

Orange Polska FY 2018 Earnings Conference Call 21 February 2019, 11:00 CET

Transcript

Company Participants

- Leszek Iwaszko, Director of Investor Relations
- Jean-Francois Fallacher, Chief Executive Officer
- Mariusz Gaca, Deputy Chief Executive Officer; Consumer Market
- Bożena Leśniewska, Deputy Chief Executive Officer; Business Market
- Maciej Nowohoński, Chief Financial Officer

Other Participants

- Marcin Nowak, Analyst
- Pawel Puchalski, Analyst
- Pawel Szpigiel, Analyst
- Ivan Kim, Analyst
- Vera Sutedja, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to Orange Polska Full Year 2018 Results Conference Call. Today's host is Mr. Leszek Iwaszko, Head of Investor Relations. Please go ahead sir, the floor is yours.

Leszek Iwaszko, Director of Investor Relations

Good morning everyone and welcome to our results when we summarize Q4 and full year 2018 results. We also provide some of our expectations for current year for 2019. Our speakers for today are Jean-Francois Fallacher, CEO of Orange Polska. To his left Bożena Leśniewska, Deputy CEO in charge of Business Market; and Mariusz Gaca, Deputy CEO in charge of Consumer Market; and Maciej Nowohoński, CFO.

Now I hand the floor to Jean-Francois to begin the presentation.

Jean-Francois Fallacher, Chief Executive Officer

Thank you very much, Leszek. Welcome everyone on our conference on the fourth quarter and full year results. As you've seen, to lift the significance of these results, these full year results, we've decided to invite two more of our executive team members to present. So as usually, I will start with executive summary, and I would conclude at the end, and of course, we will have time for Q&A after our presentation. So let's directly go to the first page of this presentation.

As you see on this chart, in 2018, we demonstrated that our strategy is working and that we are actually capable to deliver the results even faster than expected. Our adjusted EBITDA was up 3% year-on-year. This was, as you remember, we guided for stabilization, so this is better than expected. This growth has been achieved actually one year ahead of the plan. If you remember, the strategic presentation we gave back in September 2017, we were guiding for EBITDA growth starting this year 2019. So again this is something we are delivering one year ahead. This is obviously a very significant achievement for us. This is breaking multi-year trend of successive declines of our adjusted EBITDA, and this is the first grow after 12 years.

As you will see later in the presentation, EBITDA growth was driven by better revenue trends, as our revenues have approached stabilization and great progress obviously in cost optimization. And as you would see, we did that within the expected CapEx level and unchanged level of financial leverage.

So let me now remind you a few key points of our strategy on the next page. This strategy is obviously based on three pillars: in B2C and the main name of the game there is to win back households through convergence and fibre; in B2B, where we are supporting our business customers through their digital transformation; and the third pillar efficiency, which obviously means re-designing our business processes, simplifying and optimizing our cost.

And across these three pillars, we have three working principles, which are fuelling this strategy. Firstly, making the best possible trade-off between volume and value with actually a strong weight on value. Secondly, it's about reducing complexity for the company, but also importantly for our customers. And thirdly, eliminating all efforts, which are not contributing to this strategy by focusing.

So I propose that without delay, we go into the review of these three main focus areas of our strategy, starting with B2C, and I pass the floor to Mariusz Gaca.

Mariusz Gaca, Deputy Chief Executive Officer; Consumer Market

Thank you, Jean-Francois. Good morning, everybody. When I delivered the speech about our strategy, that was back in September 2017, I started those days saying that, we in Orange are big fans of convergence. And I'm glad to re-confirm those words here today with our 2018 results. And by the way, we are not the only fans of convergence, because in 18 months of its launch, our flagship offer Orange Love has convinced to its attributes more than 1 million of Polish households.

And it has become so important, the convergence has become so important part of our business that since last year, we are reporting separately revenues from convergent customers. In 2018, we maintained 30% growth of our business. And actually, in terms of revenue and actually today, it represents one-third of total consumer service business.

Convergence makes customer satisfied and this is already more than 1 million of customers base, so we can draw some conclusions with such a big sample. They churn much less and their net promoter score is higher by around 30% versus users of mono broadband services and even 50% more when compared to the users of mobile only services. And I'm especially pleased that we managed to stabilize average revenue per customer. It confirms our attention to be balanced between customer volumes and value by actually bringing more and more services within the convergent package during the up selling.

And every convergent customer today has on average almost two SIM cards and the up sell on TV is also increasing, and already 77%, so more than three-fourth of our TV services are part of convergent packages. And looking forward, we are preparing ourselves for new challenges on the convergent market. Orange Love will be soon significantly enhanced and the detail will come to the market very soon.

One of our key enablers of the success of convergence is obviously fibre. It will be very much difficult to imagine conversion success without having fibre. So let's look at it on the next slide.

So we've been repeating many times that fibre is our long-term competitive advantage and makes us confident about our success in convergence. Fibre is also a great tool for us to regain market share. And please notice that currently more than 80% of new customers that are coming to Orange for FBB are coming from outside of our own customer base.

