

Orange Polska SA (OPL_PW) - Q3 2019 Earnings Call

29th October 2019

Company Participants

- Leszek Iwaszko, Director of Investor Relations
- Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board
- Maciej Nowohonski, Management Board Member in charge of Finance

Other Participants

- Pawel Puchalski, Analyst, Santander Bank
- Dilya Ibragimova, Analyst, Citi
- Pawel Szpigiel, Analyst, mBank

Presentation

Operator

Dear ladies and gentlemen, welcome to the Conference Call of Orange Polska regarding the presentation of the Third Quarter Results 2019. At our customers' request, this conference will be recorded. As a reminder, all participants will be in listen-only mode. After the presentation, there will be an opportunity to ask questions. (Operator Instructions).

May I now hand you over to Leszek Iwaszko, Head of Investor Relations, who will lead you through this conference. Please go ahead, sir.

Leszek Iwaszko, Director of Investor Relations

Thank you. Welcome and good morning, everyone, to our results conference for the third quarter, and nine months of 2019.

Let me introduce the speakers for today, Jean-Francois Fallacher, CEO; and Maciej Nowohoński, our CFO. Let me hand the floor to Jean-Francois to begin the presentation.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Thank you very much, Leszek. Good morning, ladies and gentlemen, those of you who are in the room and those of you who are also watching us online. So happy to welcome everyone for our third quarter results and of course for the first nine months of the year. As usually, I will start with some highlights. I will pass the floor to Maciej Nowohoński, our CFO, which will go into more details on these results, and I will be back for the conclusion. And then we will have some time for your questions.

So let's go directly to the Page Number 6 of this presentation. As usually, let's start with a quick overview of our results versus the full year guidance and expectations. As you remember, we are guiding for growth in both revenues and EBITDAaL, and after nine months, I can report that we are fully on track with these plans.

Actually, the third quarter was an exceptional quarter for us. Revenues, as you can see, are growing by 3% and EBITDAaL is growing by more than 8% year-on-year for the first nine months of the year. And moreover, if we look at EBITDAaL excluding gains on real estate assets after nine months, is also growing by 1.2%.

Revenue growth accelerated due to the first time consolidation of BlueSoft, the acquisition we realized in the first half of the year, and excluding BlueSoft revenues, we are also growing actually at a steady pace of 2% to 3% and this is driven by convergence and IT.

As you can see here, EBITDAaL was up in the third quarter as much as 22% year-on-year and this is obviously driven by first strong cost optimizations but the sales also of Nowogrodzka real estate complex that we announced to all of you in August.

If we now look at our first nine months investments, they are up 7% year-on-year, although the CapEx of Q3 are 10% lower than last year and this is linked to different repartition [ph] of our spendings within -- with giving more weight on the first semester this year.

Now let's go to the next page, Page 7. I would like to comment our fibre results. As you can see, this third quarter was very good on the front of fibre. The reach of our truly fibre to the home network approached actually 4 million households at the end of September. This number is constituting almost 30% of all households in Poland. I would remind this is a bigger footprint in fibre alone than the total footprint of our first cable competitor.

So we are now present in more than 140 cities. We have entered in 20 new cities so far this year and half -- in half of these cities -- in half of these 140 cities, we are reaching more than half of the households. So 4 million households connectable means that we are 80% through to reach of our end of 2020 target of 5 million households. And after 2020, as you know, we are planning to significantly scale down this program to make room for our 5G investment.

Now if we look at the sales, in the third quarter, we have added 39,000 fibre customers, this is more than a year ago and more than the previous quarters of this year. And I think we achieved that despite the fixed market that you all know is extremely competitive, which overall is impacting our fixed broadband performance.

These strong fibre results indicates that, first of all, our customers are recognizing the superiority of fibre. And this is confirming that these large investments -- these large fibre investment is giving us a long-term competitive edge. Now, with this sales number and our total fibre-based adoption rate is almost 12% and this is keeping on increasing every quarter and there are already 35 cities in which this penetration is exceeding 15%, and 13 cities in which it is exceeding 20% penetration.

