



# Financial results

## Q3 2016

9 November 2016

Cyfrowy Polsat S.A. Capital Group



# Agenda

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1. Key events
2. Operating results
3. Pro-forma financial results
4. Dividend policy
5. Summary and Q&A
6. Additional information

# 1. Key events

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# Key events



Operating efforts focused on the mandatory prepaid SIM registration process



Acquisition of key rights to sports events from UEFA for the years 2018-2022:

- European Qualifiers for Euro 2020 and 2022 FIFA World Cup
- UEFA Nations League
- U-21 European Championship in Poland



Changes in the Management Board and the Supervisory Board of the Polsat Group



New campaigns related supporting the sales of all services: smartDOM, mobile telephony, Internet, pay TV



## 2. Operating results

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## 2.1 Broadcasting and TV production segment

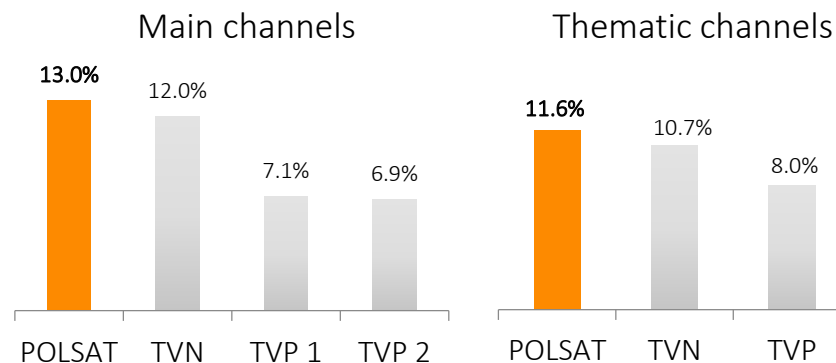


# Viewership of our channels in Q3'16

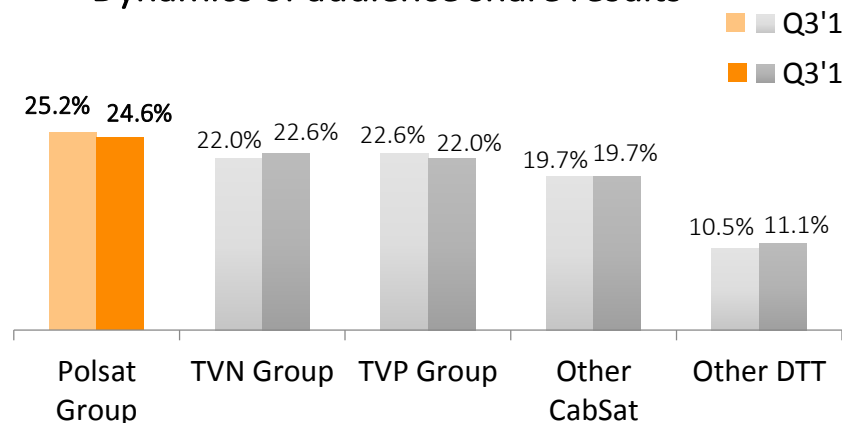


- Polsat Group and Polsat's main channel are the viewership leaders in the commercial group
- Good start of the autumn programming

## Audience shares



## Dynamics of audience share results



Source: NAM, All 16-49, all day, SHR%; internal analysis

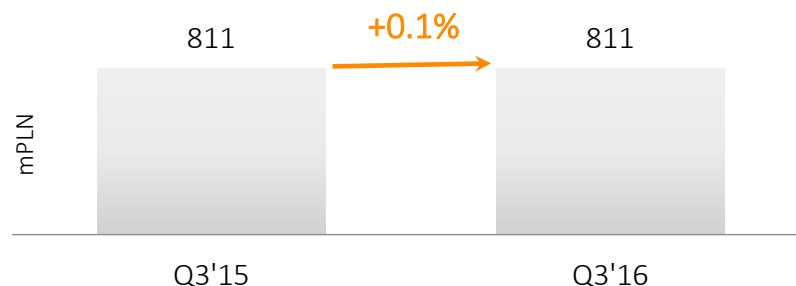


# Position on the advertising market in Q3'16

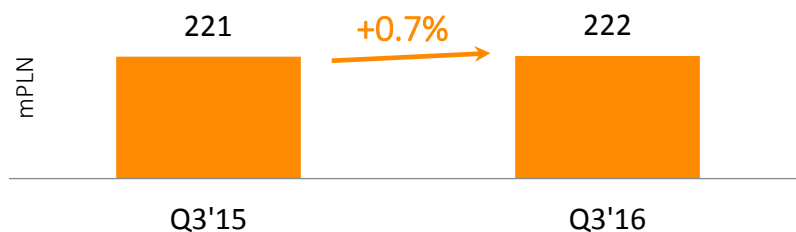


- TV advertising and sponsorship market increased by 0.1% YoY in Q3'16
- Revenue from TV advertising and sponsorship of TV Polsat Group grew faster than the market
- Our share in the TV advertising and sponsoring market increased to 27.4%

Market expenditures on TV advertising and sponsorship



Revenue from advertising and sponsorship of TV Polsat Group<sup>(1)</sup>



Source: SMG Poland (formerly SMG Starlink), airtime and sponsorship; TV Polsat; internal analysis

Note: (1) Revenue from advertising and sponsorship of TV Polsat Group according to SMG Poland's definition



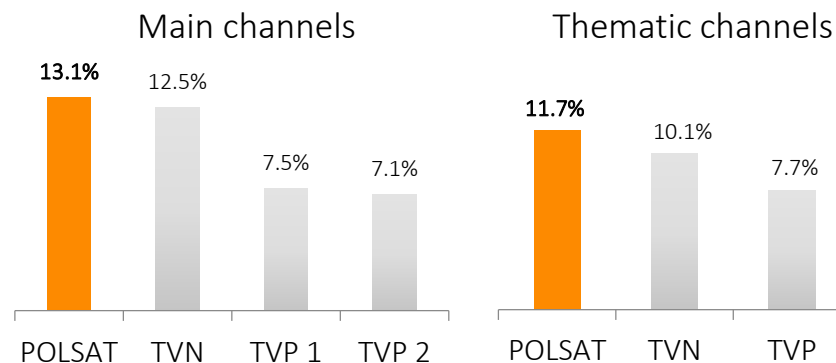


# Viewership of our channels in 9M'16

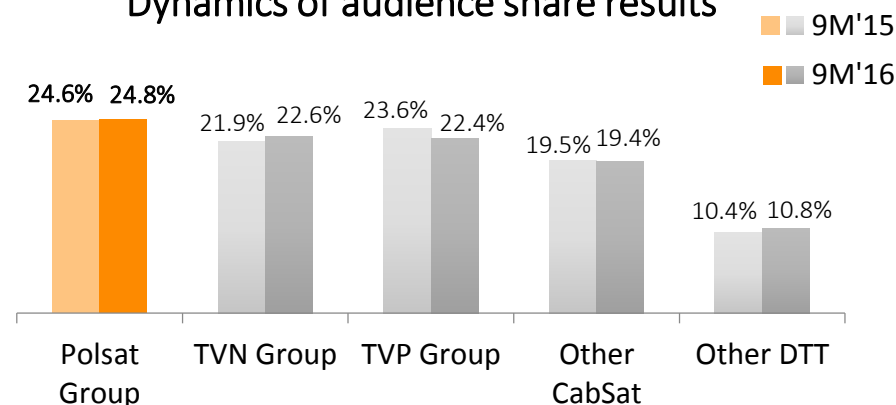


- Polsat Group and Polsat's main channel are the viewership leaders in the commercial group
- Polsat Group viewership in line with the long-term strategy

## Audience shares



## Dynamics of audience share results



Source: NAM, All 16-49, all day, SHR%; internal analysis

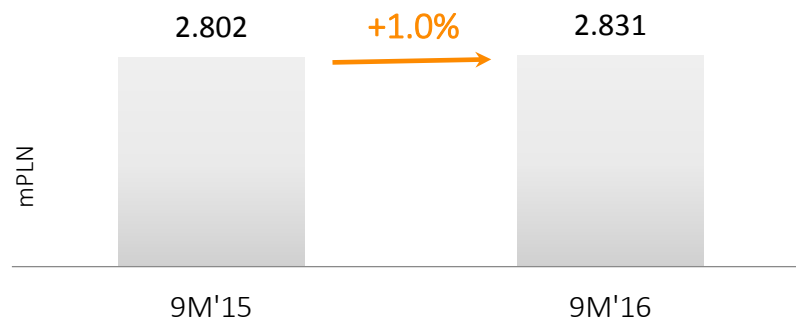


# Position on the advertising market in 9M'16

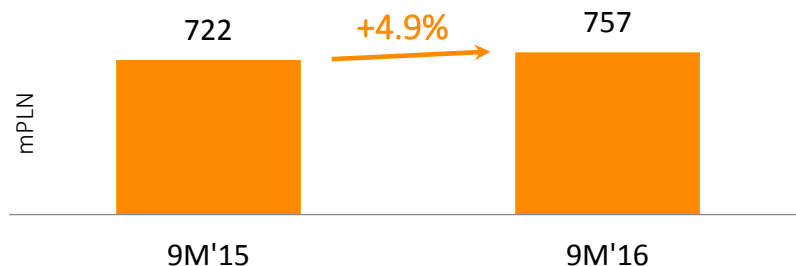


- TV advertising and sponsorship market increased by 1.0% YoY in 9M'16
- Revenue from TV advertising and sponsorship of TV Polsat Group grew much faster than the market (positive effect of UEFA EURO 2016)
- Our share in the TV advertising and sponsoring market increased to 26.8%