And of course, we live in a fast growing data consumption world today, and this is already hardly possible to digest it, only via the mobile network. This would surely deteriorate service quality and customer experience. And please have a look to the bottom left chart presenting dynamics of average data consumption among fibre customers. This was noticed also by our competitors, thanks to which, we will also monetize our fibre investment through wholesale agreement.

And last, but not least, fibre customers pay us more than non-fibre customers, and moreover, this average bill keeps on growing. And why? So there are predominantly two reasons for that. So first, fibre customers more eagerly buy our TV services. In addition to that, they buy more premium TV packages. That's the first reason. And the second reason, this is the take up of faster fibre speed and this is very much growing. Currently almost 30% of newly acquired customers choose either 300 Meg or 1 Gig option, which are of course additionally paid. And fibre adoption rate, keeps on increasing every quarter. Average adoption in our network is approaching now 11%. But there are some cities like, let's say, more than 20 cities today in which this is above 15% and we already have eight cities in which this adoption rate is more than 20%.

Let's now switch to the next slide to talk about mobile. Success in convergence and fibre is also very much

supported by our strong position in the mobile only segment. Especially in big cities, where we have particularly high market share and we use it, we leverage on that to cross-sell fibre and grow our convergent base. In mobile, obviously we are not giving up customers who, for different reasons -- for some reasons, do not wish to become convergent. We have a clear and attractive value proposition for them in single offers, as well as duals and multi-SIM family plans. And of course, last but not least, we have a very rich portfolio of terminals and devices.

Yet value management is more important for us than just chasing for volumes. We are improving mix of acquired customers towards higher tariff plans. Also reprice on retention is now much, much lower than it used to be in the past. This starts to be visible in average revenue per offer trend and should support us even more this year 2019.

And when it comes to handset sales, since mid of 2018, since July of 2018, our customers enjoy possibility to buy a new smartphone anytime during the contract and not only at the retention moment. And this offer, I must tell you is very popular among our customers, and already represents more -- in six months more than 10% of total sales of handsets in the consumer market.

And of course data traffic is also soaring in the mobile environment. It increased more than 50% last year. And to be able to accommodate it and preserve good customer experience, we constantly improve our network quality, and of course, we encourage migration to fibre, wherever it makes sense for customers using, for example, LTE for fixed technology. For the whole 2018, Orange network -- mobile network was number one in download speed according to external benchmarking that you can check at rbenchmark.pl.

Ladies and gentlemen, this is it from my side and I will now hand over to Bożena.

Bożena Leśniewska, Deputy Chief Executive Officer; Business Market

Hello, everyone. Let me take you for a while to the B2B business and I want to start with the statement that 2018 was really a year of breakthrough for B2B. After plenty of years of decreasing negative revenues, we stabilized them at the level of 2017. So it's a good start point to grow. It was a result of very consistent implementation of our Orange.one strategy in the core business and the acceleration of the revenues in ICT.

In mobile business, we steadily build our customer base both through the sales of the convergent offer and also mobile-only offers. It led us to the 5% growth of the mobile base in 2018. In parallel, we have successfully implemented the value approach in SOHO/SME segment. It meant progressive increase of share of high-end tariffs in acquisition and retention, and this increase came from the 13% in Q1 to 38% in the Q4. It resulted in 15% growth of ARPU on new contracts, which translates into around PLN5 more. We will see the full results of these activities in 2019.

Encouraged by our customers growth of data consumption, we enriched our offers with additional 7 GB and attractive smartphones in return for higher by PLN5 mobile service fee. This "more for more" Christmas campaign was well received by customers.

In fixed area, we focused on fibre deployment for business customers and doubled our optical fibre base. Modern fast and reliable connectivity is the fundament in digital transformation of enterprises. It's why telco and ICT business became more synergetic last year.

The financial outcome of this synergy was 26% growth of ICT revenues year-on-year and 50% within last two years. It was driven, first of all, by our traditional activity, traditional ICT area which are IT infrastructure, networking and communication and security. And even more, by transition of the new competencies into fast growing domains, which are cloud, software and applications. Here we achieved 73% growth versus 2017.

This strong, much above the market dynamics, growth confirms strategic ambition to double ICT revenues by 2020. The crucial factor here will be the further development of cloud and digital skills including ability to deliver end-to-end solutions based on data analytics, artificial intelligence, robotic process automation and obviously cyber security.

I now hand the floor to Maciej.

Maciej Nowochoński, Chief Financial Officer

Thank you, Bożena. Hi everyone. We are looking right now at slide number 12. So efficiency area has been given new emphasis with our Orange.one strategy, which puts particular focus on value in all aspects of our operations. We have introduced a comprehensive transformation program to simplify, automate and digitize our business processes.

The results achieved in 2018 were outstanding and better than expected. We cut our indirect costs by 10% and the savings almost doubled year-on-year. Please note that these nets -- these are net savings, so certain cost increased due to market factors and we obviously increased the salaries, so gross savings were even higher. More than half of them came from areas other than permanent labour.

