Krahn from Barclays. Please, go ahead sir. Your line is open.

Titus Krahn, Barclays
Good morning, everyone, and thank you very much for taking my question. So, it's just a couple from my side, if I may. And the first one would be on 5G. So, given that the auction process is probably still some time away, can you maybe update us on the existing 5G offer? How has the traction been with customers so far? And to what extent you have increased your coverage since the launch of the services? And also, what is the impact of the delay on mobile network CAPEX spending, probably in 2021 and thereafter?

And on the current regulatory environment, how do you view the plans to launch a state-owned telecom operator? What could be opportunities for you on the cost side from such a launch, but also what is potential risk, for example, for government services? And if I may just a second part of the question on the ICT business. First, congratulations for turning this around after the decline in Q3. Do you believe the rebound was partly driven by pent-up demand after the uncertainty of Q3? And are the underlying trends now back at expected levels? Or do you still see some hesitation to invest and risk into 2021?

Julien Ducarroz, Chief Executive Officer
I will take the question on 5G. So, first of all from a customer perspective, obviously you know that today we have a DSS technology where I would say it's good, but it's not 5G. However, I think what is promising for me that we see quite high, around 20% of the sales of handset being 5G capable, which I think is very promising for the future. Because the day when we will have the real C-band 5G, then we will not start from zero, and we will deliver quite quickly to a number of customers because this is the one we have been acquiring since last quarter, where we started to have a significant number of 5G devices. So, I think on this side, it's quite promising. I cannot really

comment on the DSS satisfaction. We do see customer using a bit more data on DSS than on LTE. But for me, it's not yet the real 5G, where we will be able to have more innovative services.

Regarding CAPEX and impact, well, we have fully kind of embarked in our budget the fact that 5G will not be massive this year. We are clearly focusing on fibre both via the FiberCo from H2, but as well, as I mentioned POPC that will still deliver quite a significant number of households, which we do expect to have a high return on them. And as well, we continue to have continuous investment on B2B when it comes to fibre. So, I think the story of 5G is a story, given the calendar, given by the government -- not the calendar, but the delay for sure and what we could foresee at the moment that will not have a significant impact on our CAPEX for this year. We will still be in a very fibre investment year. ICT, you want to --?

Bożena Leśniewska, Deputy CEO
As far as ICT, thank you very much for this question. As far as ICT is concerned, I just want to emphasize that the ICT business is not comparable to the telco business at all. It's not the recurring business. So, all the revenues and all the business come from building the pipe along the year. And the hesitation and the slowdown which we noticed in Q3 was exactly the result of the delaying the decisions of the customers due to the COVID situation, due to the uncertainty. So, just after the pandemic started in Q2, we noticed that customers postponed the decisions, and it reflected the Q3 results because there is some delay between the decision and the realization of the project, which comes from the delivery process timing. And in Q4 already, we saw the result of the decisions of the customer made in Q3 and they were connected with few areas. First of all, we're securing the business for the further months of the pandemic, so all the solutions around the security, around the workspace, around the software and applications that are necessary to digitize companies, the growth of the e-commerce, the growth of the internal digitization of the companies was very visible and it is reflected in our Q4 revenues. Additionally, the revenues of Q4 were supported by the big contract in the software area connected with the business related to the Microsoft Enterprise agreement with Polish Post.

I'm quite positive about the future. I see that still the companies are thinking about being prepared for the longer pandemic, so it means changing and digitizing the business. It's already reflected in the good beginning of the year. We also will integrate

Craftware to our ICT business and this is also very optimistic when I look at the performance of Craftware in 2020. Thank you very much.

Titus Krahn, Barclays
Thank you, super helpful. Thank you very much.

Operator
Thank you very much. Our next question comes from Mr. Marcin Nowak from IPOPEMA. Please, go ahead sir. Your line is open.