Market expenditures on TV advertising and sponsorship



Revenue from advertising and sponsorship of TV Polsat Group<sup>(1)</sup>



Source: SMG Poland (formerly SMG Starlink), airtime and sponsorship; TV Polsat; internal analysis

Note: (1) Revenue from advertising and sponsorship of TV Polsat Group according to SMG Poland's definition



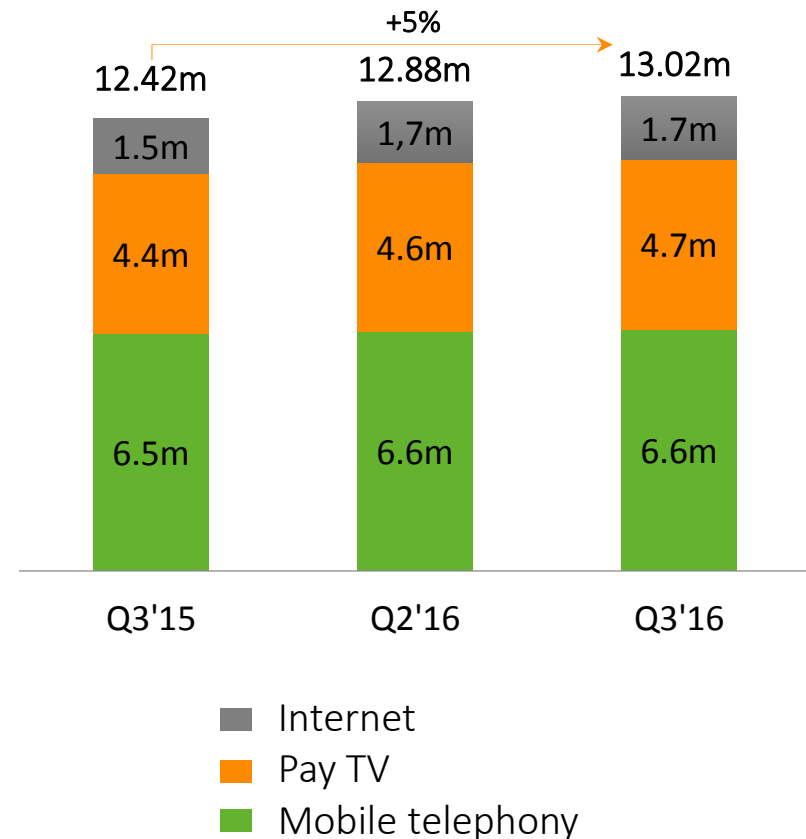
## 2.2 Services to individual and business customers



# Over 13 million contract services provided

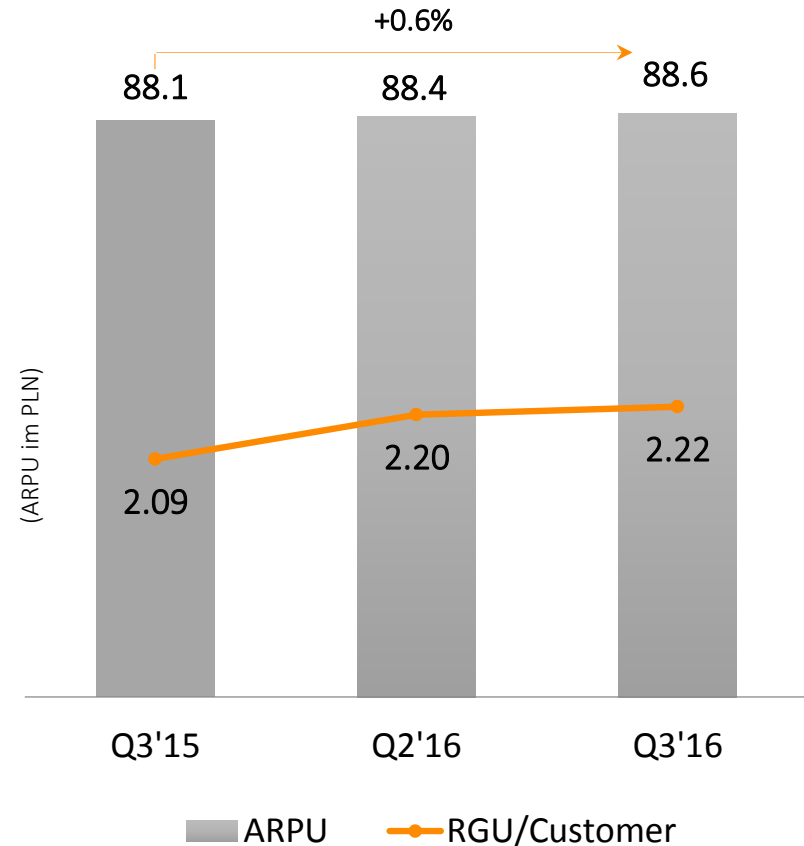


- Strong growth in the number of contract services by 599K YoY
- 112K YoY additional mobile telephony RGUs mainly due to the favorable effects of our multiplay strategy, supported in recent months by intensified migration of customers from the prepaid segment
- Pay TV RGUs increased by 283K YoY (the effect of multiroom and OTT)
- Further growth in Internet access RGUs by 205K YoY supported by highest quality LTE network



# Effective building of ARPU

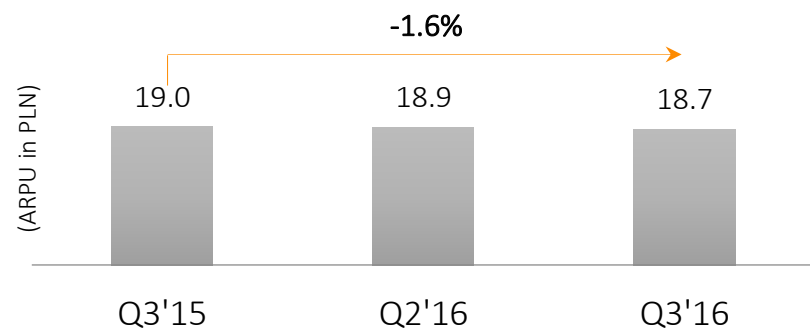
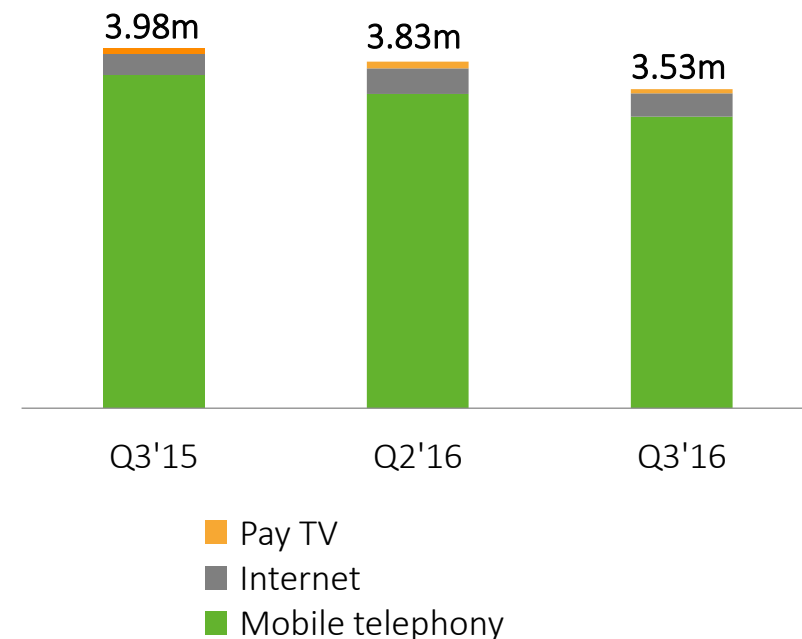
- Successful product up-selling is reflected in the growth of saturation of RGUs per customer
- Intensified migration of prepaid customers, who are characterized by relatively lower ARPU, to the contract tariffs has translated into slightly lower growth dynamics of contract ARPU
- The multiplay strategy and continued mobile market price stabilization may allow the favorable trend to be sustained