Let me give you some examples right now. As the first operator on the Polish market, we introduced artificial intelligence. It is now used for 95% of our customer interactions with call centre. We have just finished migration of our fixed customers to a new billing system, the old mainframe has been decommissioned. Paperless electronic contracts are being introduced for our customers in all distribution channels. Our omni-channel distribution network is already supported by a brand new SAP supply chain management system. These are just emblematic examples of simplification, agility and automation projects that we did in the company. There will be more to come.

In September 2017, we committed to cut indirect costs by 12% to 15% by 2020. We have reached this target now, two years in advance. But obviously, more savings will come.

Let's now move to financial review and let's start with page 14.

I am pleased to say that Q4 was the best quarter in 2018 for our financial results. Revenues were up almost 2% and adjusted EBITDA almost 11% year-on-year, both confirming our turnaround. It was also a very good quarter for our cash generation.

Let's start analysis with revenues on the next slide, slide 15.

Revenues in Q4 were close to 2% better than last year, which was the best achievement in many years. Convergence increasingly offset the decline in mono services. In Q4, combined revenues of these categories were down just 2.5% year-over-year. Performance of mono services improved mainly thanks to post-paid mobile, both in B2C and B2B as a result of our value strategy. Roaming supported the results, but to a lesser extent than in Q3. It was a particularly good quarter for ICT, and Bożena commented that area quite extensively. Similarly to Q3, equipment sales were delivered better. Our customers like a lot buying a handset in whatever moment of their service contract. Another success here.

Turning right now to EBITDA on the next slide. In Q4, our adjusted EBITDA increased almost 11% versus previous year. This performance was supported by better trend in direct margin, strong impact of cost savings and record high gains on sale of assets. Trend in direct margin improved as a result of better performance in growth services and our value focus in Christmas commercial season. This was achieved despite significant negative impact from the situation on bad debts market.

Q4 was particularly good for indirect costs. Firstly, we generated record high gains on the real estate disposal. If you follow local media, you could read about the transactions in Gdańsk and Lublin. This is the clear example of our discipline in capital reallocation as we are moving capital away from real estate and into fibre roll out program, which provides much better long-term ROCE profile for the company.

Secondly, all other indirect costs were down 5% year-on-year in Q4 within the framework of our transformation that I discussed the few moments ago. Savings were concentrated in labour, IT and network, advertising and promotion and in customer service.

Now let's take a look at the bottom line on the next slide. Year-on-year evolution of the bottom line was very favourable. This year, it benefited from the hike in EBITDA. In 2017, it reflected provisions related to the social plan. In 2019 bottom line will benefit from lower levels of depreciation. After annual review of useful life of fixed assets, we decided to extend it. Full-year impact will be around PLN190 million in lower depreciation.

Let's now move to CapEx on slide 18. CapEx in 2018 was in line with our expectations. Majority of the growth related to our connectivity investments that are essential to the success of our strategy. In fibre, unit production cost was higher, which combined different structure of production and inflation of labour costs, reflecting macroeconomic trends. We focused more on single-family houses and we invested more in smaller cities where construction is more expensive. For 2019, we do not anticipate significant changes in the unit cost.

Mobile CapEx rebounded after reduction in 2017. It is mainly related to spectrum refarming. As we highlighted at the beginning of last year, we are allocating more spectrum to LTE to accommodate growth of traffic on this technology. And here we already completed refarming of 900 MHz and we are advanced on 1,800 MHz. This will be continued in 2019 and 2020.

Now let's go to cash generation on the next slide. Our cash generation significantly improved in 2018. It was supported by payments from T-Mobile, but it improved even if we exclude this factor. Cash was almost PLN100 million higher without this factor. It was driven by better EBITDA, better working capital and higher proceeds from

asset sales. And the cash flow from real estate transaction, which we have closed in Q3 last year, and we were communicating to you that the cash is deferred, we have received this cash already, but in January. So it will support Q1 cash and it is around PLN100 million. Looking forward to 2019, we expect cash generation to be supported by EBITDA growth and further improvement in working capital.

We expect much more even cash CapEx distribution through the year as compared to 2018. This is driven by intensity of our fibre programs, which are in full roll out phase right now. In 2019, we intend to launch the program of sale of instalment receivables and it will be launched starting from Q2. We believe, we could support 2019 organic cash flow with around PLN200 million on this operation. Such scheme is a novelty on the Polish market and we will be selling part of monthly output for instalment contracts.

To conclude, let's look at the net debt. Our leverage ratio remained unchanged in 2018, despite we have paid EC fine. Higher net debt is offset by EBITDA growth. We signed recently refinancing agreement for an important part of our debt, extending overall duration from 2.2 years to around 3 years. New financing, as our entire debt is sourced from our majority shareholder, the terms are based on the arm's length principle and the financing will be effective as of May, and we do expect that the effective interest rate on the debt will be lower in 2019.

Before I hand the floor to Jean-Francois to present the outlook for 2019, let me guide you now, how we are going to report our results after change of accounting standard. And we will be on page number 21.

Starting from 2019, we are implementing a new accounting standard, IFRS 16. It concerns leasing contracts. In a nutshell, IFRS 16 introduces one accounting method for all leases. We sign- numerous operating leases in Orange Polska, for example, for points of sale, for offices, for technical space, for space for mobile towers and many others actually.

