# Financial results
# Q4 and the full year 2018

21 March 2019

Cyfrowy Polsat S.A. Capital Group

# Disclaimer

This presentation may include forward-looking statements, understood as all statements (other than statements of historical facts) regarding our financial results, business strategy, plans and objectives pertaining to our future operations (including development plans related to our products and services). Such forward-looking statements do not constitute a guarantee of future performance and involve risks and uncertainties which may affect the fulfilment of these expectations, as by their nature they are subject to many factors, risks and uncertainties. The actual results may be materially different from those expressed or implied by such forward-looking statements. Even if our financial results, business strategy, plans and objectives pertaining to our future operations are consistent with the forward-looking statements included herein, this does not necessarily mean that these statements will be true for subsequent periods. These forward-looking statements express our position only as at the date of this presentation.

We expressly disclaim any obligation or undertaking to publish any updates or revisions to any forward-looking statements contained herein in order to reflect any change in our expectations, change of circumstances on which any such statement is based or any event that occurred after the date of this presentation.

# Agenda

1. Key events in 2018
2. Operating results
3. Financial results
4. Summary and objectives for 2019

# 1. Key events in 2018

# Key events in 2018

Acquisition of control over Netia. Start of operational cooperation and generation of the anticipated synergies

Significant strengthening of Polsat Group's position in the area of sports content

Consistent pursuit of multiplay strategy, leading to excellent sales results and record-low churn

Solid performance: the Group's stable financial prospects allow for acceleration of the anticipated dividend pay-outs

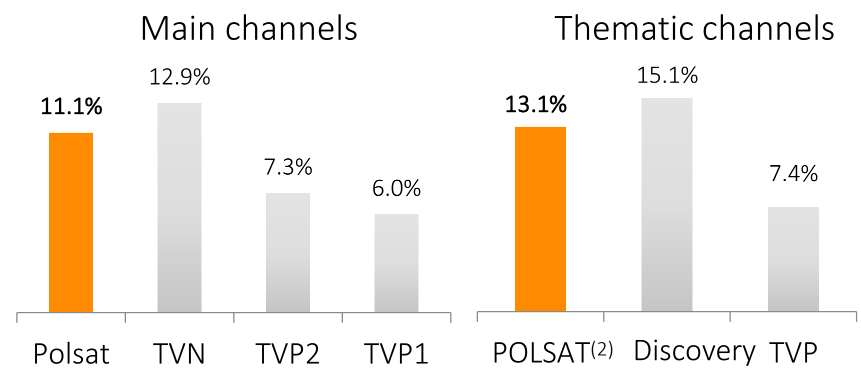
# 2. Operating results

# 2.1 Broadcasting and TV production segment

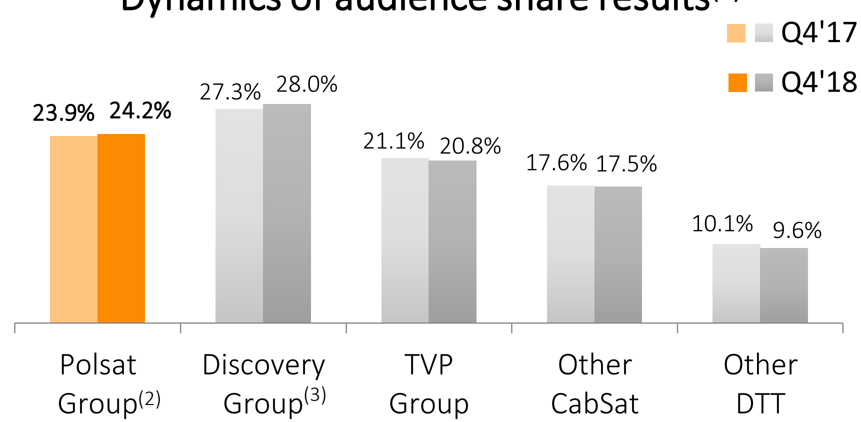
# Viewership of our channels in Q4’18

- Polsat Group and its main channel are the viewership leaders in the commercial group

## Audience shares[1]




## Dynamics of audience share results[1]




Source: NAM, All 16-49, all day, SHR%, including Live+2[1], internal analysis

Note: (1) Audience shares include both live broadcasting and broadcasting during 2 consecutive days (i.e. Time Shifted Viewing)

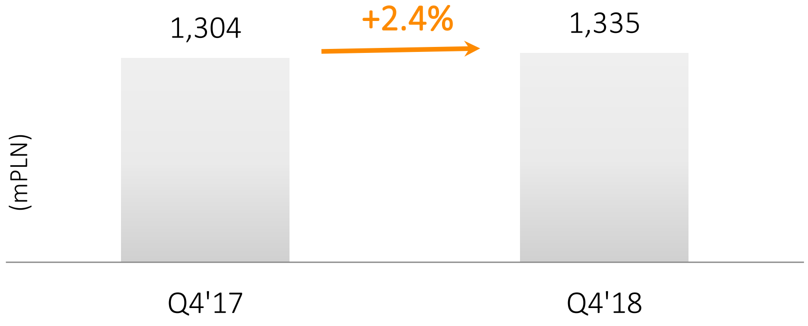
(2) Including Eleven channels and Superstacja (from June 2018), excluding partnership channels: Polsat Viasat Explore, Polsat Viasat Nature, Polsat Viasat History, JimJam, CI Polsat

(3) Pro forma, TVN Group channels and Discovery Networks Europe

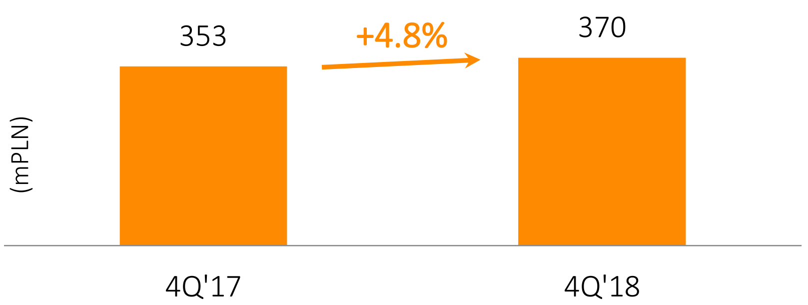
# Position on the advertising market in Q4’18

- Revenue from TV advertising and sponsorship generated by Polsat Group grew by 4.8%, i.e. 2x faster than the TV advertising and sponsorship market
- As a result, our share in the TV advertising and sponsorship market increased to 27.7%

Market expenditures on TV advertising and sponsorship




Revenue from advertising and sponsorship of TV Polsat Group(1)