We are also very pleased, and for those of you who are living in Poland you've probably seen it, that T-Mobile has started to resell our fibre network, which will obviously contribute to monetisation of this investment for wholesale revenues.

Please note on the right side of this chart that our total broadband base is rapidly evolving, the share of high speed technologies, namely fibre and VDSL is now almost equalling ADSL and ADSL is now less than 40% of our base, which I think is a strong evolution and a very good performance.

Before we go to the next page, let also me put your attention on an event that took place and that we obtained last week. It's about deregulation -- further deregulation. We are very pleased that the regulator actually has made this announcement and is obviously gradually abandoning these archaic rules and extended BSA deregulation in many more municipalities. It means that now, we are not regulated in more than 40% of the Polish households with this new decision. And it means now that competition in these

areas will be purely based on quality of the service and the market prices, and it will obviously give us more flexibility to create retail offers and also wholesale offers, and will also allow us to react more quickly on changing local market conditions, so this announce of the regulator on this decision was obviously a very good news for Orange Polska.

If you want let's go now to Page 8. So we would like to comment on this page, to focus on the commercial performance on convergence and mobile. So if you just look at the upper row charts, convergence customer base keeps on growing even if as you can see there the growth is not as high as in the past. The key reason for that is that we have now, I would say, what is normal churn, I remind that we have launched Orange Love two years ago. So this customer base is coming to the end of the two years contract. And also, this is due to the fact that internal migration from non-convergent offers, are now drawing out. Please note that already 60% of our broadband customer base is now convergence. So, naturally this quote quote fishing pool is actually getting smaller and smaller.

However, what I would like to underline and say is that the gross additions to convergence that are including a new broadband service to Orange and the new mobile are growing double-digit year-on-year in Q3 and in Q3 they were the highest in many quarters. And of course, these are the most value-accretive customers in our convergent strategy.

Now if we go on the mobile front. So, on the right green box, you can see that Q3 was a very good period for us in mobile with very strong net additions both in postpaid and prepaid. In postpaid, we accounted net additions of 88,000, which is the best results in the last two years. This is mainly, thanks to the improving churn ratio, both in mobile handset offers and mobile broadband. The total postpaid churn ratio in Q3 was 2.4% which is for us a record low level. This means that basically customers -- our customers are more loyal, which obviously we see as a very encouraging trend in our 'more for more' strategy that we are currently executing.

Now on the prepaid front, following the price hikes on postpaid in the second quarter, we have pursued as well our value strategy in prepaid. So we have increased prices of unlimited services by PLN5 for newly activated cards, of course, in return for more gigabytes and free MMSs, and also since October, we have slightly increased actually the price for calls in pay as you go prepaid offer. So this is clearly to execute this value strategy on this market segment as well.

Now let's focus on the lower row on the slide, where we present the results of our ongoing transformation. So in the blue box, you would see the employment evolution at Orange Polska. On the yellow chart, what you can see there is that savings in indirect costs are -- were very strong in the third quarter. And if we exclude the exceptionally high gains on sales of assets this quarter, they were slightly down 5% year-on-year. And Maciej will comment much more on this in a minute. In the pink box, you can see that after nine months, EBITDAaL is growing by 1.2% even if we exclude the exceptional sales of real estate assets that occurred in August.

So that was all from me. Maciej, please.

Maciej Nowohoński, Management Board Member in charge of Finance

Thank you, Jean-Francois. Good morning, everyone. So we are starting the financial review on Page Number 10. You can see the highlights there and I think that the results were very strong, on top line, on profitability, and in cash flow. We were flagging to you that in the first semester that we were expecting the improvements and we delivered.

CapEx was lower in this quarter by 10% year-over-year and it reflects, as Jean-Francois mentioned, the even phasing of our investment activity throughout the year. Cash was supported by the sale of the assets

and the instalment receivables that we continued throughout the entire Q3. And by the way, we are going to continue also in the coming quarters.