So as a result, in the P&L, operating costs will be much lower and EBITDA higher. And in the balance sheet, assets and liabilities will be higher as a result of recognition of the present value of leasing contracts. Implementation of this standard changes accounting, but actually does not change any fundamentals of our business.

In our view, expenses related to leasing are part of operating activity. Therefore, we propose a different measure that will better reflect our operating profitability evolution. This new measure is called EBITDAaL, which is EBITDA after leases. EBITDAaL fully response to the key concern of the IFRS 16, which is the same accounting method for all leases. It also reflects the way the company is managed internally more adequately than EBITDA derived from IFRS 16 P&L.

EBITDAaL will be very close to EBITDA that we report in 2018 under IFRS 15, you can see it on the slide. The major difference is related to finance leases PLN45 million on the slide and the other difference is related to IFRS 16 impact on operating leases, resulting from non-linear in time spread of interest costs, PLN25 million on the slide. So EBITDAaL for 2018 will constitute a reference point for our 2019 performance.

Using EBITDAaL has also minor impact on other alternative performance measures like CapEx, net debt and organic cash flow. This impact is presented on slide 21 and slide 22. Inclusion of finance leases to EBITDAaL as operating costs, requires that finance leases are no longer part of CapEx and net debt. We provide more details regarding P&L impact on IFRS 16 and reconciliation between IFRS 15 EBITDA and EBITDAaL in the appendix. And we are planning to organize a dedicated teach+in session on IFRS 16 and new alternative performance measures on March 15. You will soon receive invitations.

That's all from my side. Thank you for your attention and I hand the floor back to Jean-Francois to present our guidance and expectations for 2019. Thank you.

Jean-Francois Fallacher, Chief Executive Officer

Thank you. So you will surely recognize this slide behind me, as this is coming from our September 2017 strategy presentation, which was showing our roadmap for turning around Orange Polska.

So today, we reported to you that we are executing our plan and producing the results actually faster than anticipated in some areas. So obviously sufficient ground for us to confirm our 2020 ambition and to provide guidance for this year 2019, which is consistent with this 2020 ambition, even better actually if you look at the chart, because we are now expecting, revenue growth actually one year in advance, actually this year 2019.

Before I go to more comments and detailed guidance for 2019, I would like to take a step back and explain actually what we are doing and what it means for the middle-term of Orange Polska. So what we are currently doing, I mean, besides posting these good 2018 results, is actually structurally benefiting for our company in the future

market and will help us to fit to the opportunities in this competitive environment.

Why is it so? It's so because we are focusing on convergence and fibre. These are two strong competitive advantages for us which are mutually reinforcing and will fuel Orange resilient leadership on this market. In doing so, on top of that, we are leading this industry, the telecom industry in Poland away, we believe from value destruction and obviously competition solely based on price and we are leading this market into a situation where customer experience is improved based on the infrastructure quality and the excellence of service.

With fibre on top of that, you know that, but I want to repeat that we are investing in future-proof infrastructure that will serve us, not only for the next coming years, but for the next, at least 20 years, 30 years and that we will monetize this fibre investment, both in retail and actually in wholesale.

Last, but not least, I think it's important to state again that we are intensively transforming Orange Polska from a legacy telco into a much lighter and more agile organization with high degree of automated processes. So we are clearly here on the table, all very excited to be part of this unprecedented turnaround. You have seen the inflection point was actually 2018 and we are very excited to move to the next level.

So now I would like to comment our guidance and expectations, which again are consistent with our strategy. So as you can see there, we are confident that we will sustain the growth and we are planning this year in 2019, to grow both our revenues and EBITDAaL which is the new KPI that Maciej Nowohoński has been explaining you just a minute ago.

We are aware that it is challenging. We are facing a number of headwinds to reach there on the regulatory reforms. And there is, as you all know, inflation of certain costs like energy and salaries. But we will continue to strongly optimize our costs, we will put, as was explained by my two colleagues on the left, more focus on improving the trend on average revenues per offers and we see really a lot of opportunities. As you know, Poland macroeconomic situation is very favourable. Polish consumers are open to new technologies and we want to benefit obviously from these trends.

We believe also that there are grounds to say that the Polish telecom market is heading towards some kind of repair and we believe that prices in our market have bottomed out. So our commercial activity, I repeat, will be driven in 2019 by a value approach, and we will, we have decided to continue to reinvest our operating cash flow into our company's future, into Orange Polska's future as we strongly believe this is the best choice for long-term shareholder value.

So thank you very much for your attention. We will now open this conference in this floor for questions.

Questions And Answers

Leszek Iwaszko, Director of Investor Relations

As usually, we start with the questions from the audience that we have in the room. Marcin, please.

Marcin Nowak, Analyst, IPOPEMA

Good morning. Marcin Nowak, IPOPEMA. With regards to 2019 guidance, could you please comment about the expected IFRS 15 effect on revenues and EBITDA in 2019? And what -- how large gain on sales on assets do you expect in 2019?