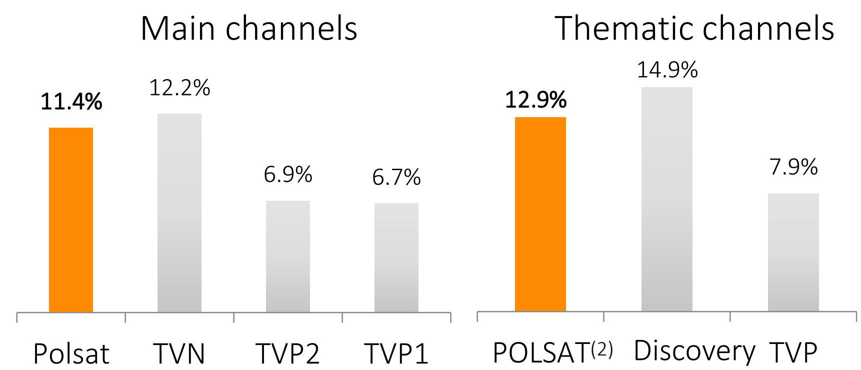



Source: Starcom, spot advertising and sponsorship; TV Polsat; internal analysis
Note: (1) Revenue from advertising and sponsorship of TV Polsat Group according to Starcom’s definition

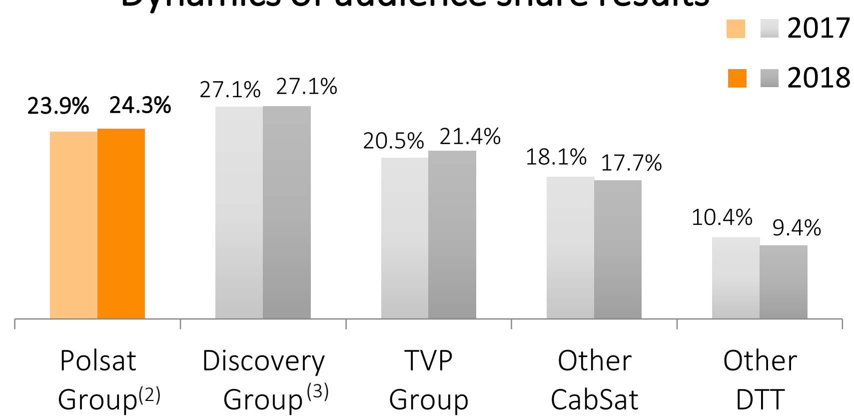
# Viewership of our channels in 2018

- Polsat Group's viewership in line with its long-term strategy

**Audience shares[(1)]**




**Dynamics of audience share results[(1)]**




Source: NAM, All 16-49, all day, SHR%, including Live+2[(1)], internal analysis

Note: (1) Audience shares include both live broadcasting and broadcasting during 2 consecutive days (i.e. Time Shifted Viewing)

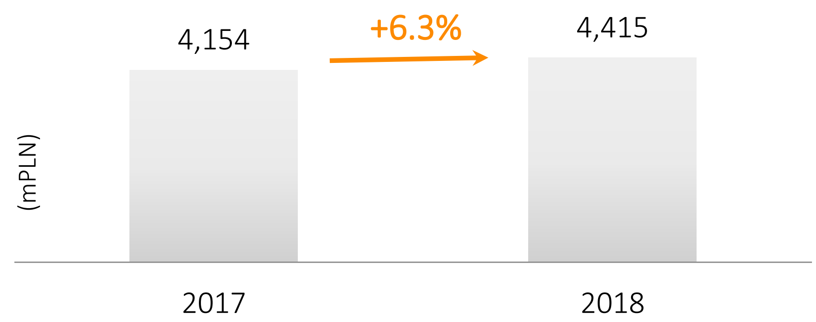
(2) Including Eleven channels and Superstacja (from June 2018), excluding partnership channels: Polsat Viasat Explore, Polsat Viasat Nature, Polsat Viasat History, JimJam, CI Polsat

(3) Pro forma, TVN Group channels and Discovery Networks Europe

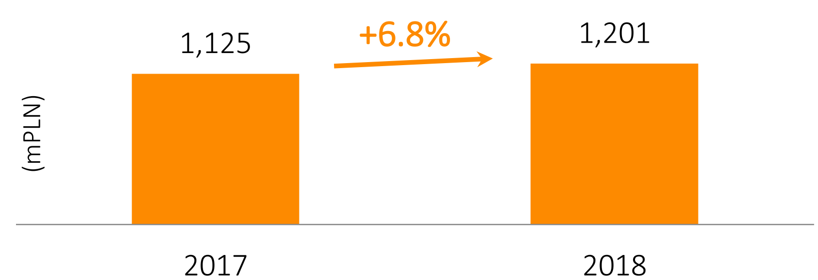
# Position on the advertising market in 2018

- Revenue from TV advertising and sponsorship generated by Polsat Group grew in line with the television advertising and sponsorship market
- As a result, our share in the TV advertising and sponsorship market reached 27.2%

Market expenditures on TV advertising and sponsorship




Revenue from advertising and sponsorship of TV Polsat Group(1)