# Statutory duty of SIM card registration is reflected in the performance of the prepaid segment

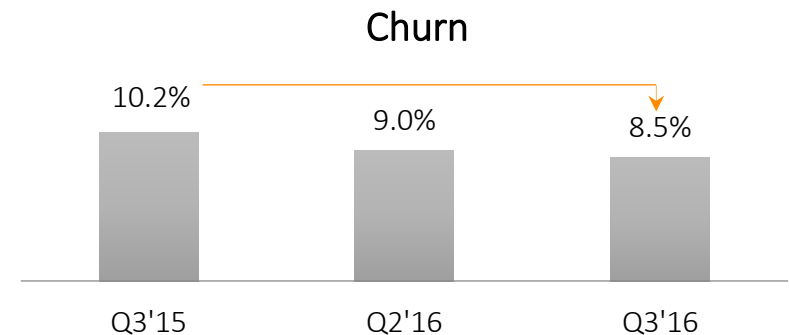
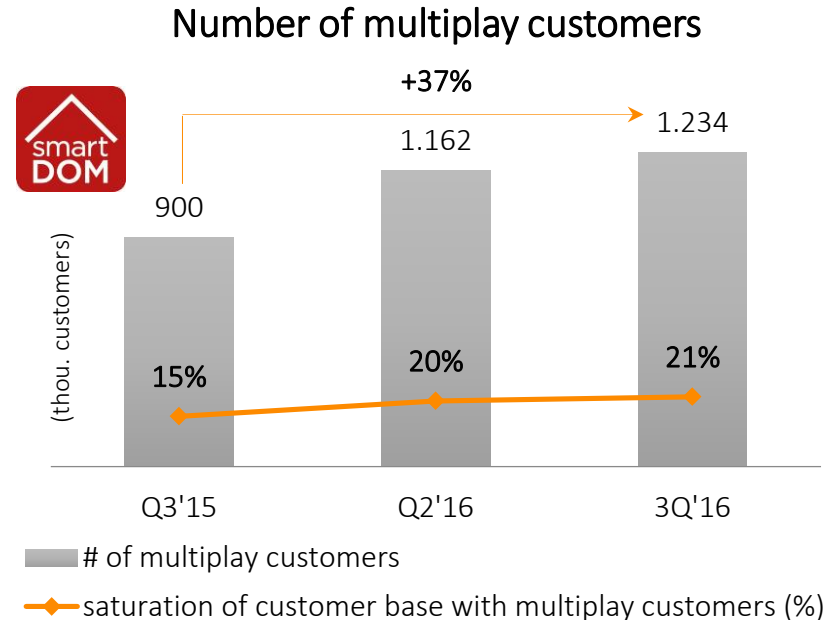


- Intensified migration of prepaid customers to contract offers, combined with a rapid decrease in sales of new SIM cards on the entire prepaid market
- In Q3'16 ARPU was under the influence of short-term promotions associated with the registration of prepaid SIM cards



# Multiplay strategy is effective

- Dynamic growth in the number of customers of the multiplay offer by 334K YoY
- As many as 21% of our contract customers already use the multiplay offer, which is positively reflected in reported churn (the lowest over the last 3 years)



# 3. Pro-forma financial results

Full quarterly consolidation of Midas Group results





# Status of implementation of synergies



## Revenue-related

Nearly **1.5m** cross-sold products in the smartDOM program with ARPU of ca. **PLN 30**

## Cost-related

**71** launched initiatives—  
estimated impact **>PLN 800m** <sup>(1)</sup>

## Financial

Refinancing of CPS+PLK debt:  
savings **>PLN 2bn** <sup>(1,2)</sup>

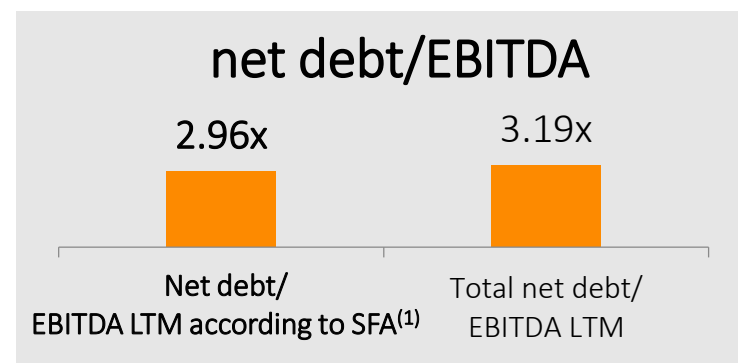
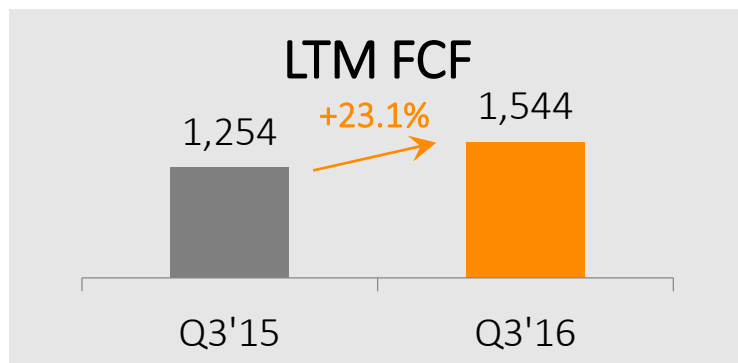
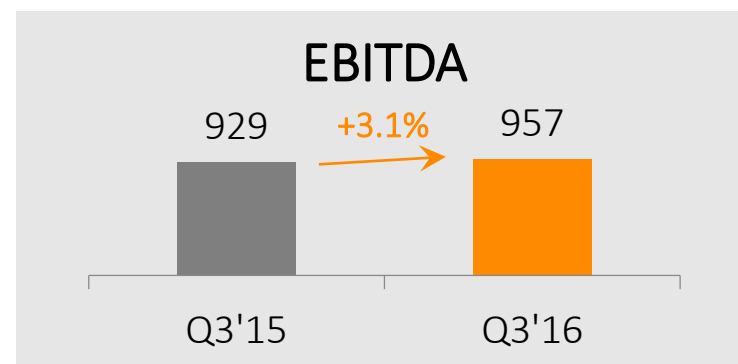
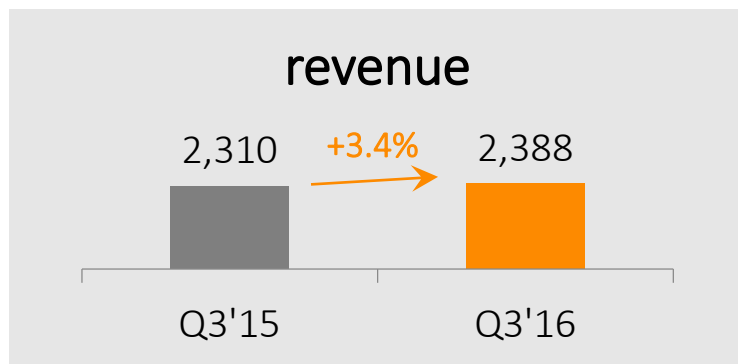
- ✓ **Success of the multisplay strategy** – dynamic development of the concept of selling products and services for the home (television, Internet, telephone, banking, insurance, electricity, gas, security, telecommunications equipment and household appliances)
- ✓ Synergies partly reinvested in the long-term development of business in response to the **rapidly changing market environment**, i.a.:
  - new regulations
  - pressure on salaries
  - competitors' operations
  - customer preferences
  - various sales models
  - increasing bundling
- ✓ **Strong and credible position in the financial market** due to the unique and long-term strategy of the Group

Note: (1) Cumulative for the years 2014-2019

(2) I stage: New CP facility agreement; repayment of CP's old bank loan, redemption of CP Senior Notes, redemption of PLK PIK notes; II stage: CP and PLK loans and redemption of PLK Senior Notes



# Pro-forma results of the Group



Source: Pro-forma, Cyfrowy Polsat, TV Polsat, Metelem, Midas, consolidated financial statements and internal analysis

Note: (1) Net leverage according to SFA definition, i.e., excluding non-cash serviced debt



# Pro-forma results of the segment of services to individual and business customers in Q3'16



mPLN	Q3'16	YoY change
Revenue	2,119	2%
Operating costs <sup>(1)</sup>	1,289	4%
EBITDA	829	-1%
EBITDA margin	39.1%	-1.6pp

- Revenue growth due to higher revenue from sales of equipment and higher wholesale revenue
- Cost level mainly affected by higher costs of equipment sold, technical costs and IC settlements and higher content costs (i.a. UEFA EURO 2016)

Source: Pro-forma, Cyfrowy Polsat, Metelem, Midas, consolidated financial statements and internal analysis

Note: (1) Costs exclude depreciation, amortization, impairment and liquidation



# Results of the broadcasting and TV production segment in Q3'16



mPLN	Q3'16	YoY change
Revenue	321	13%
Operating costs <sup>(1)</sup>	195	-1%
EBITDA	128	49%
EBITDA margin	39.9%	9.5pp