Now let's focus on the revenues which is next slide, Slide number 11. Our quarterly revenues were up 4.3% year-on-year, much more than in the previous quarters. So the key factor here is the -- for the acceleration is the contribution of BlueSoft that we consolidated for the first time, as we finalized this acquisition in June, we consolidated in Q3 BlueSoft results for the period of June to September. So this is four months. BlueSoft added in general PLN48 million of revenues and we are very satisfied with the financial performance of the company so far in 2019, and also with the profitability of the company. We are now working on the common go-to-market strategy that will allow us to realize synergies that we expect starting from 2020.

If we put BlueSoft aside, our revenue dynamics were in line with previous quarters, and here we see combined growth of convergence mobile-only and broadband-only revenues at plus 1.4%, exactly the same as in the first semester. Slightly lower growth rate in convergent was offset by improving trend in mobile-only revenues and in this category mobile mono revenues, these declined only 4% in Q3 after a 6% decline in the first semester. And improvement resulted from lower erosion of the customer base and also lower decline in postpaid ARPO.

Overall, revenue trend also strongly benefited from the robust organic growth of ICT revenues, which increased 27% year-on-year. And after nine months, they are up 23% (and this is not counting BlueSoft) which proves that we rightly recognize the growth opportunities and we are able to execute our ambitions in that area.

Now let's turn to profitability. Next page. EBITDAaL after cost of leasing amounted to almost PLN950 million in the quarter and increased by spectacular 22% year-over-year. A significant portion of this growth obviously accounts for a gain on sale of Nowogrodzka/Barbary complex, that we announced to you in August.

However, if we exclude the gains on the asset sale, the EBITDAaL was up by a strong 7% year-on-year. It was driven by a solid direct margin evolution, which was supported by contribution from BlueSoft and very good result of cost optimization just mentioned by Jean-Francois.

A quarter ago, we flagged our expectations for a better trend here, and we delivered it. Indirect costs excluding the sale of assets in Q3 were down 5% year-on-year. As usual, our savings came from many sources, labor, general expenses, advertising and promotion, CRM, and IT and network. Optimization initiatives will top our agenda going forward, especially in the light of various inflationary cost challenges that are ahead of us for 2020.

Now let's take a look at the bottom line on the next slide. Net income in the quarter amounted to PLN224 million and similarly to EBITDAaL, a high figure here was driven by a record high gains on asset disposals. Bottom line again was supported by lower depreciation, which benefited from the extension of the useful life of certain fixed assets as in the previous quarters, with the concrete impact for the quarter of PLN48 million and the financial costs were slightly affected by the negative Forex differences impacting discount expense.

Now, let's take a view on the cash generation on the next slide. So, we generated in the quarter close to PLN420 million in cash, an improvement of PLN140 million versus last year. Obviously, the key contributor to these achievement were proceeds from the disposal of assets. So the sale of Nowogrodzka/Barbary real estate complex generated around PLN350 million. If we exclude this factor, cash generation was below last year due to higher year-on-year working capital requirement. And here, what we see is just phasing of the handset purchases and the roaming settlements, basically these are different this year than the last year.

We are buying right now more handsets, we have brought them more in Q2, we have paid more in Q3 for that. And the phasing of the roaming discounts is basically more skewed towards the end of the year. So in Q4, we will see year-over-year upside on that front.

Working capital was also supported by the next tranche of the installment receivables sale, that we continue from Q2. And as I said at the beginning, we are also going to continue in the quarters to come. That gave us in the quarter around PLN91 million benefit.

Please also note that last year in the third quarter working capital strongly benefited from PLN138 million upfront fee that we have received from T-Mobile related to the agreement that Jean-Francois mentioned a few minutes ago. So I propose to conclude the financial review on the next page, which is dedicated to our leverage.