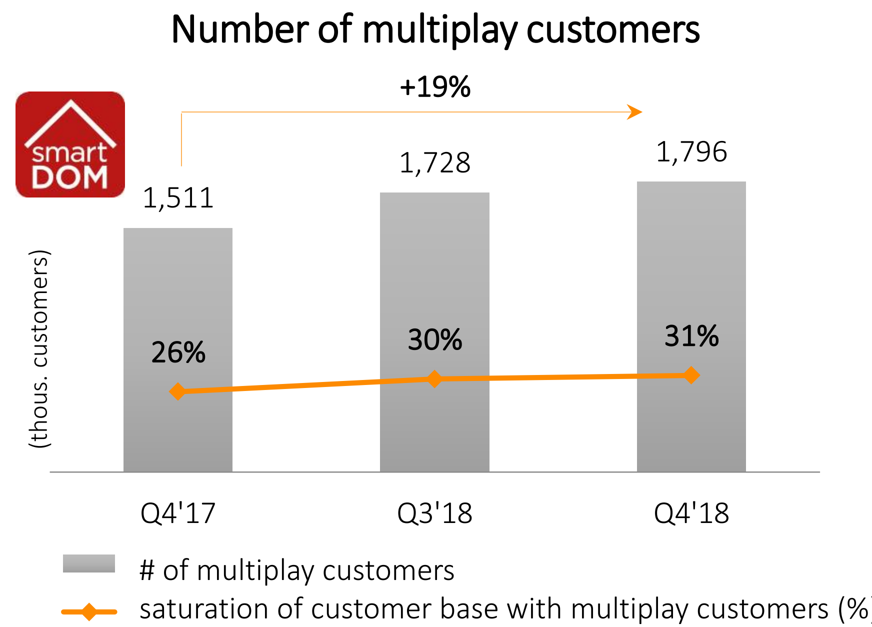


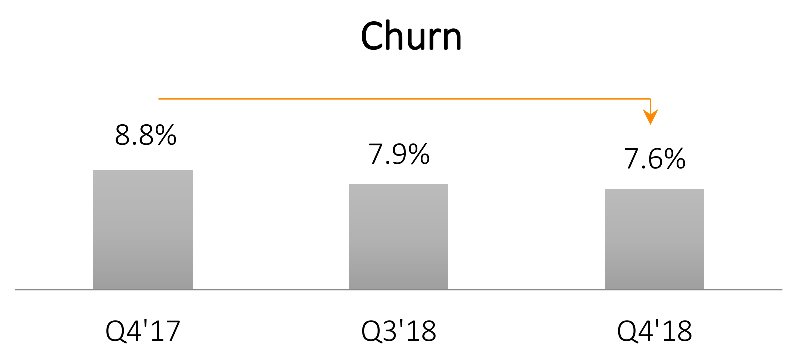

Source: Starcom, spot advertising and sponsorship; TV Polsat; internal analysis
Note: (1) Revenue from advertising and sponsorship of TV Polsat Group according to Starcom's definition

# 2.2 Services to individual and business customers

# More than 30% of our customers use multiplay offers, which translates to further churn ratio decrease

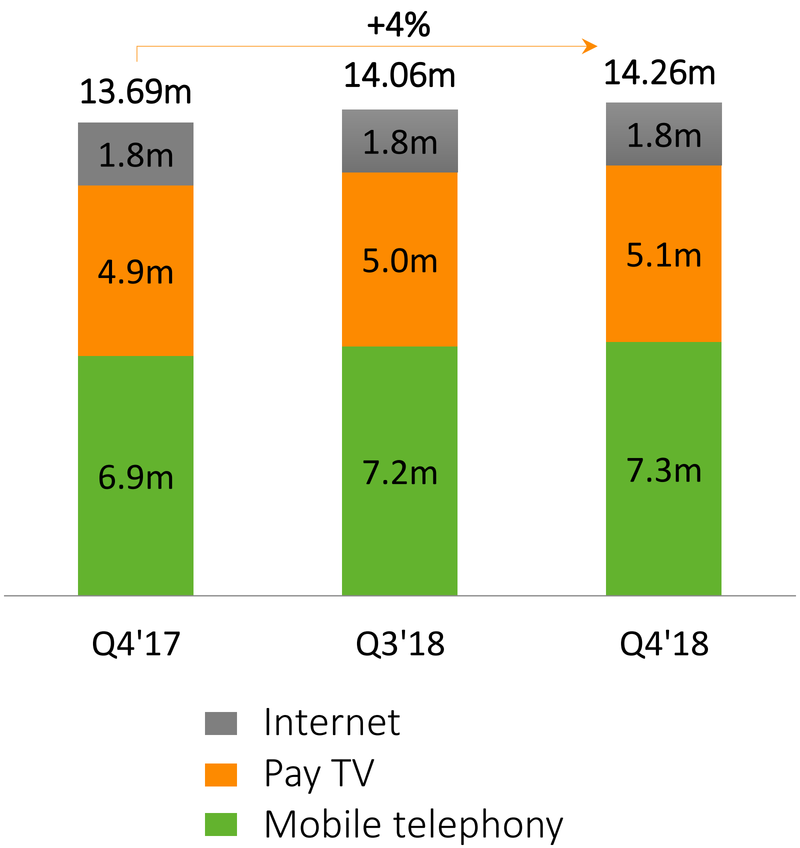
- Consistent implementation of our multiplay strategy results in a stable increase in the number of bundled services customers by 285K YoY
- The number of RGUs owned by these customers increased to 5.38m
- A record low churn level – mainly due to our multiplay strategy



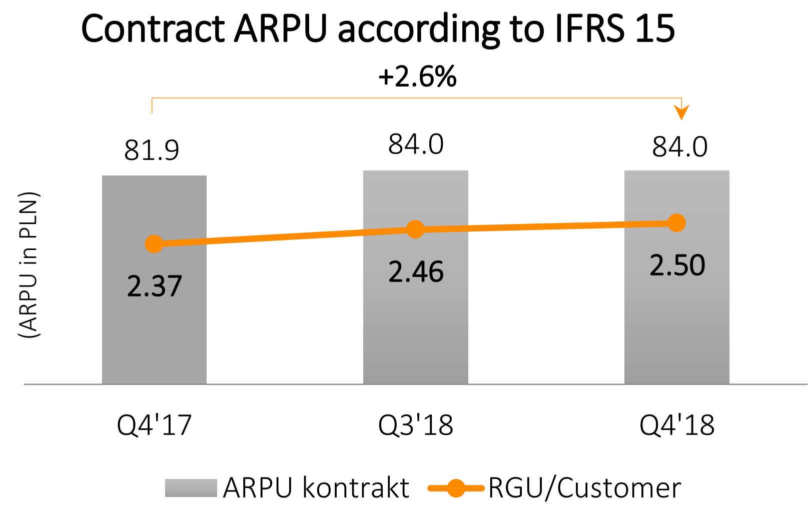
# The number of contract services increased by over 200K in Q4'18 alone

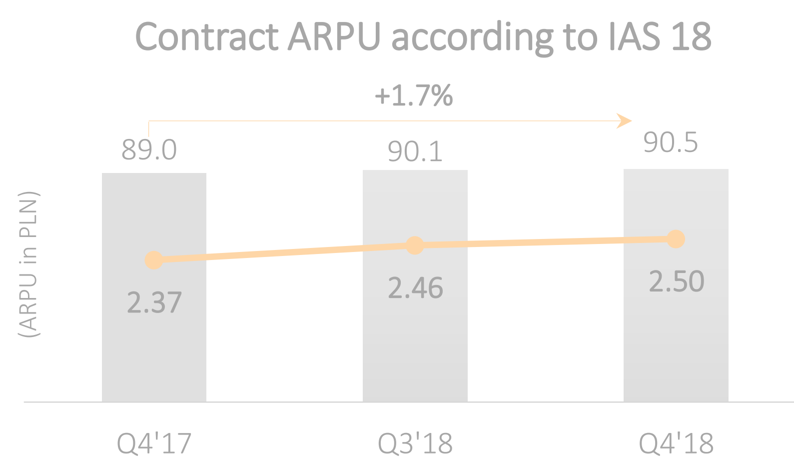
- An increase in the number of contract services by 574K YoY
- 413K additional voice services RGUs YoY as a result of positive impact of our multiplay strategy and the new simple Plus tariffs which were launched in February 2018, supported by good sales in the B2B segment (m2m)
- Pay TV RGUs increased by 156K YoY (multiroom and paid OTT effect)
- Stable base of mobile Internet services