Maciej Nowohoński, Chief Financial Officer

So I will take this question. Thank you. Thank you very much. So 2019, you can expect further evolution of our fundamental trends that we observed already in 2018. So push on convergence, push on value creation through improvement on the ARPU front, on both convergent and mobile-only. There is also obvious fundamental trend of improvement of our efficiency through more agility, through optimization of our processes, simplification of these processes and automation of these processes. So all these fundamental changes are going to be with us.

In terms of IFRS 15, obviously this is the accounting change, which is with us already in 2018. It is going to be with us in 2019. The effect of the whole correction from the figures perspective is expected to be smaller. But please don't treat IFRS 15 as a technical change or accounting change. This is actually a result of what we have been doing in the company in the second semester of 2017 and throughout the whole 2018, where we have limited very much the level

of the subsidies, and this is only, thanks to our business performance, this correction behaves like it behaves. So there is a big business change, business transformation between -- behind the evolution of this correction. And obviously, it is an element, which is not too much adding value to the company, it is just the change of the treatments. So I wouldn't be so, I'd say, talkative about this correction alone, because behind the performance that we planned for 2019, is actually the evolution of our core business, which is very strong.

In terms of the real estate sales, we're absolutely happy what we have been achieved -- achieving in 2018. This is demonstrating our agility and our way to put the asset optimization on another level. It's really again a work of many people in the company to make sure that we are able to activate on that front so much. So in my view, of course, you will know better, but consensus is not fully factoring our potential, which is there. And we would like to mention that, when you take a look at the consensus in Bloomberg, we are fully comfortable with that consensus.

Marcin Nowak, Analyst

Okay. Just let me clarify, because when you said that IFRS effect of -- IFRS 15 effect in 2019 will be smaller, did you imply that it will be still negative or positive? Because in 2018, you recognized around 224 negative non-cash item of IFRS 15 EBITDA. And to my understanding, it should be in majority reversed in 2019. So my question is, do you expect organic growth excluding IFRS 15 effect in 2019 or not? Because your guidance provided in the presentation does not include the comments regarding IFRS 15 effect.

Maciej Nowohoński, Chief Financial Officer

I doubt that this effect can be positive, because it's physically impossible. So it will be less negative, but once again, let's not concentrate on just one factor, because there are many other trends, which are being touched between 2018 and 2019. Let's take, for example, the activation of our real estate front. It's probably difficult to imagine that we can beat such a good result of 2018. Roaming is not going to be any more that positive as it was in 2018. On the national roaming front with one of the operators, we will see, let's proceed. So all in all, this is about the fundamental change of our business, which we see in value creation in 2019, which should add value to the evolution -- to the growth of EBITDA that we are guiding. That's the critical element.

Marcin Nowak, Analyst

Okay, just one more thing. When you are saying that the IFRS 15 effect will be smaller, you're referring to the base 2017 figures, right? Or do you refer to 2018 figures?

Maciej Nowohoński, Chief Financial Officer

In 2018, this effect was strongly negative. In 2019, it will still be negative, but not that strong.

Pawel Puchalski, Analyst, Santander

Hello, Pawel Puchalski. If I might follow-up on IFRS 15, let's assume we exclude IFRS effect from your EBITDAaL guidance, would I still see growth in 2018? Because impact of IFRS 15 supports your 2018 figures year-on-year by some PLN100 million. So excluding for IFRS 15, do we still see growth or not?

Maciej Nowohoński, Chief Financial Officer

Once again, we can retreat the results from many factors, legacy evolution, which is drag on the company, will be a drag for 2019 and for many other years. Putting all things together and putting all ambitious programme that we have launched in the three pillars that Jean-Francois mentioned, you will see the growth that this growth will come from the fundamental business, will not come from the accounting changes.

Pawel Puchalski, Analyst

Okay. Let me jump to another -- to my -- well, real estate. So, can you guide us for the more or less precise amount of real estate gain in 2019?

Maciej Nowohoński, Chief Financial Officer

We were never guiding so precisely about certain elements of our P&L and we will continue this way in the future. Obviously, I can repeat what I've been numerous times saying that, this is a project by project operation, so we cannot foresee in such a detail what could be the 2019 results. One thing that I can for sure tell you is that we have become much more agile on that front and we have high expectations.

Pawel Puchalski, Analyst

Okay. So well, let me add something else. In your 2019 EBITDAaL guidance, you assume stable level of real estate, because it really matters whether you put here zero, PLN200 million or maybe PLN400 million, that's just a suggestion. It really matters and you know that.

Jean-Francois Fallacher, Chief Executive Officer

Can I add to what Maciej is saying is that, this real estate sales are really structural transformation of the company, because this is really a way as it was explained during the presentation, to really allocate our resources to our core business, which is actually fibre investments. It's also structural because it is -- as you can imagine lowering some of the costs we are incurring to maintain this real estate. It is not over, because we still have, as you know, a lot of real estate still on our balance sheet, so this is going to last for a number of years. So this is really an important structure, an important part of the structural change of the company we are producing.