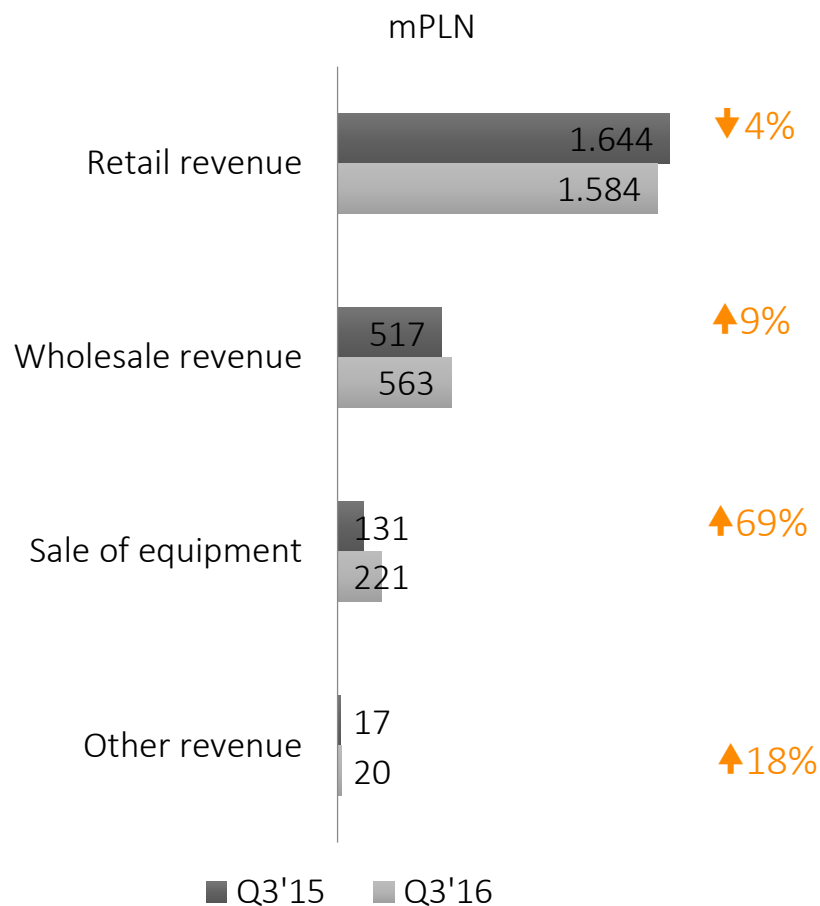
- Higher revenue growth vs costs, i.a. due to the financial success of UEFA EURO 2016 (event at the turn of Q2'16 and Q3'16)
- Effective management of content costs reflected in the level of total costs

Source: Consolidated financial statements for the 9 month period ended 30 September 2016 and internal analysis

Note: (1) Costs exclude depreciation, amortization, impairment and liquidation

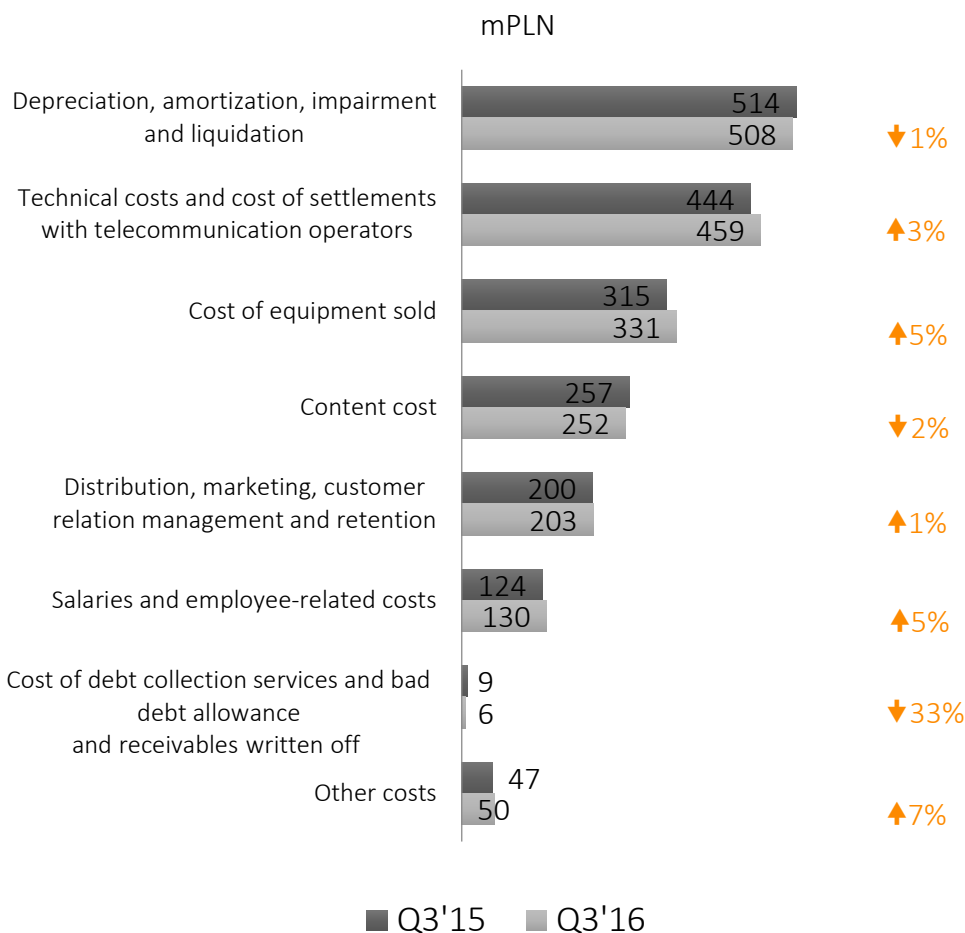


# Pro-forma revenue structure in Q3'16



- Decrease of revenue from voice services partially compensated by higher revenue from pay TV services and Internet access services
- Growing revenue from IC settlements, as well as from sale of licenses, sub-licenses and copyrights impact the dynamics of wholesale revenue
- Higher revenue from sale of equipment, mainly due to the growing share of sales of equipment based on the installment plan

# Pro-forma operating costs structure in Q3'16

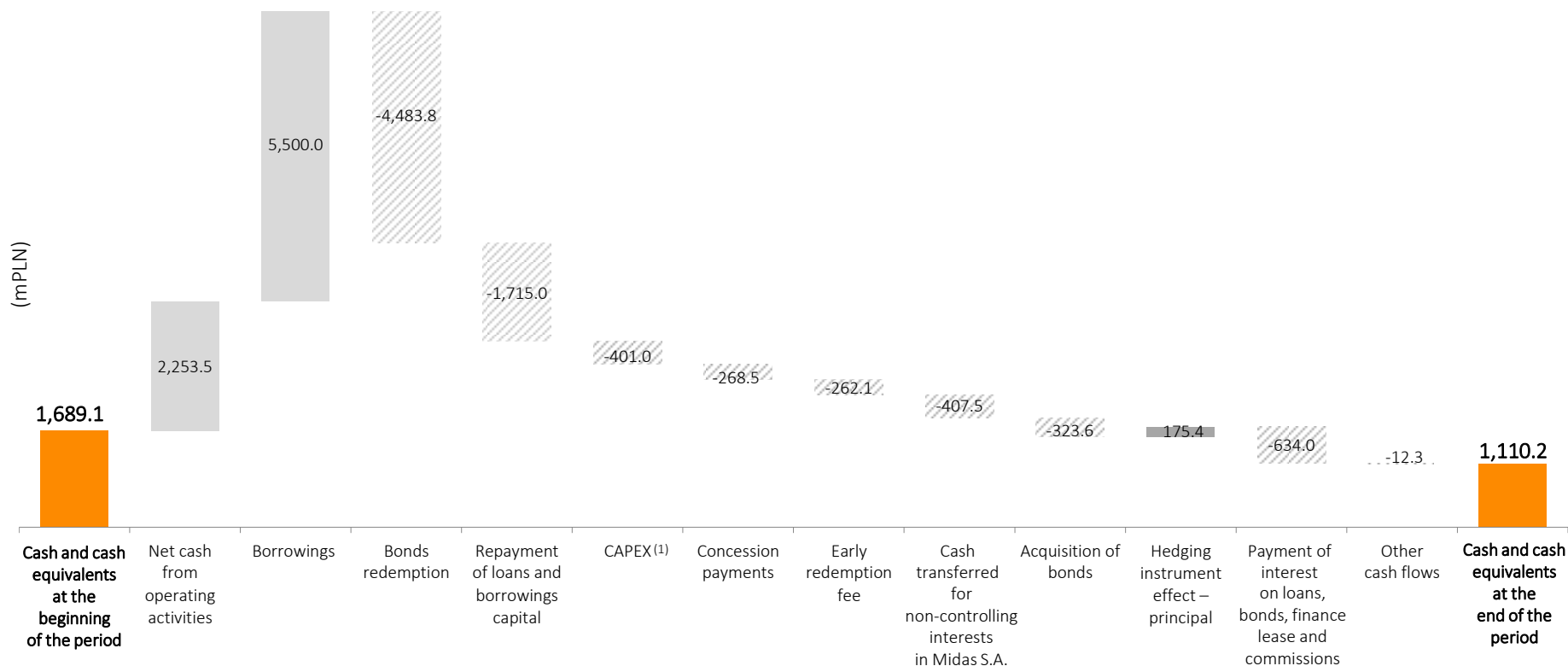


- Technical costs influenced by growing IC costs
- Increase in the cost of equipment sold caused by a higher unit cost of sold equipment, while the total volume of sales declined
- Higher cost of salaries due to a change in the schedule for creating yearly bonuses provisions
- Growth of costs of distribution, marketing, customer relation management and retention due to sales commission being amortized in the books over time

Source: Pro-forma, Cyfrowy Polsat, TV Polsat, Metelem, Midas, consolidated financial statements and internal analysis