# Strong growth of ARPU thanks to the consistent implementation of the multiplay strategy

- ARPU increase by 2.6% YoY[(1)]
- Effective upselling of products under our multiplay strategy continues to be reflected in the growing RGU saturation per customer ratio

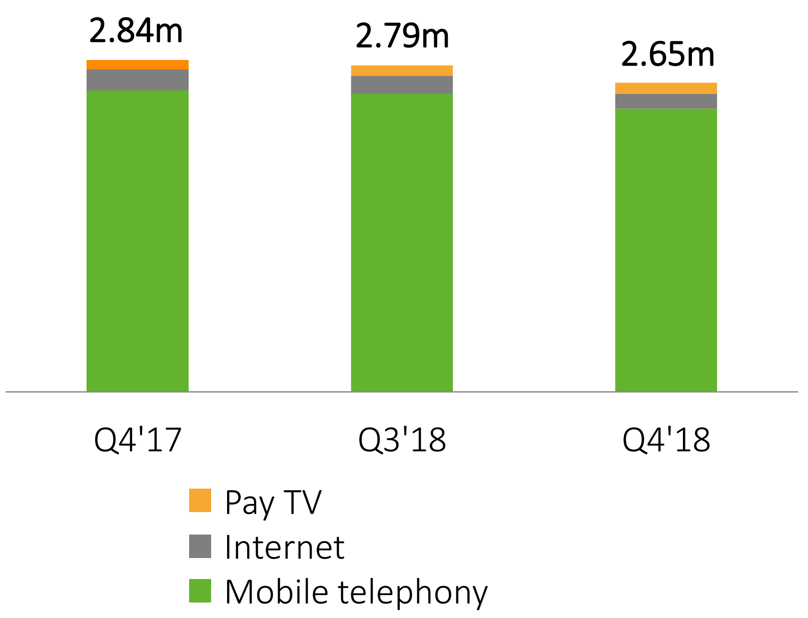


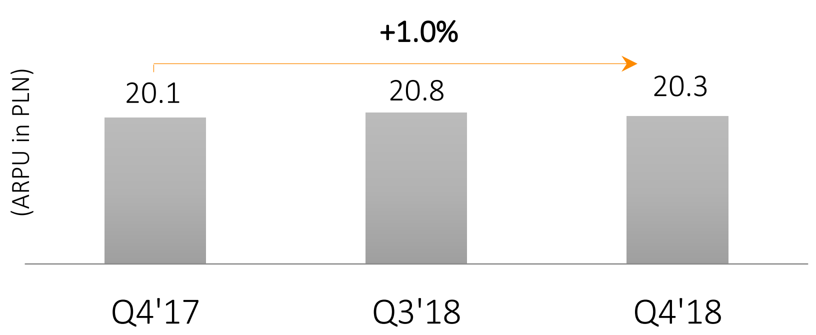




Nota: (1) ARPU calculated according to applicable accounting standard IFRS 15

# High, stable prepaid ARPU

- The base of prepaid services remained under the influence of seasonal factors and the decision to sell the a2mobile brand
- a2mobile customers continue using Polkomtel’s network and generate wholesale revenues (not included in the reported KPIs)
- High and stable ARPU level