And the leverage stood basically end of September at 2.2 times to EBITDAaL. This is the lowest level in some time. And it reflects improving business fundamentals and balance sheet optimization initiatives that we have pursued so far and we are going to continue in the quarters to come.

Our cost of debt is lower, so it went down to around 3% for the quarter from 3.5% a year ago. And we were flagging that to you a quarter ago that this cost may go down, it went down.

So thank you for the attention and I hand the floor back to Jean-Francois for conclusion.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Thank you, Maciej. So allow me to wrap up now. So our Q3 results were exceptional. Of course, thanks to the Nowogrodzka real estate complex sales, but even excluding this, they are strong. We delivered as you have seen a very strong and solid commercial results, especially in fibre and also mobile.

Our EBITDAaL excluding these again sales of real estate increased 7% in Q3 year-on-year. And 1% to 2% if we look at the first nine months of the year. So obviously you understood that we are confident regarding the guidance we gave you for the full-year 2019.

Now as we speak we are just before the peak commercial Christmas season, which is always very intense and very exciting.

So as usually, this period will be full of very attractive offers for our customers and we will do that by also aiming to preserve the balance between our commercial ambitions and our value strategy that we clearly have as a priority. Obviously, we are also this Q4 working on the detailed plan in the preparation for 2020. Our priorities do not change. We will need to address now a number of cost challenges that are ahead of us linked to the inflation of a number of items in Poland. And we are also maintaining our focus on value generation and business transformation.

Now I want to thank you for your attention and I will give the floor questions.

Questions And Answers

Operator

Thank you. We are waiting for questions from the floor. First, as usual, Pawel will be starting. Floor is yours Pawel.

Pawel Puchalski, Analyst, Santander

Hello, one, two, three, is it working? Yes it is. Pawel Puchalski, Santander. Few questions. First of all, let's start with very recently Cyfrowy got the decline to -- the decision on surcharges and they will be discontinued from as it can be seen from the decision of the regulator. Can you comment on what do you expect as far as surcharges and what is the scale of total risk in Orange Polska case? That will be the first question.

And secondly. Well, I'm looking at your convergent net additions and I remember you telling me many times that convergence is the fundamental of your strategy and those net additions have weakened substantially to 24,000 in quarter three. What is the short-term outlook and how do you want to -- do you want to readdress your strategy or it's still is focused on convergence?

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Let me take these two questions. On the first question, which was about roaming surcharges that were, I would say, an exception in Poland because you know like roam like -- roam is actually the European directives. I mean handling these surcharges, there was a specific topic for Poland. So we have read about the Polkomtel news, as we are concerned, Orange, I mean the current surcharge we are applying is valid until April. So next year, April 2020. So we will address that with the regulator in due time. This is all what I can say now. It's obviously a decision from the regulator, that's on the first topic.

On the second topic which is a very important question that you are raising, obviously convergence is a key strategy of Orange Polska that we have announced actually in September of 2017 together with fibre, it remains a key strategic axis together with fibre.

As you've obviously seen, I mean the ramp- up of the convergent in our base was very rapid -- look, showing the appetite of customers. What I have just tried to explain during the presentation is that, if we look at our own customer base, both on fixed broadband and mobile, I mean the -- more than 60% of our fixed broadband customers are now convergent.

On mobile, we are approaching the same numbers. So what you see happening actually is that there are less and less in these net adds and you're right, there was a slowdown of the net adds. In these net adds, the part of migration is smaller and smaller. So the volumes as you rightly pointed out, are actually less than they used to be in the previous quarters, but if we now zoom in these volumes what is happening and I was saying there are more and more new customers, we have an internal jargon Orange, we call then new new. So new fixed broadband, new mobile, we have more new broadband, so-called old mobile, so people having already mobile at Orange and this is extremely value accretive. So if -- and we have less and less what we used to call old Orange mobile old broadband and basically old Orange fixed broadband new mobile.

So what we see happening is that the share of the value accretive sales in these net adds is higher and higher and in Q3 it was the highest ever. So although the volumes are going down, actually the mix in

these volumes is favourable and very good and it's an acquisition tool.