# Pro-forma cash flow statement in 9M'16



Source: Pro-forma, Cyfrowy Polsat, TV Polsat, Metelem, Midas, consolidated financial statements and internal analysis

Note: (1) excluding expenditures on set-top-boxes leased to customers

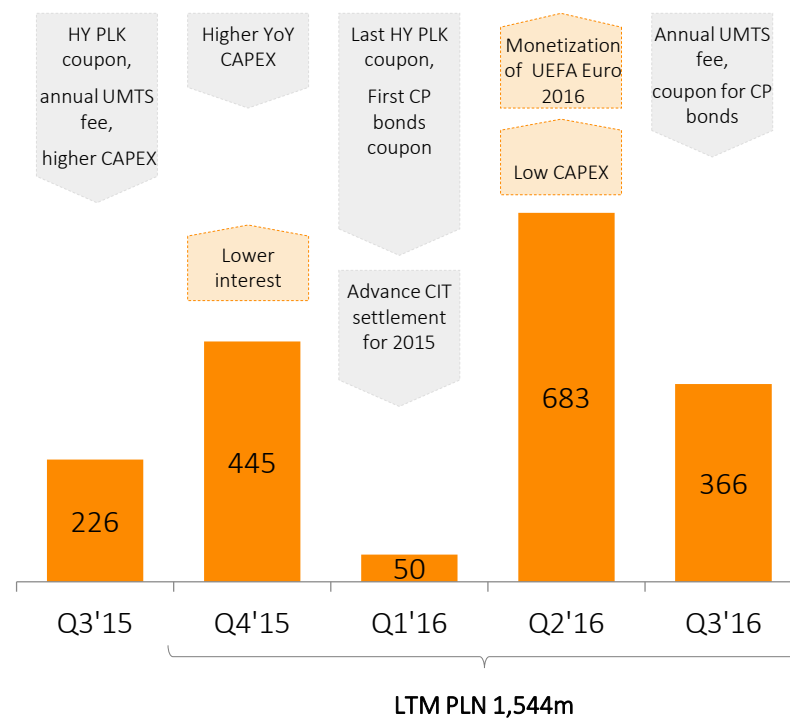


# Reconciliation of FCF pro-forma after interest



mPLN	Q3'16	9M'16
Net cash from operating activities	765	2,141
Net cash used in investing activities	-274	-1,139
Payment of interest on loans, borrowings and bonds <sup>(1)</sup>	-124	-718
<b>FCF after interest</b>	<b>367</b>	<b>284</b>
Acquisition of entities (including cash)	-1	144
Acquisition of Midas bonds		324
FCF of Midas Group in January-February 2016		105
One-off payment for the purchase of the 2.6 GHz band		156
Call option for the early redemption of HY PLK bonds		262
Effect of cash settlement of hedging transactions for nominal HY PLK bonds		-175
<b>Adjusted FCF after interest</b>	<b>366</b>	<b>1,099</b>

## Adjusted FCF after interest<sup>(2)</sup>



Source: Pro-forma, Cyfrowy Polsat, TV Polsat, Metelem, Midas, consolidated financial statements and internal analysis

Note: (1) Includes the impact of the instruments IRS / CIRS / forward

(2) FCF results for 2015 have been adjusted backwards by taking into account the FCF results of Midas Group





# The Group's debt as at 30 September 2016



mPLN	Carrying amount as at 30 September 2016
Combined Term Facility	10,800
Revolving Facility Loan	-
Series A Notes	1,007
Zero-coupon Litenite Notes	840
Leasing and other	27
<b>Gross debt</b>	<b>12,674</b>
Cash and cash equivalents <sup>1</sup>	(1,110)
<b>Net debt</b>	<b>11,564</b>
EBITDA LTM	3,620
<b>Net debt / EBITDA LTM according to SFA<sup>2</sup></b>	<b>2.96</b>
Total net debt / EBITDA LTM	3.19

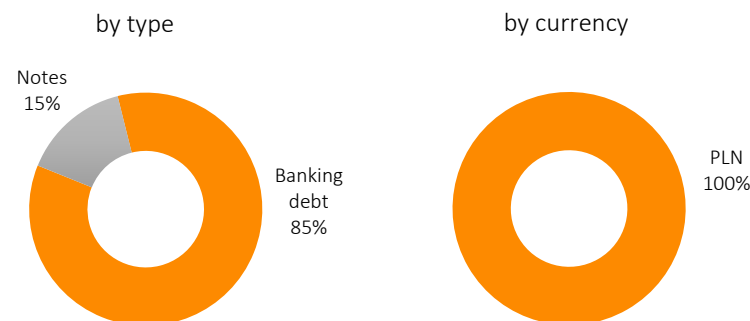
<sup>1</sup> This position comprises cash and cash equivalents, including restricted cash

<sup>2</sup> Net leverage according to SFA definition, i.e. excluding non-cash serviced debt

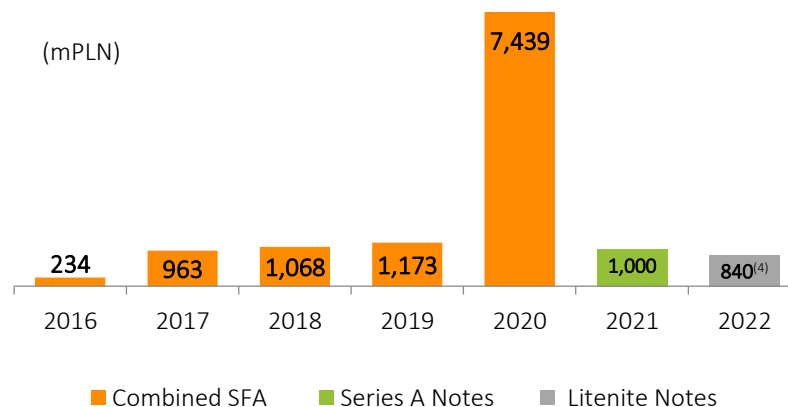
<sup>3</sup> Nominal value of the indebtedness as at 30 September 2016 (excluding the Revolving Facility Loan)

<sup>4</sup> Liabilities related to the Litenite Notes as at 30 September 2016

## Our debt structure<sup>2</sup>



## Our debt maturing profile<sup>3</sup>



Source: Interim condensed consolidated financial statements for the 9 month period ended 30 September 2016 and internal analysis



## 4. Dividend policy



# Major assumptions of capital resources management policy



## Main goal

### Permanent reduction of Polsat Group's debt to the level of net debt /EBITDA <1.75x

- Reaching the net debt/EBITDA ratio of <1.75x will enable the release of securities established in accordance with the existing facility agreement and improve the flexibility of the Group's operations

## Additional goal

### Return to regular, predictable dividend payments for the Company's shareholders

- The assumptions of the dividend policy will be subject to periodic review, especially after the refinancing which is expected to take place in 2020

# Assumptions of the dividend policy



net debt / EBITDA	recommended dividend payout ranges
> 3.2x	no dividend payment proposed
2.5x – 3.2x	PLN 200 – 400 m
1.75x – 2.5x	25-50% of consolidated net profit
< 1.75x	50-100% consolidated net profit

## net debt / EBITDA:

- calculated according to balance sheet values, based on the most recent, reported quarterly results
- net debt includes all the debt instruments, including also the *pay-in-kind* bonds

## net profit:

- consolidated net profit of the Polsat Group for the previous full financial year



## 5. Summary and Q&A



# Summary



Very good operating results – over **13m** contract services with further growth potential



Very good financial performance - EBITDA supported by synergies



Excellent **FCF LTM (1.5 bn)**, supporting fast deleveraging of the Group



New dividend policy



## 6. Additional information



## 6.1 Reported financial results of Polsat Group

Consolidation of Midas Group from 29 February 2016





# Financial results of Polsat Group in Q3'16



mPLN	Q3'16	YoY change
Revenue	2,388	-1%
Operating costs <sup>(1)</sup>	1,431	-5%
EBITDA	957	3%
EBITDA margin	40.1%	1.6pp
Net profit	270	-46%

- The Group's performance is affected by the consolidation of Midas Group results as of 29 February 2016
- Cost level mainly affected by lower technical costs and costs of settlements with telecommunication operators, as well as higher costs of equipment sold
- Level of net profit under the influence of lower costs of servicing of the new debt of Polsat Group, while negative YoY dynamics affected by one-off, non-cash operations in Q3'15 related to the refinancing of the Group's hitherto debt (a profit in terms of financial costs)

Source: Interim condensed consolidated financial statements for the 9 month period ended 30 September 2016 and internal analysis

Note: (1) Costs exclude depreciation, amortization, impairment and liquidation



# Results of the segment of services to individual and business customers in Q3'16



mPLN	Q3'16	YoY change
Revenue	2,119	-3%
Operating costs <sup>(1)</sup>	1,289	-4%
EBITDA	829	-2%
EBITDA margin	39.1%	0.3pp

- Level of revenue under the influence of higher sales of equipment and lower wholesale and retail revenue
- The cost level mainly affected by lower technical costs and IC settlements, resulting in EBITDA of PLN 829m

Source: Interim condensed consolidated financial statements for the 9 month period ended 30 September 2016 and internal analysis