Pawel Puchalski, Analyst

Yeah, I'm fully aware, real estate had represented over 10% of your third quarter EBITDA and some 10% of your fourth quarter EBITDA. So I know it is important. That's why, well, I would love to have slightest guidance from your side on that.

Jean-Francois Fallacher, Chief Executive Officer

We won't give any guidance, but you can make. But this is -- which I believe are the ones that we are structurally ambitious in our transformation overall, so you can take the hypothesis you want to take on real estate. So we're not going to guide on that.

Maciej Nowohoński, Chief Financial Officer

And you were quite close in Q4, so you have a good track record.

Pawel Puchalski, Analyst

Okay. So you're telling me about, you're being agile, et cetera. So assumption of minimum flat real estate result year-on-year could be a rationale one.

Maciej Nowohoński, Chief Financial Officer

Once again, I will repeat that the growth that we are guiding for is the growth of our fundamental business. So these are the main sources of the growth.

Pawel Puchalski, Analyst

Two issues more, real estate, but just to summarize 2018, what was the total impact of real estate's disposals on your free cash flows in 2018? And the other question, I know that you've postponed, that you will receive PLN100 million from the fourth quarter disposal in first quarter '19. And I'm curious what about the free cash flow generation from fourth quarter sale, will that also be delayed into first or second quarter?

Maciej Nowohoński, Chief Financial Officer

No. Q4 sales are in Q4 cash, so that's overall in 2018 to answer your question -- first question about cash in 2018 on the real estate sales, it's around PLN150 million. I guess, it's on the slide, so it's there. So it's there. And Paweł, your second question was --?

Paweł Puchalski, Analyst

Were there any -- is there going to be any delays from fourth quarter?

Maciej Nowohoński, Chief Financial Officer

No, no, it's already cashed.

Paweł Puchalski, Analyst

Okay. So last one. I saw very generous, very strong working capital in third and fourth quarter. Shall we expect this trend to be continued in coming quarters?

Maciej Nowohoński, Chief Financial Officer

Well, I would not guide you quarter-by-quarter, it's not the point. I guess, you should expect stabilization on the working capital front with the small asterisk, that it should improve because of the instalment receivables sales that we are going to start hopefully in Q2.

Paweł Puchalski, Analyst

Stabilization, you mean, well, general zero impact on free cash flow in 2019.

Maciej Nowohoński, Chief Financial Officer

Year-over-year stabilization in the long term. I'm not guiding quarter-by-quarter.

Paweł Puchalski, Analyst

Of course. Thank you very much.

Leszek Iwaszko, Director of Investor Relations

And there is one more question from the floor.

Paweł Szpigiel, Analyst, mBank

Paweł Szpigiel from mBank Securities. Congratulations on the results for the beginning. And my first question would be about the pricing, and what to expect in B2C and B2B field in 2019?

Mariusz Gaca, Deputy Chief Executive Officer; Consumer Market

So I'll take the question on B2C. So you've probably seen that in the course of 2018, we have not moved any the single zloty in our pricing. And this is the value strategy that we are having and we are very much executing. And we believe that this is the approach that we took already in 2017. It makes lot of sense and we intend to continue.

Bożena Leśniewska, Deputy Chief Executive Officer; Business Market

On B2B side, as you mentioned, the B2B market is not homogeneous. You have to divide into the enterprise market where the pricing depends on the particular contracts and it's negotiated, and into the SOHO/SME segment where we work more on the standard tariffs, and here our target and focus is to do the adequate offer for the customers encouraging them to use what is most important for them and most important is the appropriate level of the data

transmission, which they have in the packages. So it's why in the Christmas campaign, we added this 7 GB to our standard tariffs and added PLN5 of the subscription fees. So this is the beginning because the effect of such trends will be visible in 2019 and next year also. We will monitor how it works and we hope for the benefits coming from the move, which we did in the Christmas campaign.

Pawel Szpigiel, Analyst

Okay. Your objective of indirect cost cut was met in two years in advance. Could you give us more details about new objective? What can we expect? You already said that more savings -- that we can expect more savings to come?

Maciej Nowohoński, Chief Financial Officer

Thank you, Pawel. I guess, we have proved that we know how to do it. And we do not plan to give you any new objective. But I can assure you we have very strong plans around it and we are already working on that. So we will continue showing additional savings.

Pawel Szpigiel, Analyst

Without any clear objectives set at the moment?

Maciej Nowohoński, Chief Financial Officer

Without, without.

Pawel Szpigiel, Analyst

And last question is, what is your view on the investments in fibre after 2020? It's pretty obvious that you will invest in fibre because it's working. But what about the pace of investments after 2020?

Jean-Francois Fallacher, Chief Executive Officer

Maybe I can take this one. So our forecast now is indeed to continue to invest this year 2019, in fibre at the same pace we invested in the past, that you have seen, we have increased our investment by the way towards achieving since 2017. So in 2019, we plan to stabilize these fibre investments at the same level. In 2020, we have the same in the plan. If you remember, our aim is to pass more than 5 million households in Poland until end of 2020. Just for the memory, there is the POPC infrastructure that has started last year, and we are in the middle of deploying fibre also in, let's say, overall in most sub-urban areas. So that is the plan.