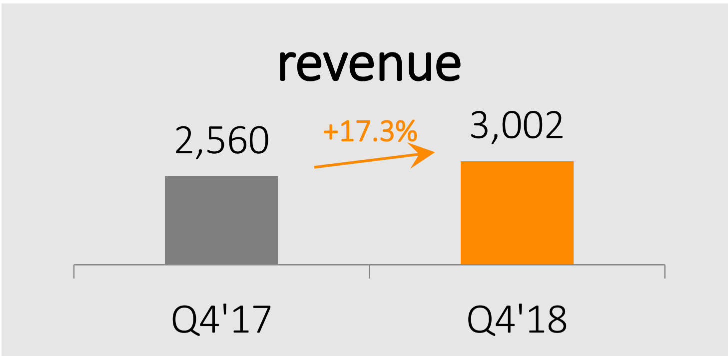


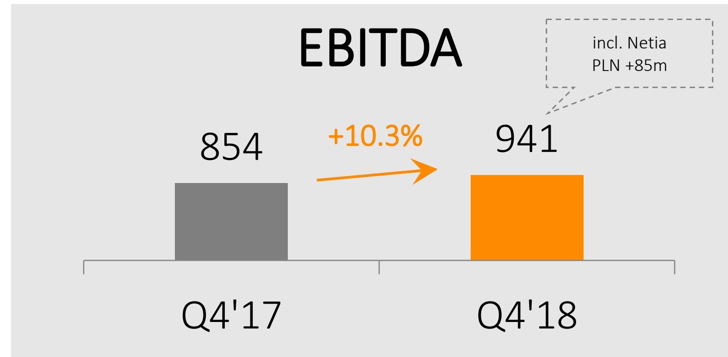



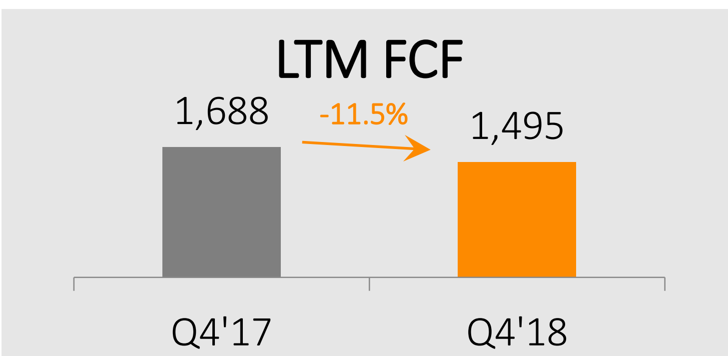
# 3. Financial results

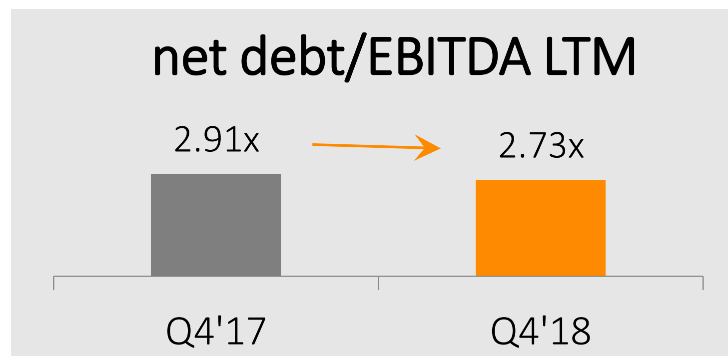
# Results of the Group in Q4’18

Based on currently applicable IFRS 15 standard and incl. Netia Group’s results



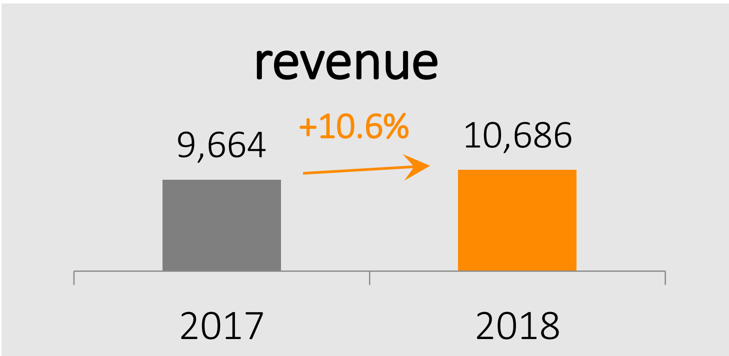



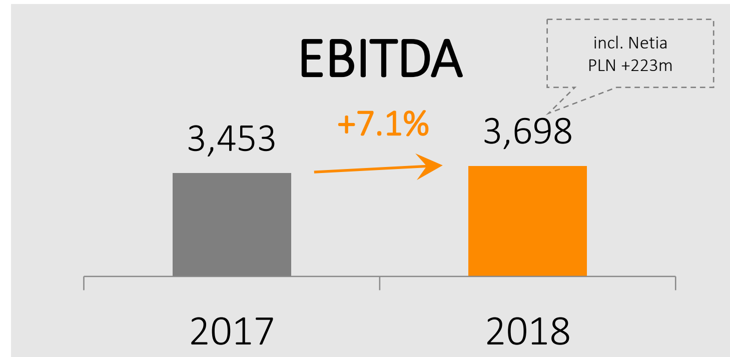



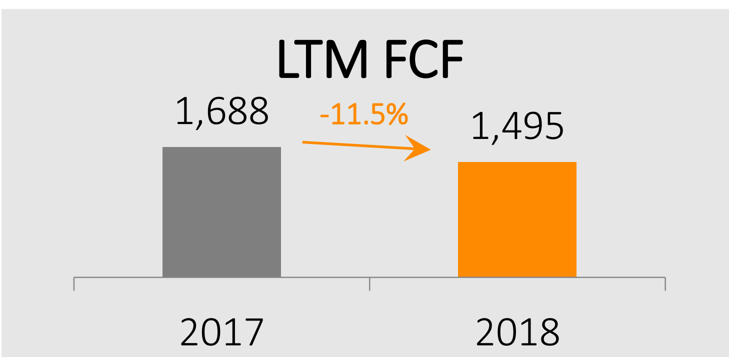

Source: Consolidated financial statements for the year ended December 31, 2018
and own estimates relating to 2017
Note: Netia S.A. consolidated as of May 22, 2018

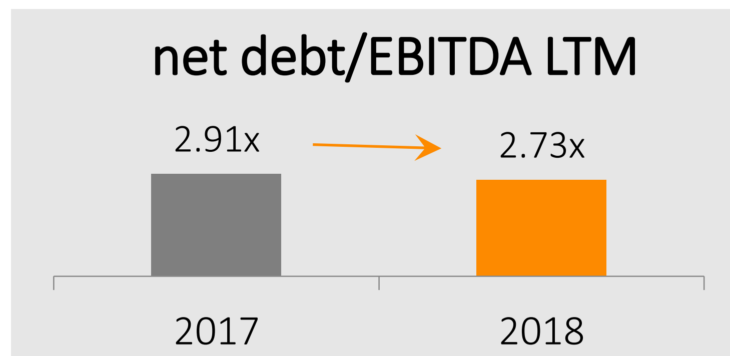
# Results of the Group in 2018

## Based on currently applicable IFRS 15 standard and incl. Netia Group's results



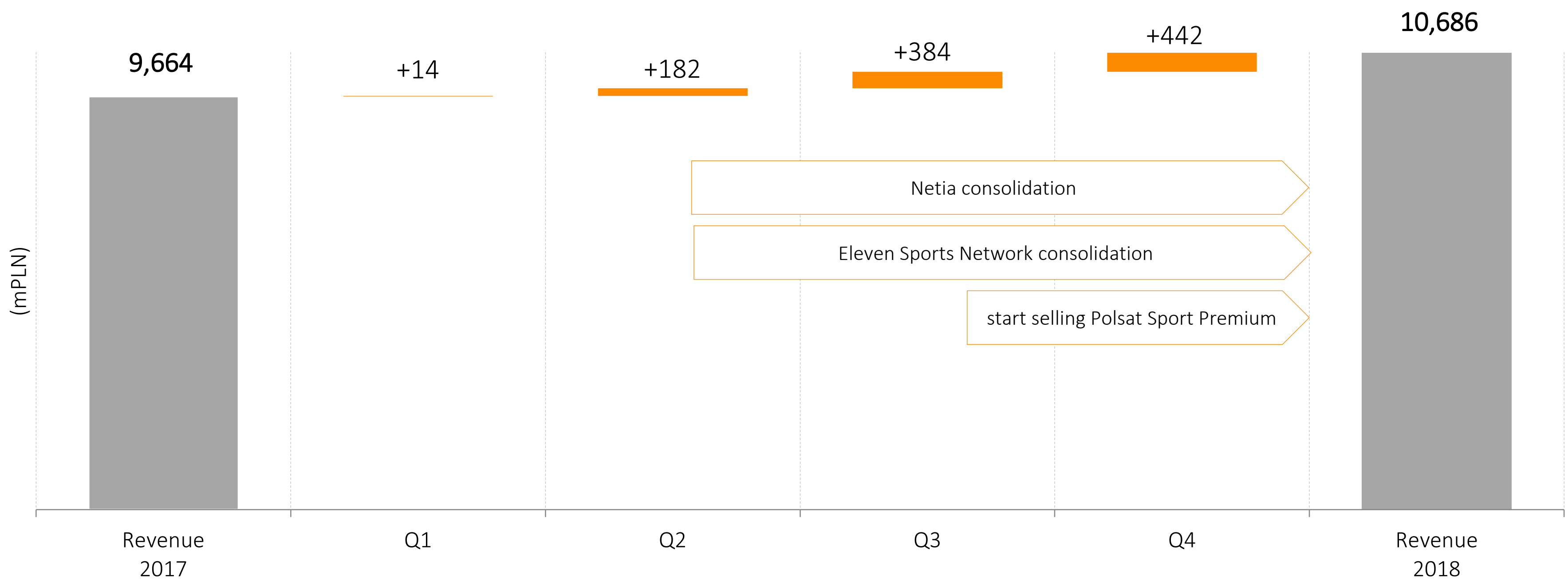

Source: Consolidated financial statements for the year ended December 31, 2018 and own estimates relating to 2017
Note: Netia S.A. consolidated as of May 22, 2018