Note: (1) Costs exclude depreciation, amortization, impairment and liquidation



# Results of the broadcasting and TV production segment in Q3'16



mPLN	Q3'16	YoY change
Revenue	321	13%
Operating costs <sup>(1)</sup>	195	-1%
EBITDA	128	49%
EBITDA margin	39.9%	9.5pp

- Higher revenue growth vs costs, i.a. due to the financial success of UEFA EURO 2016 (event at the turn of Q2'16 and Q3'16)
- Effective management of content costs reflected in the level of total costs

Source: Interim condensed consolidated financial statements for the 9 month period ended 30 September 2016 and internal analysis

Note: (1) Costs exclude depreciation, amortization, impairment and liquidation



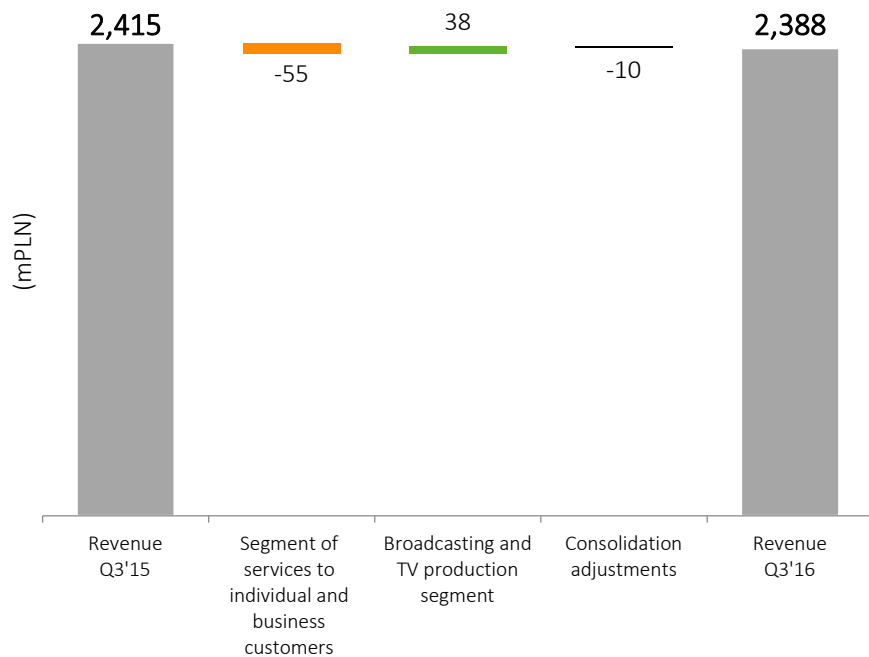
# Revenue and costs – change drivers in Q3'16



## Revenue

YoY change

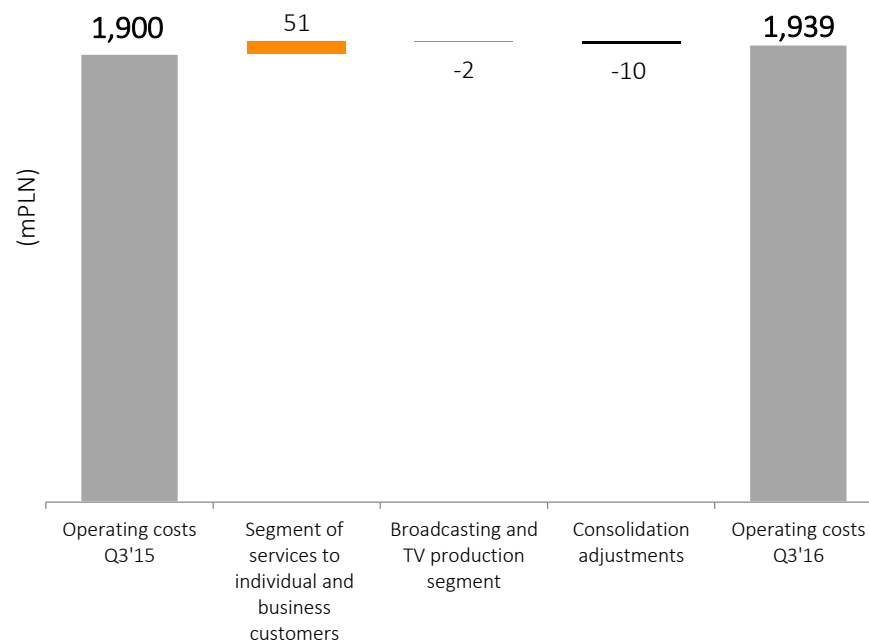
-1%  
-27 m



## Operating costs

YoY change

+2%  
+39 m



Source: Interim condensed consolidated financial statements for the 9 month period ended 30 September 2016 and internal analysis



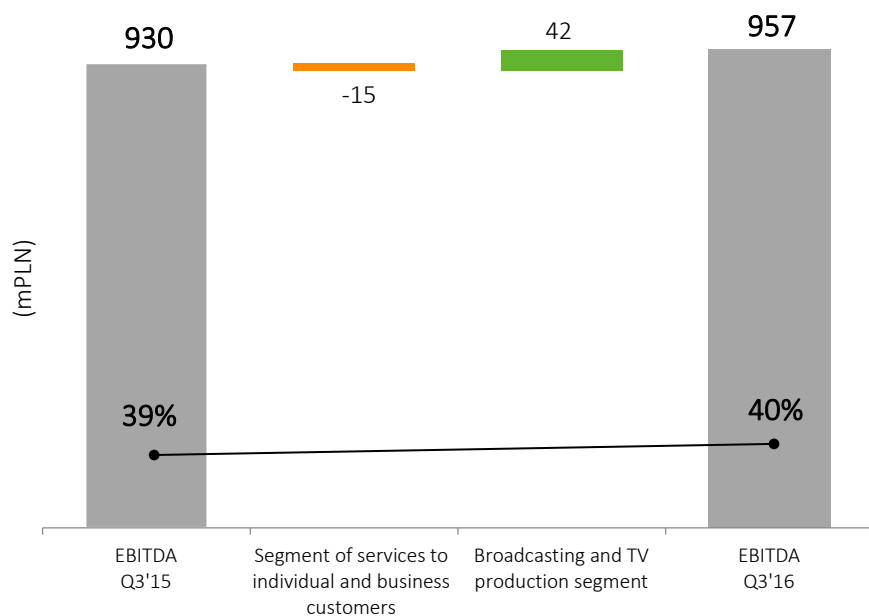
# EBITDA and net profit – change drivers in Q3'16