Marcin Nowak, IPOPEMA
Good morning. I have few questions actually, so maybe I will go one by one. The first one is regards to the comment regarding CAPEX in the second semester of 2021. Because I understand that the standard FTTH CAPEX would be lower due to the FiberCo. Should we understand that your '21 guidance assumes the sale of stake in FiberCo and its deconsolidation?

Jacek Kunicki, Chief Financial Officer
Thank you for your question. What we have mentioned as part of the guidance is that and this was Julien's comment, is that we will continue to invest into fibre. It's not that fibre becomes automatically the CAPEX of the FiberCo. What we have assumed is that we will still spend a considerable amount on fibre next year, you could say comparable to what we have spent this year. We will invest on our own in H1 in the first semester as we are doing right now. We will invest for the entire year for the CAPEX for key accounts on which we have been investing systematically, and we will continue to invest on our own even after we have concluded the FiberCo transaction. We will obviously vary the CAPEX for the delivery and the customer premises equipment. We will have a peak this year of CAPEX for the POPC areas, for the white zones. And this, again, in the entire year, will be realized by us. What we are assuming is that starting from the second semester, FiberCo will take over their production and CAPEX and fibre build for the individual clients. So, it's not a full year impact, and it's not an impact of the entire scope. We are assuming that FiberCo will take over. We are assuming that we will be successful in concluding this transaction. Still, signing is expected in the first semester. I hope that answers your question.

Marcin Nowak, IPOPEMA

Well, it answers my question regards to CAPEX, but it doesn't answer my question regards to the EBITDAaL guidance. Because if you are moving a part of the customers to the FiberCo, then it should be deconsolidated if you are selling 50% stake? So, does your EBITDAaL guidance for '21 assume deconsolidation of FiberCo?

Jacek Kunicki, Chief Financial Officer

Yes, it does. I think, regarding the EBITDA guidance, what we can say, we've given a range. And this range, it shows the level of our ambition and our uncertainty. So, on one hand you have seen that we've grown the EBITDA by almost 3% this year. Our hopes and plans and ambitions would be to try and grow it even faster in 2021. We are, however, obviously aware of the risks and uncertainties that are ahead of us, first of all, linked with the pace of economic recovery, the risk of bad debts, with the risk of customer pipeline in the B2B also linked with this recovery. So, this is where you get your I would say range of the EBITDA guidance. But as I mentioned, we are really progressing and trying to make sure that we can grow as fast as we can.

Regarding the impact of the FiberCo itself. Yes, on one hand we will transfer -- will not transfer customers, we'll buy wholesale access for about 150,000 of our retail fibre customers from the FiberCo. Since it will be a deconsolidated structure that will result in costs being recorded on our P&L. However, it will not be one side affair. On the other hand, we will be also rendering services towards the FiberCo. We will be rendering services for network maintenance, for connecting the FiberCo last mile network to the global Internet, for rent of some critical infrastructure. Finally, we will be also rendering the service of network built to this FiberCo. So, the overall impact of the FiberCo on the 2021 EBITDA, it is much more balanced than you would think just by multiplying the 150,000 customers 6x, times whatever rate you might imagine we will finally negotiate. It's not possible for us to comment on this more I would say precisely right now because we haven't concluded the transaction. So, obviously, the terms and conditions are not final. But it's not a one-sided affair only. Yes, it is included in the guidance that we have issued.

Marcin Nowak, IPOPEMA

Okay. So, assuming that you indeed will sell stake in FiberCo, this effect -- maybe let me rephrase. If you do not sell your FiberCo stake, then your EBITDAaL guidance for '21 should be also the low-single digit growth?

Jacek Kunicki, Chief Financial Officer

Yes.

Marcin Nowak, IPOPEMA

Okay, great. And regards to FiberCo, as you are still in the analysis process, I assume that you -- maybe you already said that, in which areas your deployment will be made? And how large share of those new deployments will be in places when you already have infrastructure and you already have clients? And how large share of it will be in the new area?