Likely in 2021, we will start -- we'll seriously slowdown our fibre investments, our own fibres investments. There might be additional projects funded by European funds, we will see. In that case, we will continue to invest. I guess, POPC will also still be on 2021, but you can indeed expect -- our forecasts are to slow down these fibre investments in 2021. But to be clear, we believe also that at that moment, we will need to ramp up the mobile investments because it would be likely the start of the 5G deployment. So I mean, the timing is also good, because that would be the moment where we will need to increase our mobile investment due to 5G arrival on the market.

Pawel Szpigiel, Analyst

Okay. Thank you very much.

Leszek Iwaszko, Director of Investor Relations

Let's switch now to teleconference listeners. Operator, please.

Operator

Thank you. (Operator Instructions) Our first question comes from Ivan Kim, Xtellus Capital. Sir, please go ahead.

Ivan Kim, Analyst, Xtellus Capital

Yes, good afternoon. Can you please share any new thoughts on the timing of 5G auction? That's the first question. The second question is on the fibre adoption, so you mentioned that the main cities is 20% now, which is a fairly high number already. So what kind of adoption do you think you can reach in cities? And the third one is on B2B growth, and since now some of that growth can be supported by low margin ICT, can you say what happened to (inaudible) of B2B business in 2018? Thank you.

Jean-Francois Fallacher, Chief Executive Officer

Maybe I'll take the first question as concerns the calendar of the 5G auctions. In Poland, things are starting to clarify themselves. I mean, both the Ministry and the UKE have announced the likelihood of a tender organized end of 2019, beginning of 2020 for the C-Band, so the spectrum of 3.5 GHz to 3.7 GHz and probably 26 GHz. So these are the expectations. So to complete the previous question on our anticipation is that there will be also spectrum, probably costs in 2020 as well.

As concerns the 700 MHz frequencies, you know that the Polish case is a bit specific in Europe, because we are at the border of countries like Ukraine, Russia, Belorussia and this is a spectrum that is, as we speak, occupied by these countries on the borders. And this spectrum, first must be freed up and this is likely to take some time. So we do not expect actually the spectrum to be available before the year 2023. And this is obviously, I'm quoting, the government, the Polish government source, when I'm saying this. So the likelihood, although it's not very clear, the likelihood is that the spectrum will be auctioned later. So that's your first question.

The second question was about our fibre penetration. I'm not sure, I heard very well your question, but it's clear that the penetration of our fibre infrastructure is to date 11%. We are expecting it to grow, thanks to our retail operations, obviously both on B2C and B2B. You for sure, remember that last year we signed a deal with our competitor T-Mobile that is having, as we speak, access to our fibre infrastructure and we'll likely launch some retail services in the course of this first semester. That should also boost our penetration in the coming years and actually help us to monetize faster this investment. This is the reason why we executed this deal.

And your last question I think was on B2B. So I will pass the floor to Bożena.

Leszek Iwaszko

Maybe could you please, Ivan, repeat your last question on B2B? Please speak up.

Ivan Kim, Analyst

Yeah. Of course, on fibre, by the way, so the 11% penetration is distributed right. So I think it was mentioned that a few larger cities have 20% or beyond. So I was just wondering what sort of target you have for the fibre adoption in the larger cities? And then the B2B question was basically that a lot of revenue growth apparently came from ICT in 2018, which is low margin. So I was just wondering what attributable growth you had on B2B business, if you can measure that? Thank you.

Mariusz Gaca, Deputy Chief Executive Officer; Consumer Market

So maybe I will just clarify the fibre question. Mariusz Gaca speaking. I was mentioning that there are 20 cities with penetration more than 15 and eight cities with penetration more than 20, but this is out of the pool of 117 cities. And all the benchmarks, including by the way, our plans are saying that we should be at the level between 25, 30 in six years. So that's actually what we are aiming for. And we are on the track after three years.

Bożena Leńniewska, Deputy Chief Executive Officer; Business Market

On B2B side, the revenue growth come both from the core business mainly broadband, but as you noticed perfectly, and it was shown in the -- at the slide from ICT, and that's true. The ICT business has lower margin, but on the other hand, there is no future for the telco and B2B without merging these both areas. ICT and cloudification of the business of the enterprises means also using the new digital solutions for communication. It's means in obvious way, move from the traditional telco communication solutions to more digital solutions and it's why we want to cover this area.

And though the margin on the solutions is lower, we feel that we have to be there.

On the other hand, let's remember that majority of the revenues on ICT, we are doing from our subsidiary, which is Integrated Solutions. It's the integrator. So apart from the pure infrastructure and networking activities, we also offer the services, the professional services for our customers and these are definitely our good margin services.

Ivan Kim, Analyst

Okay, great. Thank you.

Operator

Our following question comes from Vera Sutedja, Erste. Madam, please go ahead.

Vera Sutedja, Analyst, Erste

Yeah, good morning from Vienna. I have a question related to the fibre to the customers. The one that you mentioned almost 80% comes from outside the group. So could you perhaps give us a hint from which type of customers are they before cable customers or are they previously from alternative operators or are they from mobile? That will be the first question.