# Dynamic development of the revenue stream

Based on currently applicable IFRS 15 standard and incl. Netia Group's results

## Revenue

YoY change +11% +1,022 m



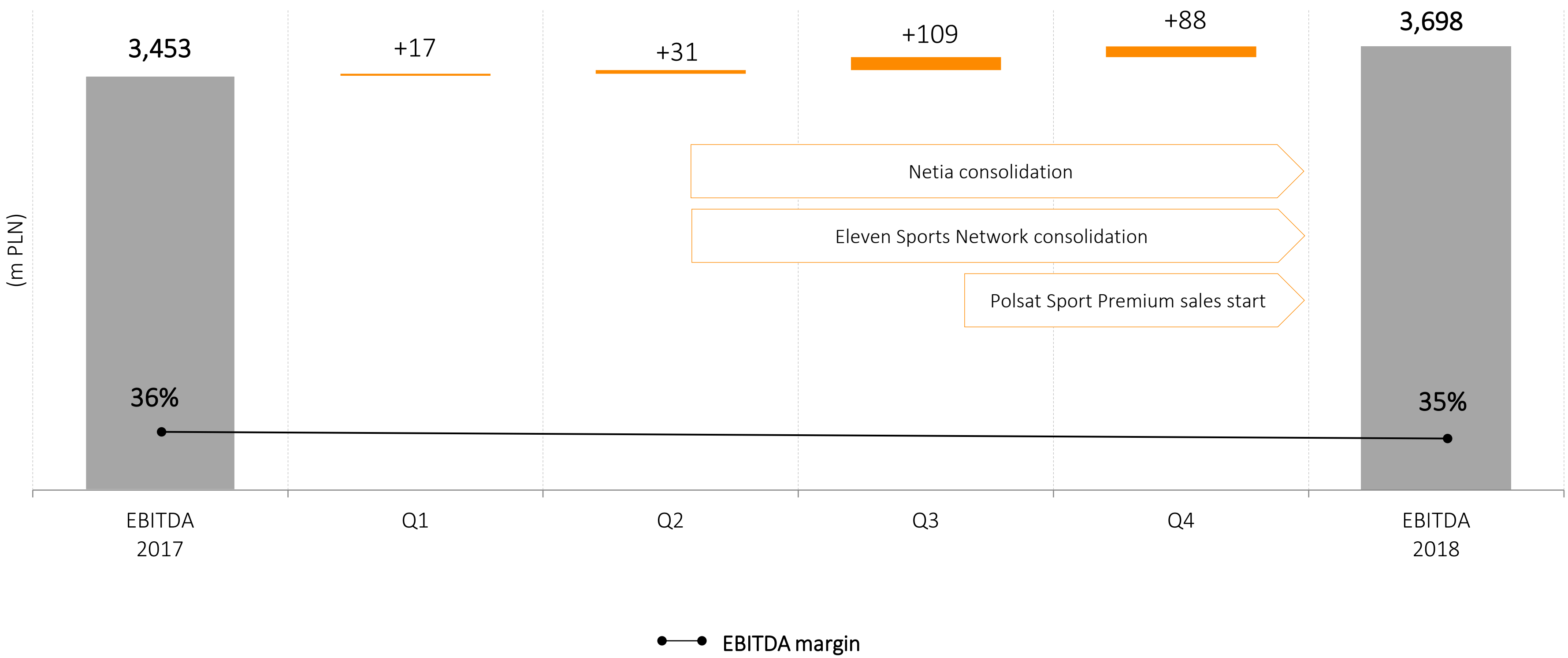

Source: Consolidated financial statements for the year ended December 31, 2018 and internal analysis

# EBITDA built as a result of organic growth and positive contribution from acquisition projects

Based on currently applicable IFRS 15 standard and incl. Netia Group's results

## EBITDA

YoY change: +7% / +245m

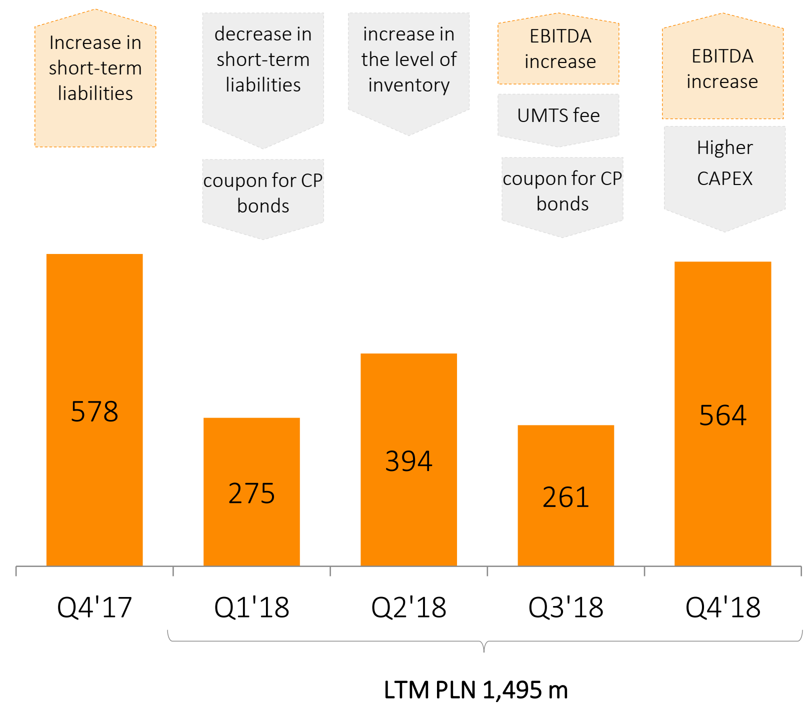



Source: Consolidated financial statements for the year ended December 31, 2018 and internal analysis