Jacek Kunicki, Chief Financial Officer

Well, as we have mentioned in the communication that we've already issued, FiberCo should build within the next 5 years around 1.7 million new households connectable. It should be focused around medium and low competition areas; those are the areas suitable for such structure. Obviously, I will not, and I can't comment in detail on where exactly we are going to build because that may also slightly evolve over time. But you may expect that this is medium and low competition areas. And I would not want to get into too many details.

Marcin Nowak, IPOPEMA

Understood. And regards to your current network, could you comment or provide update on the size of third-party connections within your 5 million household network as of now? And over the last year or two, how much of new FTTH customers production was made on third-party networks?

Jacek Kunicki, Chief Financial Officer

Thank you for your question. Regarding the third-party production or the third-party connections, it is I believe slightly in excess of 700,000. And it has grown by about --

sorry, it's almost 1 million. It's almost 1 million, and it has grown by about 300,000 within last year.

Marcin Nowak, IPOPEMA
Okay. And out of new customers, how large the share of new customers is from third party?

Jacek Kunicki, Chief Financial Officer
I would need to get back to you on that offline.

Marcin Nowak, IPOPEMA
Okay. And my last question is with regards to the recent government's comments about plans for 700 MHz band. Will Orange be interested in participating in wholesale operator on 700 Mhz band?

Julien Ducarroz, Chief Executive Officer
Well, regarding the 700 Mhz and probably you refer to the national operator as you know, we have been commenting directly or via Association our position and surprise in light of the first draft that we saw. Since then, we had interaction as an industry with the authorities. And I think it was as well confirmed in the press in the last day that the focus of or the idea, the intention is obviously to have something that answers the security concern of public infrastructure. So, the scope is obviously limited compared to the first draft. And obviously, to the question, are we interested in the 700? The answer is yes. After we have to see whether it will be in the form that the government is today looking at or whether there will be a different form at the end. I think you know that the discussions are ongoing. So, it will be a bit dangerous to speculate on what they will end up. But we have -- we are having constructive discussions with the authorities and together with the industry and the other competitor.

Marcin Nowak, IPOPEMA
Okay. Thank you very much.

Operator
Thank you. Our next question comes from Mr. Nikhil Mishra from HSBC. Please go ahead, sir. Your line is open.

Nikhil Mishra, HSBC
Thank you for the presentation. A couple of my questions that have already been asked. One small question on adjacent area. So, can you just guide us on what kind of growth you are looking, if there is any growth? And also, what kind of margins those particular areas generate? Thank you.

Leszek Iwaszko, Head of Investor Relations
Nikhil, could you please repeat your question? Which areas your question referred to?

Nikhil Mishra, HSBC
Regarding the adjacent areas. The finance and energy and devices and Smart Care business.

Leszek Iwaszko, Head of Investor Relations
Okay. Thank you.

Jacek Kunicki, Chief Financial Officer
Regarding the adjacent areas, you've seen that we've posted quite nice growth and a nice revenue figure for those. In terms of the major values for those revenues, so we've achieved revenues in excess of PLN 200 million for Orange Energy, in excess of PLN 150 million for the SIM-free devices and around PLN 40 million for the devices such as Smart Care. Obviously, the margin is a bit different and to be honest the margins coming from all three of those areas are quite similar when you measure them in the millions of zlotys. So, Orange Smart Care will have the largest percentage margin with Orange Energy having the lowest percentage margin. Well, Orange Energy specifically also due to the turbulence that we've seen on the market since the product and the concept was launched, but we believe we are now on a good path to continue to grow the revenues and to continue to grow margins on a more substantial level. I hope that answers your question.

Nikhil Mishra, HSBC
Thank you.

Operator
Thank you. [Operator instructions].