By the way, I remind that we are still having 85% of our gross adds in fibre that are coming from competition, I mean this is still a valid KPI and stayed stable. So this is really an acquisition tool. I mean if we look back in many years, this is a win back tool, because we are gaining again market share in large cities, thanks to the fibre investment.

So to your question, strategy remains the same, because it's working and by the way, it's interesting to see that all our competitors including now cable companies in the last quarters are following this path.

Pawel Puchalski, Analyst

May I ask two more questions?

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Yes.

Pawel Puchalski, Analyst

Well, TV segment because well the slowdown is observed in convergence but slowdown in TV segment is quite striking to me and we've just heard that Cyfrowy and Discovery Group are thinking of kicking off they own OTT platform and well you are not strong in TV right now. And do you see such a OTT new platform has as opportunity or as a risk? That would be my first question. And the second one, I remember guidance for years 2019 and 2020 and there was growth in EBITDA in 2019 and in 2020. And, well I know it is too early, but I wanted to know if you would expect consecutive growth after growth or you refer to 2020 growth in relation to 2018. If 2019 result was exceptionally strong would you admit any decline in EBITDA in 2020, which would be still higher than 2019? I hope you understand what I am asking.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

I do understand you very good.

Pawel Puchalski, Analyst

Thank you very much.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

As usual, thank you for your questions, Pawel. So on the last question, the answer is, we are guiding for growth versus 2019 on EBITDA. That's my first answer. On the previous question, so we have, as all of you read the press and we announced that was two days ago if my memory is good about this creation of a common entity between Discovery and Polsat, obviously, it's a bit fresh for us and to have any opinion on this move. However, this move has happened in other countries. Well, actually I have seen the same move happening in my home country in France.

It was a platform called Salto between two content providers. It is obvious that this business of content and entertainment is moving. We obviously, see the direction in which it is moving. So it is moving towards more and more OTT and Poland is not excluded from these trends which are happening everywhere. You

know that there are also new big players coming into this OTT world. I'm just quoting Disney, Apple. So I guess this is a natural reaction of the local content owners and big content companies. So the way we see at this stage, again, it's a little bit difficult to have an opinion because the announcement that was made was pretty generic. But the way we see it is very positively, because we believe is going to be yet an additional reason why you should go for fibre and very high throughput basically because what you want is the highest quality. So we see it as an opportunity basically.

On TV, well, I've heard your statement, allow me to disagree slightly, because if you look at our TV line-up, in our Love offers we have the best line-up in Poland. So, there is not one channel that you would not find in Orange TV. So there was maybe a bit of a slowdown in our TV sales but simply because our fibre offers, as you have seen, are becoming more and more attractive in certain geographies, so which is sometimes having the tendency to push people to buy a little bit more pure fibre but this customer base -- this fibre customer base that we are gaining is also upgrading later to TV. So I mean this is a pool of customers we are creating, that is a pool to we can upsell in the future. So the overall movement is good basically.

Leszek Iwaszko, Director of Investor Relations

We don't have any more questions from the floor. If not, then I would suggest to switch to our teleconference listeners. Operator, please.

Operator

Thank you. Ladies and gentlemen, we will now begin our question-and-answer session. (Operator Instructions) The first question we received is from Dilya Ibragimova from Citi. Your line is now open, madam.

Dilya Ibragimova, Analyst

Hi, thank you very much for the question. This is Dilya Ibragimova from Citi. I have a couple of questions if I may. First on your comment that you applied to continue to focus on cost optimization going forward to address for example the inflationary pressures and looking at the labour cost, which has been, it's like very impressive of course the optimization so far. What are your plans and may be how do you see the timing of the next program? Would you consider doing something opportunistically whenever you see when you can reach an agreement or would you consider doing something more actively after fibre rollout has been done so in from 2021. So may be on timing. And if you have -- if you could comment a bit on the degree of further labour cost optimization or headcount optimization if possible, that'd be great.