# Stable, strong cash flow generated in Q4'18

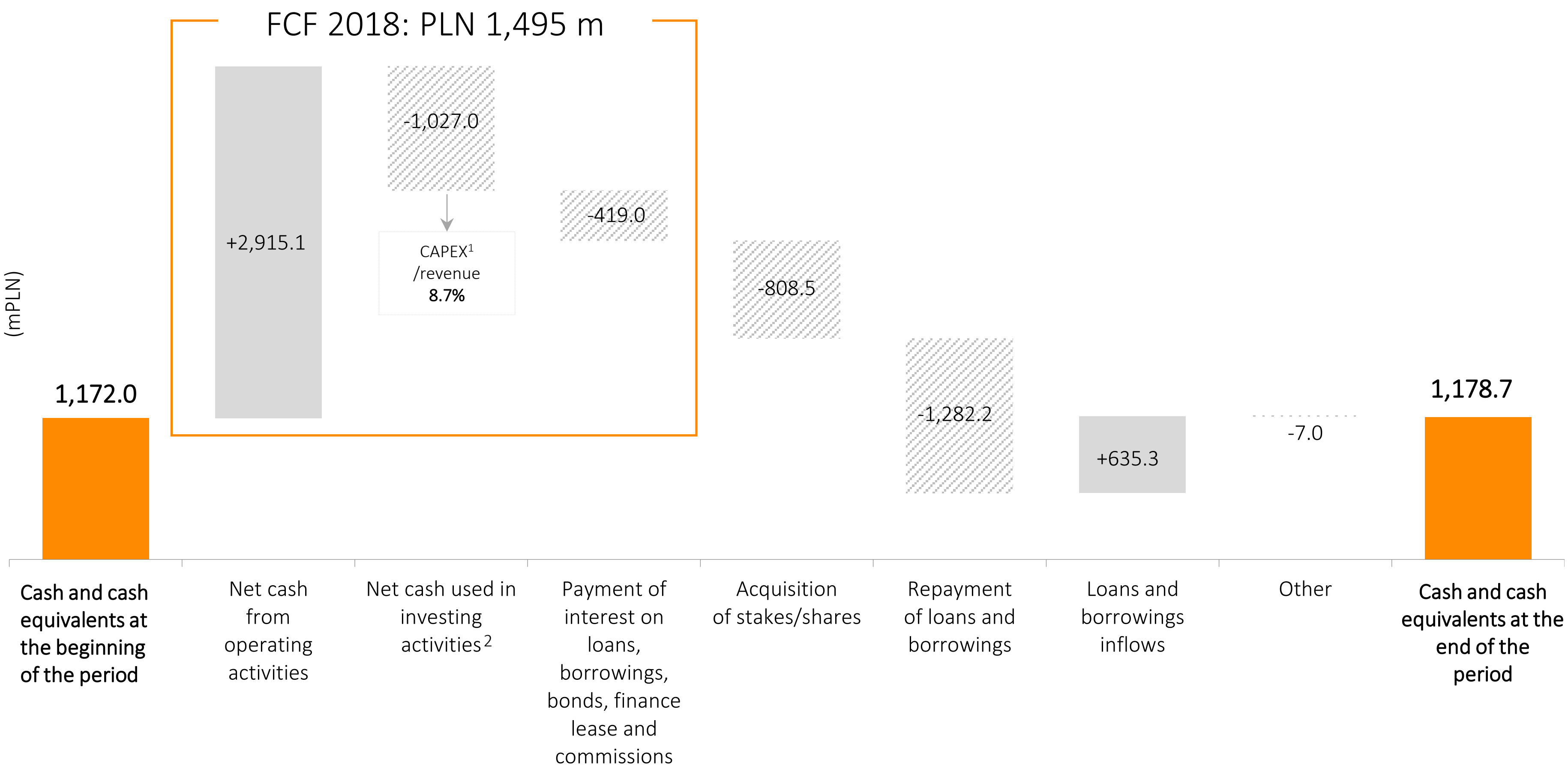
| mPLN | Q4'18 | 2018 |
|---|---|---|
| Net cash from operating activities | 939 | 2,915 |
| Net cash used in investing activities | -638 | -1,836 |
| Payment of interest on loans, borrowings, bonds, finance lease and commissions | -76 | -419 |
| **FCF after interest** | **225** | **660** |
| Acquisition of stakes/shares | 339 | 809 |
| One-off financing costs | - | 26 |
| **Adjusted FCF after interest** | **564** | **1,495** |

## Adjusted FCF after interest




Source: Consolidated financial statements for the year ended December 31, 2018 and internal analysis

# Stable cash resources despite intensive investments and acquisitions




Source: Consolidated financial statements for the year ended December 31, 2018 and internal analysis

Note: (1) Expenses on the acquisition of property, plant and equipment and intangible assets

(2) Exluding „Acquisition of stakes/shares"

# The Group's debt

| mPLN | Carrying amount as at 31 December 2018 |
|---|---|
| Combined Term Facility | 9,599 |
| Revolving Facility Loan | 600 |
| Series A Notes | 1,018 |
| Leasing and other | 42 |
| **Gross debt** | **11,259** |
| Cash and cash equivalents[1] | (1,179) |
| **Net debt** | **10,080** |
| EBITDA LTM[2] | 3,698 |
| **Total net debt / EBITDA LTM** | **2.73x** |
| Weighted average interest cost[3] | 3.3% |

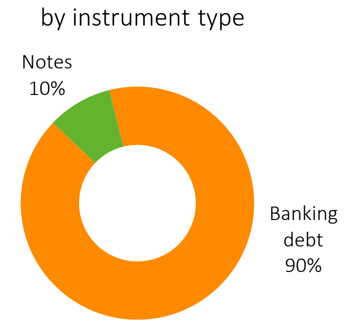
[1] This item comprises cash and cash equivalents, including restricted cash, as well as short-term deposits.

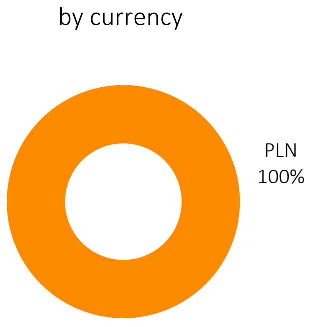
[2] In accordance with the requirements of the Combined SFA, EBITDA LTM includes the EBITDA figures calculated according to IFRS 15. In parallel, the definition adopted under the Combined SFA excludes the impact of the introduction of IFRS 16, which will become binding starting from January 1, 2019. The above exclusion concerns both the calculation of EBITDA LTM and the calculation of debt.

[3] Prospective average weighted interest cost of the Combined SFA (including the Revolving Facility Loan) and the Series A Notes, excluding hedging instruments, as at 30 September 2018 assuming WIBOR 1M of 1.64% and WIBOR 6M of 1.79%.

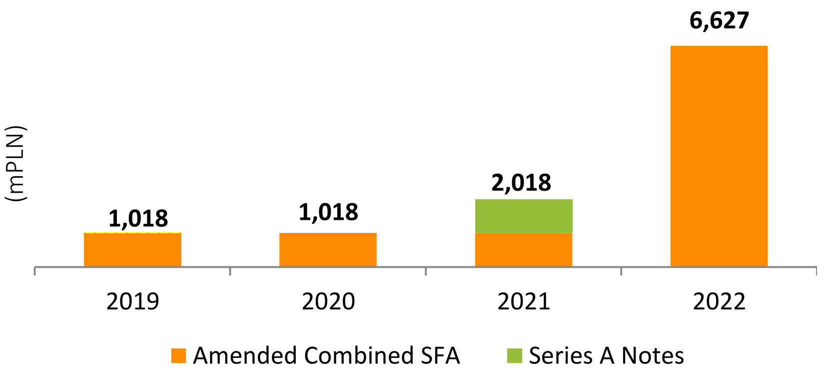
[4] Nominal value of the indebtedness as at 30 September 2018 (excluding the Revolving Facility Loan and leasing).