## EBITDA

YoY change

+3%  
+27m

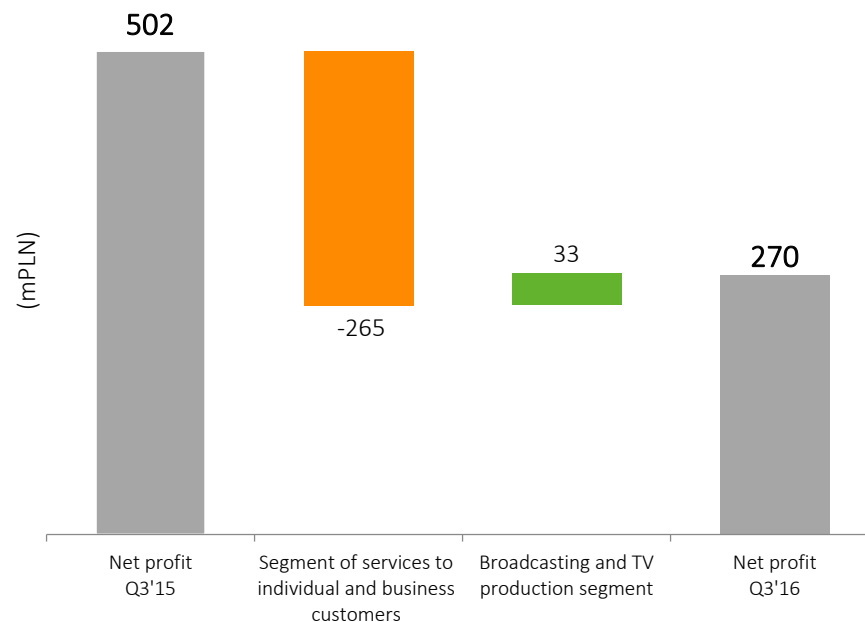


●—● EBITDA Margin

## Net profit

YoY change

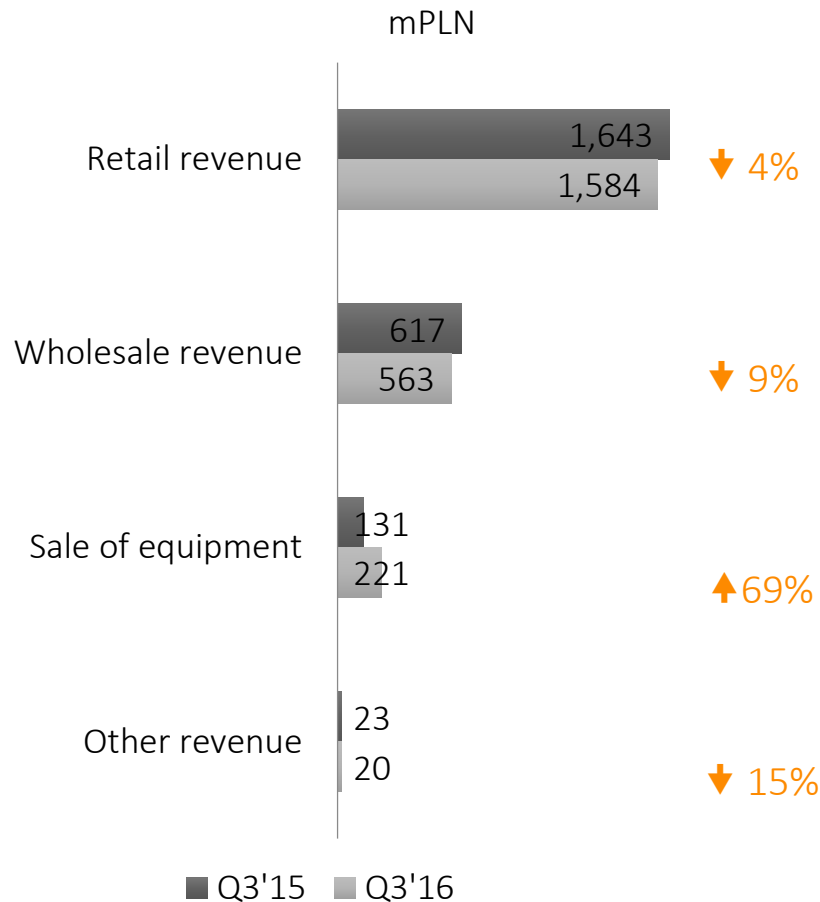
-46%  
-233 m



Source: Interim condensed consolidated financial statements for the 9 month period ended 30 September 2016 and internal analysis

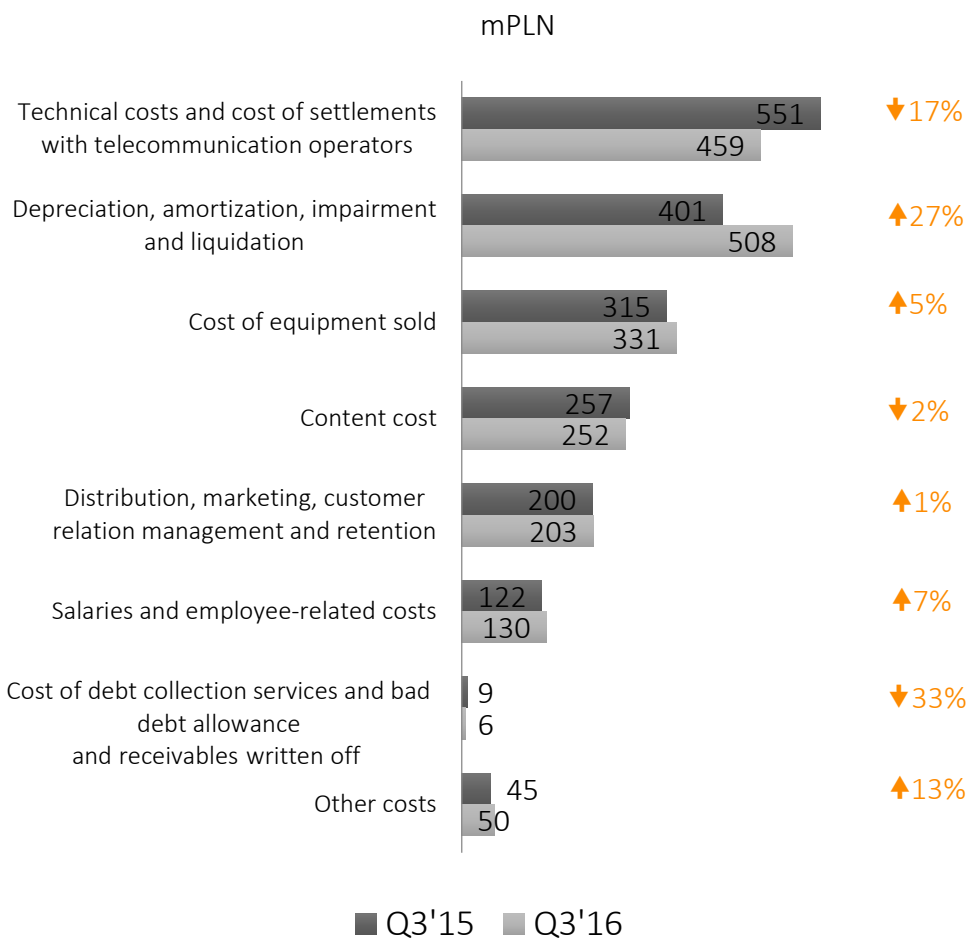


# Revenue structure in Q3'16



- Lower retail revenue primarily due to lower revenue from voice services caused by a highly competitive market. The decrease was partially compensated by higher revenue from pay TV services, as well as growing revenue from mobile Internet access services and data transmission
- Decrease in wholesale revenue mainly due to the recognition in Q3'15 in this item of revenue from the lease of telecommunication infrastructure to Midas Group, which is subject to elimination in Q3'16 as the result of the acquisition of Midas Group. The decrease of wholesale revenue was partially compensated by higher revenue from interconnection services, higher revenue from the sale of sublicenses to selected meetings of the UEFA EURO 2016 to TVP S.A. and higher revenue from satellite and cable operators related to the wholesale sale of packages of channels dedicated to the UEFA EURO 2016
- Higher revenue from equipment sales due primarily to the increasing share of installment plan sales

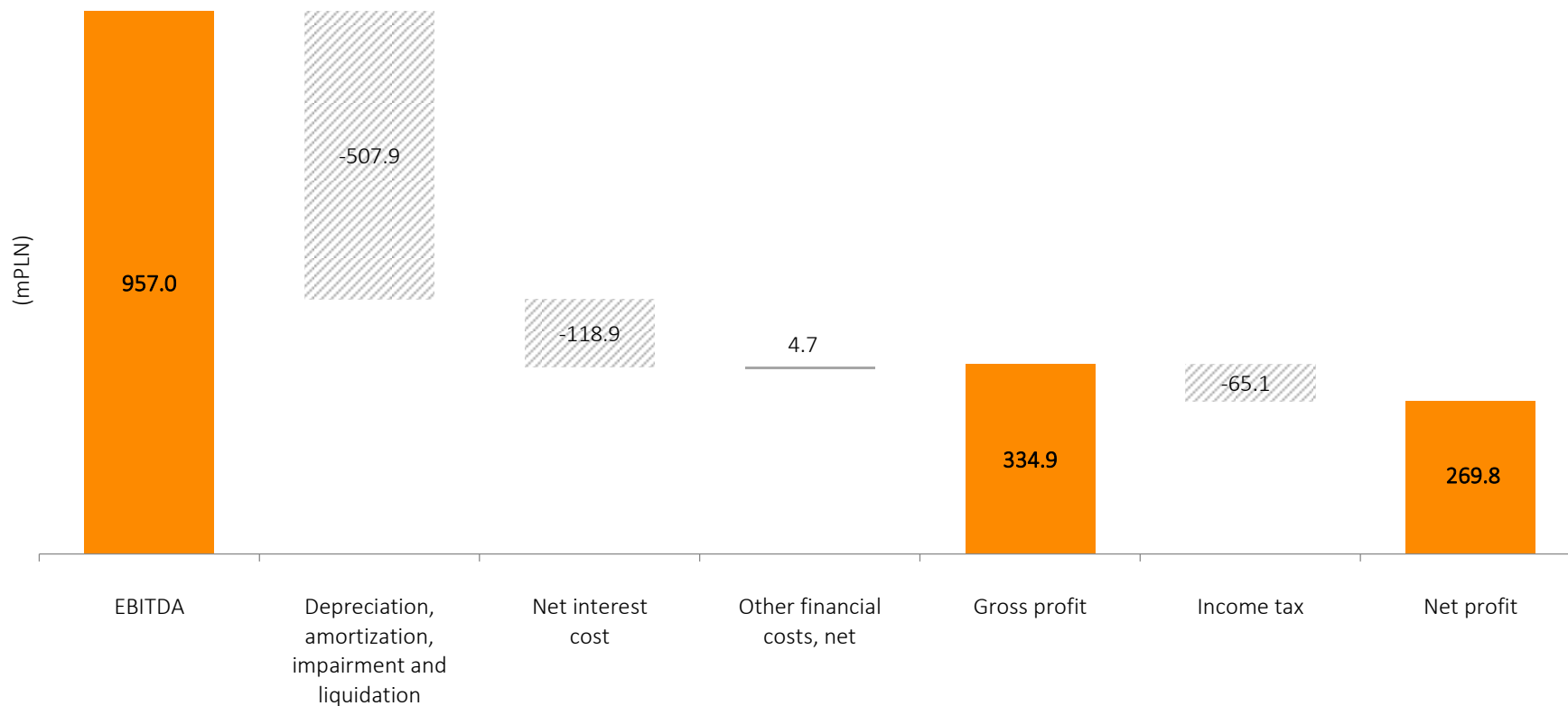
# Operating costs structure in Q3'16



- Decrease technical costs primarily due to the effect of the elimination during consolidation of growing costs of data within our broadband Internet access service in connection with the acquisition of Midas Group. In the comparative period the aforementioned costs of traffic were payable to Midas Group
- Higher depreciation and amortization expenses primarily as the result of the consolidation of depreciation costs of Midas Group, including the additional depreciation of telecommunications licenses resulting from the valuation of these licenses during the preliminary purchase price allocation process related to the acquisition of Midas Group
- Increase in cost of equipment sold caused by a higher unit cost of sold equipment, while the total volume of sales declined
- Higher distribution, marketing, customer relation management and retention costs due, among other things, to the recognition of higher costs of sales commissions (accounting effect)
- Salaries costs are increasing due to a modification of the schedule of creating provisions for allowances for the employees of the Group, from a semi-annual to a quarterly cycle, as well as the recognition of salaries and employee-related costs of Midas Group following its consolidation from February 29, 2016