Second question is on recent announcement on the memorandum of understanding that has been announced between different players on 5G, if you could give us a bit more details, what this is about, is it only to do with the 700 megahertz and how do you see -- what's your thinking in terms of -- on 5G overall in Poland? Is it going to be 700 megahertz -- that will build over 700 megahertz only? Or is it the common a network on 700 and then other spectrum will be may be pulled or any comments on what your expectations are out of this memorandum of cooperation? That would be very helpful.

And last question is on your comment that you see that the every customer that -- existing customer taking an additional contract is being highly value accretive, for example, you mentioned that broadband customers that take your mobile from one P to second P. Could you give us a bit more details on economics, is it where when you -- when the comment that the customer is highly value accretive, is it versus the any additional external customer? And is it on subscriber acquisition cost, or how do you think in terms of value accretion when existing customer takes additional play? Thank you.

Maciej Nowohoński, Management Board Member in charge of Finance

Thank you very much for the questions, I will take the first and the last question. So in terms of the labor cost. You were asking about the further potential that we have and I would like to make a small introduction with a little bit bigger picture for the Polish market. On the market, since many years, we are observing quite dynamic evolution of the labour costs. And these dynamics in the past were at the level of around 7% for the entire country. Part of these dynamics were also visible in Orange Polska. We have yearly pay rise increases which are basically part of the social plan that we agree with the trade unions. Right now, we're I'd say pending social plan that has been agreed two years ago and is very consequently implemented by the company. Today, we, I would say, cannot give more colour about any other future potential social plans that may happen, we would like to come back to more concrete news when they appear, when they are negotiated in the due time, which normally is around end of the year. So I think it will be more talkative on that topic in the quarters to come. But what we can say is that given the fact that the labour cost is an inflationary element, we have initiated a couple of years ago quite comprehensive program of automation and digitalization in the company. And these projects are, I would say, substantially contributing to our needs in that respect and we are going to continue those projects in the future as well, so this will be the first items to, I'd say, turn to having such dynamics of the legal market as we have in Poland.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Okay. As concerned your second question around 5G developments in Poland and these MOUs that was signed yesterday with the Ministry of Digital Affairs, I can tell you the following. So there are actually two things that are being announced by the government and the regulator. One is obviously an auction that should actually start in the beginning of 2020 to allocate the so-called C band frequencies in Poland. So there would be as far as we know now there would be four blocks of 80 megahertz in this band of -- 3.5 gigahertz to 3.7 gigahertz that will be actually putting in auction again in the first semester 2020 with the aim to distribute these frequencies for 5G to the operators in the summer 2020. So that's one.

The second thing that actually is happening on the Polish market is the, let's say, potential wish -- at least for sure the wish to steady from the government to have a potential, let's say, a common network on the 700 megahertz frequency. So if you remember well, there was a meeting actually last winter -- winter 2018. We had the meeting with the Prime Minister and therefore operators where the Prime Minister has announced us his wish for us together to study the possibility of mutualizing this frequency. So actually, the memorandum of understanding that was signed yesterday is exactly about this. In this memorandum of understanding, the operators are actually agreeing with the state that we will together study the possibility and the feasibility of such a scheme.

I remind that the situation of Poland as concerned, 700 megahertz is a bit specific because as you know we have at our Eastern borders Russia, Belorussia, and Ukraine which are currently using actually actively these frequencies and they need to free them up before we in Poland can use them and at this moment discussions have been engaged by the Polish government, but deadlines are not yet at least for us operator deadlines are not extremely clear. So this spectrum is of course a bit more remote than the C-band spectrum. So this is what I can actually comment on this second question of yours.

Now, on your third question about the value creation in our convergence, again, what I can tell you is that this is not new. Since the beginning when we started convergence, we are looking at our actually net adds, gross adds, very much in detail. And we have four categories of customers. So again, sorry for these ugly words and jargon, we call them new-new. So this is a customer taking convergence bundle from scratch. So new broadband and new mobile, sometimes also new TV, but I will simplify by calling them only talking

about mobile and fixed broadband. So we have new-new, we have new broadband, old mobile, new mobile, old broadband and we have old mobile, old broadband.