The second question is that you previously mentioned that convergence in the future, revenue-wise, will not be growing as much because otherwise they will take kind of a bigger chunk from the high-margin mono services. Is this still the case what you're planning to do? And could you basically tell us what kind of growth that the convergence revenue is going forward? Shall we expect now a slowdown? If you could explain how you do this final balancing between the convergence customers and mono services, that will be great.

The third question would be, the fixed mobile convergence is looking very well. I would like to know what is your content strategy.

Mariusz Gaca, Deputy Chief Executive Officer; Consumer Market

I'll take the question, Mariusz Gaca speaking. So your first question was, where these customers are coming from? So predominantly these customers are coming from our competition, predominantly cable operators as this market was very much developing in the past in this sector. So that's answer to your question number one.

Then in terms of the revenue convergence. So yes, there are couple of ways to take care of the revenue growth, so currently we are somehow in the beginning stage. So, the base is growing, because the penetration is low. It's 57% of our fixed broadband customers. There is still space to grow, if you look at other geographies. But there are limits of course, not all customers will go for convergence that's clear.

But there are couple of ways to work on revenues. So, first, of course, is to have more RGUs per subscriber or per household and this is actually more SIM cards you can imagine being there, we are at the level of four RGUs currently and we're growing and we see the space for growth. That's point number one. Point number two, this is obviously speed. So you can be 100 MB you can be 300 MB, you can be 1 GB, and this is not the same price and the more consumption grows, we are witnessing that, the more appetite for speed growth. This is -- that was point number two. Point number three, more content and this is actually what we are -- more TV at all because the penetration of TV users among convergent customers is not yet 100%, obviously will never be 100%. But it's at the level that we see the growth. So, from one hand, there is a possibility for penetration and possibility to up sell additional content. Just to remind you we have all the content including premium in the market available for convergent customers. So these are the points where we believe we have potential for growth. And I'm sorry, but your third question, I forgot.

Yes, content strategy. Look, so our strategy today is that we are the integrator of content as regular cable operators are and with some partners, we have -- there are no exclusive contracts today basically, with some may be exceptions to sport content, but this is not very much popular today. We have all the content available for our customers. We're integrating the content ourselves or we are doing that with our partner NC+ which helps us to be fully competitors in the market. And as for now, this strategy seems to work and we do not forecast that to change in the short future or in the mid-future.

Jean-Francois Fallacher, Chief Executive Officer

Just maybe to add things to fibre, actually, we are also providing 4K quality TV which is quite unique on the Polish market and which is I believe an advantage compared to our competitors.

Vera Sutedja, Analyst

If I may have one more question, it's about the dividend. Could you please remind me when do you expect to restart paying the dividend? Thank you.

Jean-Francois Fallacher, Chief Executive Officer

I will take this question. So as concerns the dividend policy, as you understood, I mean, when we look at the outlook of 2019 and 2020, we believe 2020 will be still a year where we will invest -- we are planning to invest in fibre. We believe as well that in 2020 we will have this auction for 5G C-Band spectrum. So to be clear, our forecast today is probably not to return to dividend in 2020. Looking at again the outlook, 2021 would be the first year, where we could return to dividend, and this is as we said in the past if -- and that's what we are, as you understood, heavily working on, if we have brought sustainably Orange Polska, a turnaround to generate the necessary cash to serve the dividend and that would not be obviously out of debt.

Vera Sutedja, Analyst

And when you said 2021 to return to dividend, in that case, it's payable in 2022, right? So 2021 results or (inaudible).

Jean-Francois Fallacher, Chief Executive Officer

Again, we are not guiding any concrete item to dividend. I'm just sharing with you that this is the first year, where we see 2021 possibility cash wise for us. Again, if we have managed, that's what we are working on, the return of the company to sustainable, sufficient cash generation and the turnaround of the core business.

Vera Sutedja, Analyst

Okay, thank you.

Operator

(Operator Instructions)

Leszek Iwaszko, Director of Investor Relations

If we don't have any -

Operator

Yes, we have a follow-up question from Ivan Kim, Xtellus Capital. Sir, please go ahead.

Ivan Kim, Analyst

Sorry, just a quick follow-up, maybe I missed that, but there was a significant working capital release in the fourth quarter, I think to kind of PLN222 million. What was it related to? Thank you.

Maciej Nowohoński, Chief Financial Officer

Well. That's related to the fact that we have received considerable amounts from the contract that we have signed with T-Mobile. And this contract relates to the usage of our fibre infrastructure by T-Mobile in the future on the retail front. So we have received altogether in 2018 bit more than PLN 275 million.

Ivan Kim, Analyst

Okay, understood. Thank you.

Leszek Iwaszko, Director of Investor Relations

If we don't have any more questions from the telephone and I don't see any follow-ups from the floor, so I'd like to thank you for your participation in the conference and see you back in April with our Q1 results. Thank you.

Jean-Francois Fallacher, Chief Executive Officer

Thank you very much.

Maciej Nowohoński, Chief Financial Officer

Thanks a lot.

Operator

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