Source: Interim condensed consolidated financial statements for the 9 month period ended 30 September 2016 and internal analysis

# Items below the EBITDA level in Q3'16



Source: Interim condensed consolidated financial statements for the 9 month period ended 30 September 2016 and internal analysis



## 6.2 Pro-forma financial results

Full quarterly consolidation of Midas Group results



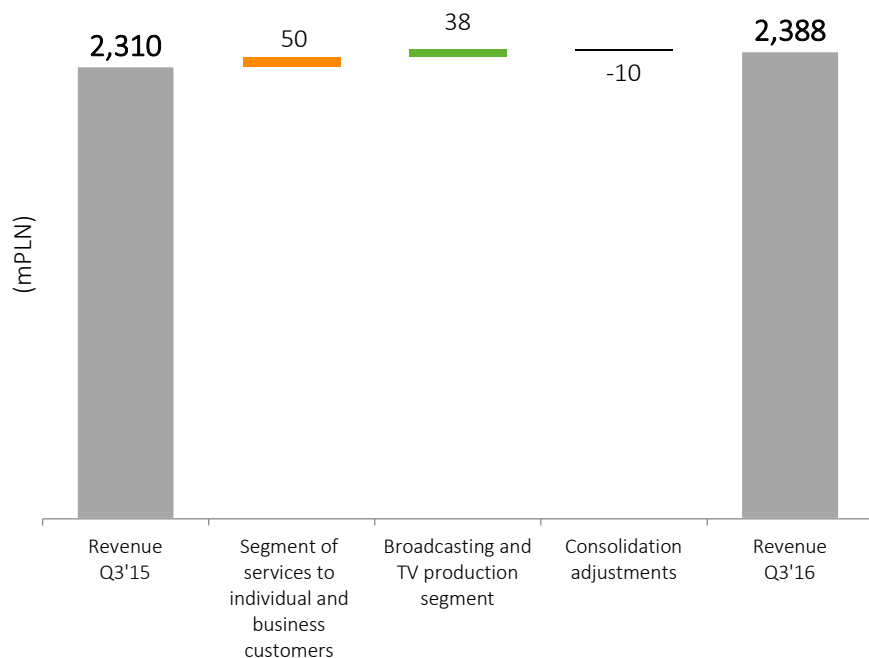
# Revenue and costs pro-forma – change drivers in Q3'16



## Revenue

YoY change

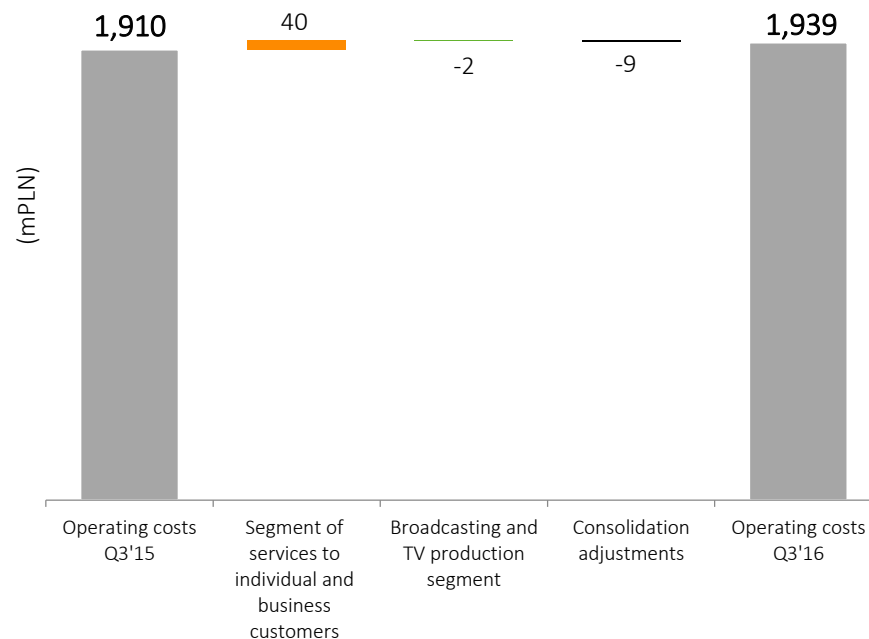
**+3%**  
**+78m**



## Operating costs

YoY change

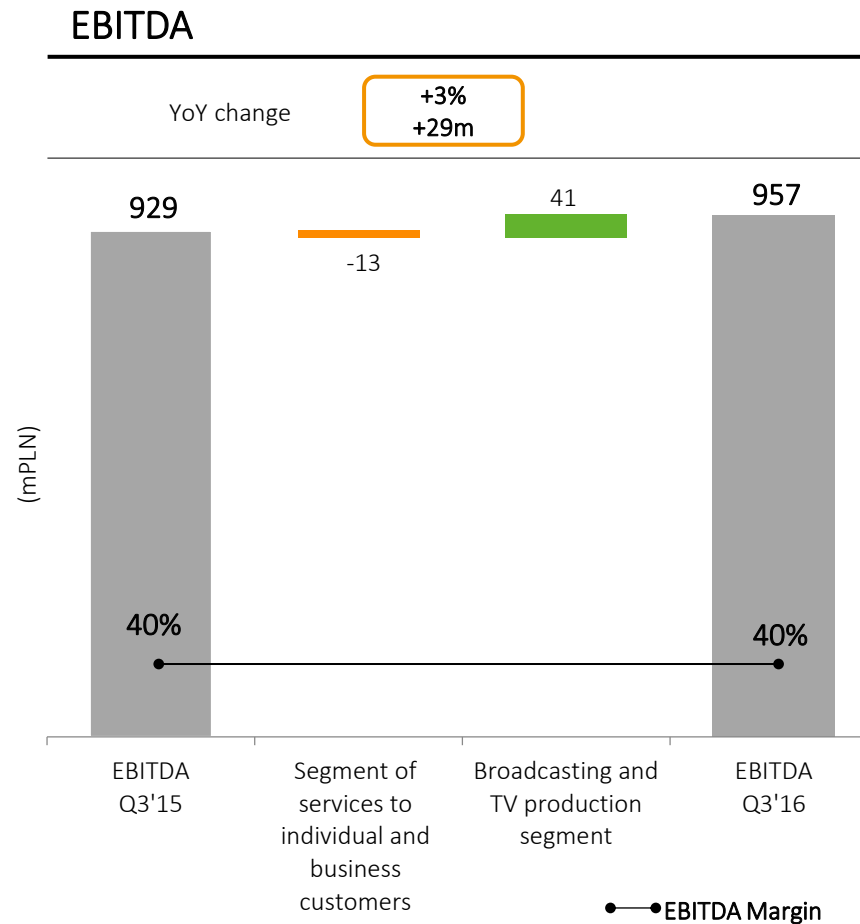
**+2%**  
**+29m**



Source: Pro-forma, Cyfrowy Polsat, TV Polsat, Metelem, Midas, consolidated financial statements and internal analysis



# EBITDA pro-forma – change drivers in Q3'16



Source: Pro-forma, Cyfrowy Polsat, TV Polsat, Metelem, Midas, consolidated financial statements and internal analysis



# Glossary



## RGU (Revenue Generating Unit)

Single, active service of pay TV, Internet Access or mobile telephony provided in contract or prepaid model.

## Customer

Natural person, legal entity or an organizational unit without legal personality who has at least one active service provided in a **contract model**.

## Contract ARPU

Average monthly revenue per **Customer** generated in a given settlement period (including interconnect revenue).

## Prepaid ARPU

Average monthly revenue per **prepaid RGU** generated in a given settlement period (including interconnect revenue).

## Churn

Termination of the contract with **Customer** by means of the termination notice, collections or other activities resulting in the situation that after termination of the contract the Customer does not have any active service provided in the contract model.

Churn rate presents the relation of the number of customers for whom the last service has been deactivated (by means of the termination notice as well as deactivation as a result of collection activities or other reasons) within the last 12 months to the annual average number of customers in this 12-month period.

## Usage definition (90-day for prepaid RGU)

Number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days. In the case of free of charge Internet access services provided by Aero 2, the Internet prepaid RGUs were calculated based on only those SIM cards, which used data transmission services under paid packages within the last 90 days.



# Contact

## Investor Relations

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