Old mobile, old broadband is obviously a customer that was migrating from two different offers from our base. In terms of value creation, it's pretty simple what is happening is that the old mobile old actually broadband where quite neutral sometimes even destroying a bit value in exchange of actually more loyalty because you can see on our figures the beauty of convergence is that it reduces the churn whereas there was real value creation for those customers, which we are migrating from broadband to convergence bringing a new mobile or migrating from a mobile customer bringing in new broadband, and the value creation was about equal from these two type of customers and of course there are the brand new customers buying the brand new package and here the value creation is much higher.

When I talk about value creation, it's obviously the revenues, the future revenues minus the acquisition cost and commissions we are paying for these customers.

I would not tell you exactly what the amounts are, but this is the mechanics of convergence basically. And what I was just saying is that, in the last quarter, the amounts of actually net additions of the two categories which are new broadband, so new broadband-new mobile, new broadband-old mobile is the highest we've seen so far. So despite the volumes are going down, these value accretive part of the composition of our volumes is extremely good.

So again, this is confirming that our strategy -- convergent strategy is the right one and we want to pursue it.

Maciej Nowohoński, Management Board Member in charge of Finance

And I will just add that when you take a look at our offer structure, you will notice that our convergent offer is having a very high potential for the upsell. For example, in the TV component, customers can go to different options, which obviously cost a little bit more for customers, but give us more ARPU like going from standard to Extra, PLN40 more for TV going from Extra to Premium is PLN70 more revenue for the TV component and it's also worth mentioning the mobile component because customers can upsell also SIM cards, since for each SIM card, the customer gets obviously a nice benefit that this SIM card is cheaper than on a standalone front, but it means that for us, it is an incremental revenue of PLN25 for 7 gigs option, or PLN35 for 15 gigs option, or PLN55 for 30 gigs option. So, these are the basic mechanics, which are basically embedded in the construction of our convergent offer.

Dilya Ibragimova, Analyst

Well, thank you very much for comprehensive answer. Thanks.

Operator

The next question we received is from Pawel Szpigiel from mBank Securities. Your line is now open, sir.

Pawel Szpigiel, Analyst, mBank

Hi, congratulations on the results. I have couple of questions, I will ask them one by one if you don't mind. So, the first is to Jean-Francois. In the press release, you said that you are satisfied with the fresh results of 'more for more' commercial actions, which is for me a clear signal that the recent price increase were accepted by the company's clients. Is that correct? What is the reaction of the clients and potential clients to the price increase you introduced this year?

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Well, I think the commercial results are saying it all, I mean, highest net adds on mobile for the last two years, one, and lowest churn we've broken record. That's it.

Pawel Szpigiel, Analyst

Okay. The second question is about, what you mentioned in the presentation, you said that you want to scale down the FTTH program, could you please give us more details on this reduction of investments in fibre?

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Yes, of course, I mean, and this is no news, because this is something we've always, actually when I say always, is during our strategic announcement in 2017. This is the plan we have announced. So it's not about scaling down our actually fibre footprint, obviously, because we are aiming to reach 5 million households in Poland. Obviously, the more you go in a country like Poland, but this is valid in any country, I guess the more you go into expensive households to build and there is obviously a stage by which the price level in the country cannot allow you to have, let's say, profitable investments. So obviously what we have done in this program is going first to the most profitable areas of the country and usually this means connecting building with a lot of households. And then you are going to building with less and less households and single-family households. So, this is what's happening.

So, we have targeted in the first tranche of the fibre program the first 5 million households in the country, which are obviously the most profitable ones. The difficulty is that usually this is where the competition is, and this is exactly what happened and also one of the reason why we are having so good new customers in our gross adds, 85% of our customers are coming from competition for that reason. So basically this is the main reason why we want to actually slow down the investments in fibre, that's one.