Leszek Iwaszko, Head of Investor Relations
If there are no voice questions, we received some questions online. Let me start with a question from Mr. Wiktor Barcicki. First question, on '21 CAPEX guidance. This was already partly maybe -- so it may be repeat. The question is with the 5 million homes passed the FTTH ambition achieved, what are the reasons for the '21 guidance to be at the 2020 level? What will replace 600+ million spent on FTTH?

Jacek Kunicki, Chief Financial Officer
As I have mentioned, our guidance for 2021 includes an assumption that we will spend a comparable amount of CAPEX on fibre in 2021 as in 2020. We are finalizing the POPC program. We obviously continue to spend CAPEX on customer premises equipment and delivery. And that is a good thing because that means we're connecting more and more customers to our network at a faster and faster pace. We will continue to invest for the key accounts. And as I have mentioned, we are going to continue with our own build of fibre in H1. We've reached the ambition of 5 million home passed, and this is a good thing. We're happy with the progress so far. We believe there is still a substantial opportunity to build fibre in Poland, in areas that are profitable, in areas that are with high demand. We see the confirmation of this in the very good uptake that we have when we build fibres to the single-family homes where the penetration curve is much steeper than for the existing build. We see the confirmation of this in steep penetration uptake when we build in POPC areas. And that's one of the reasons where we would like to continue building fibres, and this is one of the reasons why we have designed this concept of the FiberCo, and we are pursuing this concept of FiberCo. Please remember that the main goal of the FiberCo is to continue to build and to build additional at least 1.7 million of homes passed, which are not in the 5 million figure today. So, that's why we continue to build. 2021 is a transition year, '21

CAPEX for fibre will be on a comparable level as in 2020. And that's one of the reasons why the overall guidance for CAPEX for 2021 is also in a similar magnitude. Thank you.

Leszek Iwaszko, Head of Investor Relations
The second question is what is the company's long-term target for leverage?

Jacek Kunicki, Chief Financial Officer
I'll take this one. And I don't believe we have been communicating long-term leverage targets as part of the strategy. We always are striving, and we will continue to strive to have a safe and sound balance sheet. So, to that extent, it does not only imply a certain net debt to EBITDA or a certain gearing level, but it needs to take into account our future plans both for cash flow generation, major CAPEX spending as well as the EBITDA prospects and free cash flow generation prospects. So, we will address all of it in a more complex and holistic way in the strategy that we are planning to disclose to you in the second quarter of the year.

Leszek Iwaszko, Head of Investor Relations
Next question is from Trigon analyst. Could you please comment on trends in mobile ARPO? In Q4 '20, mobile handset ARPO ex roaming fell by 1%, while in the previous quarter it grew by 1%. What is the reason behind lower dynamics? Do you see price pressure in some client groups in mobile?

Jacek Kunicki, Chief Financial Officer
I can take this. I think first of all, the differences between quarter 3 growth and quarter 4 growth that we mentioned are very small. Excluding roaming, the year-on-year increase in Q3 was somewhere around 20 Polish cents, 20 grosz; and the year-on-year decrease in quarter 4 was around 20 Polish cents, so 20 grosz, which is really I would say insignificant when we look on the overall trends. What we do see in the mobile mono ARPO are 2 contrasting trends. On one hand, we continue to monetize, and we continue to pursue the value strategy. And as you have even seen the 5G options were available in the high-end tariff plans. This is the way that we structure our offers. We make sure that we motivate customers to take higher data bundles, higher options of handsets and therefore, staying on higher tariff plans with us. So, that is the force which is driving ARPO up.

On the other hand, the mono ARPO is being driven down by few factors. First of all, by the mix. So, within mono customer base for mobile, we have a higher and higher share of business clients and especially key accounts clients are achieved at an ARPO which is below average. Also we have changing mix or changing share of different client groups within the B2C customer base, with high-value customers often choosing our Love product and migrating from mobile mono to convergence and with a larger share of the clients in the B2C mono customer base comprising of lower ARPO customers in our offers of flex and new mobile. So, I believe those are the forces that are at play. And the differences between Q3, Q4, this is really 20 grosz each year. So, what is important is that the overall trend is tending towards the positive and we do believe we will start to grow the ARPO.