The second reason is obviously is that we want to monetise this investment because although we are happy with the 12% penetration, still means that 88% of the network is there but customers are to be connected. So, we will focus more on sales in the future.

Third is that, we have 5G upcoming and we want to create some room for 5G because we will need to invest in these new mobile network generation, which is also going to be a key, because it's going to bring obviously more comfort to our mobile customers and more possibilities in the future. And last but not least, there is a topic that all of you are very sensible to which is our dividend policy and we are well aware that at some point we need to remunerate our shareholders. So for all these reasons, our plan is to actually scale down our fibre investment after end of 2020.

Pawel Szpigiel, Analyst

Could you please now comment on B2C fixed the market evolution in the third quarter. You probably feel more competitive pressure from the in this part of the market and I want to know what would be your answer to new offers of your competitors?

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Yes. I can comment on that. So indeed what we see happening on the mobile front is very positive, because all of you have been seeing market repair is well on the way on the mobile front. This is why also we have made some movements on the prepaid front to really push that forward. As far as the fixed broadband market is concerned, the rather the opposite is happening. So especially in big cities, there I mean our competitors -- our cable competitors have been more aggressive, so our answer has been clearly that for instance in the capital city in Warsaw and those of you living here being here and living here in Warsaw, have seen it. I mean we have come out with more aggressive offers also on fibre.

So, it is true that on the fixed broadband front, the market situation is not exactly the same, it's becoming a bit more aggressive with more promotions and prices being more aggressive. The good news is that fortunately this is the, let's say, these large cities are the part where we have actually the lowest market share at this moment. So if we look at, let's say the rural places where we are really is a strong leader and far out from our cable competitors. If we look at the middle size city, which the market shares are quite calibrated. In the large city, in the past 10 years, we have lost so much market share that actually despite our fibre investment, we are still, I would say, the challenger. So here we have no -- we have no state of mind and we had no state of mind to became more aggressive in the first half, that's what we did in Warsaw basically.

Pawel Szpigiel, Analyst

Okay. And last question, you said that the current plan of the government is that C-band will be distributed in the form of auction in four blocks -- in four equal blocks. Is that correct?

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Correct. This is right. Just when you say four equal blocks, depends how far you are looking at this block from because if you zoom in these blocks, they're not equal, so this is precisely the current discussions that are going to happen with the regulator because the regulator like in any auction of this type will issue the rules and regulation of this auction to the market, so the market will have the possibility to comment these, so we understood that this is going to be published in mid of November and operators will have one month to comment or we are expecting to see these rules and regulation before commenting them because at this stage there -- we don't know more than this. The only thing we know is that, if you look in detail those blocks are not completely equal.

Pawel Szpigiel, Analyst

What that means actually?

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Well I could go much more in detail if you want. But for instance two of these blocks do not include Warsaw for the first two years, but at the end of the 15 years are completely covering the entire country and two other blocks are actually including Warsaw from the start. But there are some, let's say black zones for the full duration of the license.

So this is what I mean by, they're equal in size and frequency position. But if you zoom in, they're not exactly equal. So there will be some kind of dilemmas which ones to bid or not to bid.

Pawel Szpigiel, Analyst

Okay. But the differences between them are not material, let's say?

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Well, there are differences. This is all I can say, I cannot comment further obviously because this is extremely delicate topics.

Pawel Szpigiel, Analyst

Sure.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

-- as you can imagine, so that's all I can say.

Pawel Szpigiel, Analyst

Okay, thanks for the answer. Thank you very much.

Operator

(Operator Instructions) As there are no further questions, I hand back to Leszek Iwaszko.

Leszek Iwaszko, Director of Investor Relations

Do we have any follow-up questions from the floor? I cannot see. If not, then I would like to thank you -- thank everyone for the participation for listening us and see you in 2020.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Hopefully before. Thank you very much. Have a good day. Thank you, Leszek.