Leszek Iwaszko, Head of Investor Relations
Next few questions from Piotr Raciborski from WOOD&Co. I will take them one by one. When do you plan to announce the dividend policy?

Julien Ducarroz, Chief Executive Officer
We plan to come back in Q2 on this point. As we mentioned in Q3, our equation to return to dividend will be driven by the 5G condition and I will say, prerequisite and the parameters that will be hopefully announced soon. It will depend on the FiberCo outcome and will depend as well on our forecast and outlook for the year to come, which is linked with, obviously, our strategy. So, we will come back on those points in Q2 around the same period as the strategy announcement.

Leszek Iwaszko, Head of Investor Relations
The next question is on CAPEX guidance. Again, does your CAPEX guidance for '21 include any CAPEX for 5G network rollout?

Julien Ducarroz, Chief Executive Officer
Yes, it does.

Leszek Iwaszko, Head of Investor Relations

And the next question is, how do you plan to support Orange Polska customers in switching to green energy? Does the company plan to start selling photovoltaic systems?

Julien Ducarroz, Chief Executive Officer
Thank you for the idea. We are going to come back on this topic in more detail in strategy. But let's say, you have looked in the right direction.

Leszek Iwaszko, Head of Investor Relations
Two more questions, overall. One from Erste analyst, about the commercial costs. We saw stable commercial costs despite a material decline in equipment sales in Q4 2020. Is it due to the higher share of expensive devices?

Jacek Kunicki, Chief Financial Officer
I'll take this one. When you look on our commercial cost, that includes both the customer equipment, the sales commissions, also our advertising. The mix is linked with very high customer volumes that we've been able to achieve in quarter 4 and especially during Christmas. And that includes advertising, which was phased differently than a year ago because we did not spend in quarter 2 when we were under the full lockdown. We spent more in Q4. That includes higher commissions and that does include higher cost of customer equipment. So, all 3 of those and it's basically linked with very good sales in Q4.

Leszek Iwaszko, Head of Investor Relations
And the last question is from I believe, an individual investor. Why with having PLN 12 billion revenues you're not producing any net profit whereas your competitors do?

Jacek Kunicki, Chief Financial Officer
Thank you very much for this question. Our net profit indeed is not very high in comparison to the revenues. Neither the trends, as you have seen, are not as we would wish them to be this year. I think when we look on our recovery, it is a sequential improvement that one can expect. We improved the revenue evolution, then we drive EBITDA growth through this. And then we can expect an increase of net profit. So, it

shouldn't be a surprise that this is something that we are aiming and striving for to improve. It does have a link, so the low net income in comparison to our revenues does have a link with high depreciation charge because we have been significantly investing in our networks, in the fibre infrastructure, in buying adequate spectrum. And this is producing quite high depreciation costs, which are there. We can expect those to progressively decline, as you will have seen the fibre production will be taken over progressively by the FiberCo, so that will result in less depreciation charges. We've reduced net debt and we do expect financial costs to go down.

This year, the net profit was particularly, I would say, reflecting also the shortage of the gain on sale of real estate that we have not really achieved this year in comparison to the previous period as the market was, well quite frozen. We do plan to come back to the market, to come back to selling those properties. We do believe that they present a sizable value, and we will continue to fuel our net income in the future with a positive gain on sale of our real estate. So, we do expect this indicator to improve. Thank you.

Leszek Iwaszko, Head of Investor Relations
It appears we have no further questions. So, thank you very much to all of you who listened to us and watched us on video. If you have any follow-ups, then you know how to reach us. Thank you and see you back in a couple of months.

Jacek Kunicki, Chief Financial Officer
Thank you very much.

Julien Ducarroz, Chief Executive Officer
Thank you.

Bożena Leśniewska, Deputy CEO
Thank you.