## Debt structure[4]




## Debt maturing profile[4]




Source: Consolidated financial statements for the year ended December 31, 2018 and internal analysis

# 4. Summary and objectives for 2019

# Objectives for 2018 have been achieved

- Continuing our strategy of maintaining the audience shares and growing advertising revenue at least in line with the TV advertising market growth dynamics

- Maintaining the growth rate of the number of services (RGUs) and customer base saturation with integrated services

- Maintaining high profitability (margins) of our business
- CAPEX at max. 10% of revenue[1]
- Maintaining high FCF generation level

- Finalizing the acquisition of Netia and starting to execute the synergies planned for the years 2019 – 2023
- Generating a return on investment in new TV channels

Note: (1) concerns Polsat Group, excluding the effect of Netia consolidation.

# Our expectations and goals for 2019

- Investments  aimed at keeping our TV channels attractive so as to maintain strong market position
- Execution of synergies as part of operational cooperation with Netia
- Continuation of multiplay strategy based on the concept: ”TV for everybody, Internet for everybody, phone for everybody”
- Maintaining high margins and high level of generated cash to reconcile continued deleveraging with attractive remuneration for shareholders

# 5. Additional information

# 5a. Status of implementation of the synergies resulting from cooperation with Netia Group

# We have identified nearly 100 detailed initiatives

CP Group team

Netia team

Steering Committee

97 identified initiatives

74 initiatives have been verified and priced

23 initiatives have been submitted → analysis and verification of their potential is in progress

responsibilities have been assigned

CP Group employees

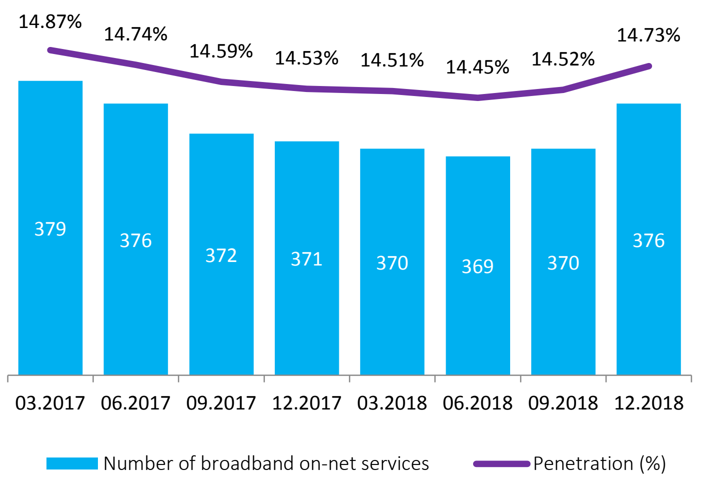
Netia employees

Program Office

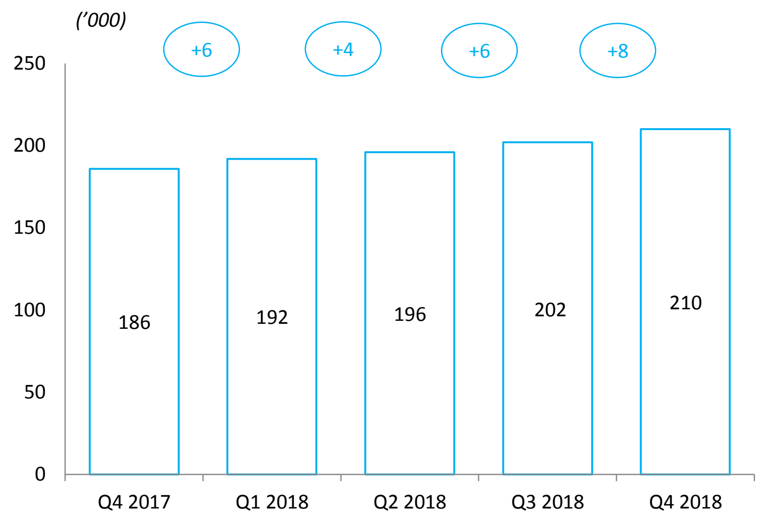
⇒ regular monitoring

# First positive effects of synergy effects already visible in Netia's KPI's

*On-net broadband penetration change*[1]




*TV services*




Source: Netia
Note: (1) Based on 2.55m HP in range that Netia communicated at the moment of „21 Century Network Project" start

# We confirm the potential synergies in the amount of PLN 800 million (2018-2023)

| | Initiatives | ORIGINAL ESTIMATES | REVISED ESTIMATES |
|---|---|---|---|
| Revenue | • Extension of smartDOM offer to include FTTH/DOCSIS<br>• Mutual upselling of products and services to B2C and B2B bases<br>• Improved efficiency of Netia's sales by exploiting CP POS network<br>• VAS and new products offered by the Group, e.g. IPTV | Synergies at EBITDA level of ca. PLN 550m | Synergies at EBITDA level of ca. PLN 600m |
| Operating expenses | • Taking advantage of the economies of scale to optimize the content costs<br>• Higher efficiency of marketing activities<br>• Optimization of sales, customer care and customer retention costs<br>• Reduction of the number of POS's (overlap)<br>• Reduction of technical costs, including the cost of wholesale access to external infrastructure and MVNO-related costs<br>• Integration of technical and IT departments<br>• Other, including back office | | |
| CAPEX | • Own production of set-top boxes, modems and routers<br>• Exploiting the negotiating power of the two companies<br>• Efficient investments into further development of the telecommunication network | CAPEX synergies min PLN 250m | CAPEX synergies of ca. PLN 200m |

plus ipla NETIA

# 5b. Polsat Group’s new dividend policy and dividend payouts recommeded for the years 2019-2021

# Major assumptions underlying the management of capital resources

| Main goal | Stable dividend payouts to the Company's shareholders<br>• Guaranteeing for the Company's shareholders of attractive, foreseeable return on capital employed<br>• The level of return will be shaped with reference to the forms of secure investment of funds that are universally available on Polish market, especially by referencing to the level of interest offered by bank deposits while simultaneously including the premium for the risk associated with share pricing dynamics |
|---|---|
| Additional goal | Continuation of reduction of Polsat Group's debt to the level of net debt/EBITDA <1.75x<br>• Assuming organic growth of the business, the target is achievable in the mid-term |

# Proposed dividend payouts in the years 2019-2021

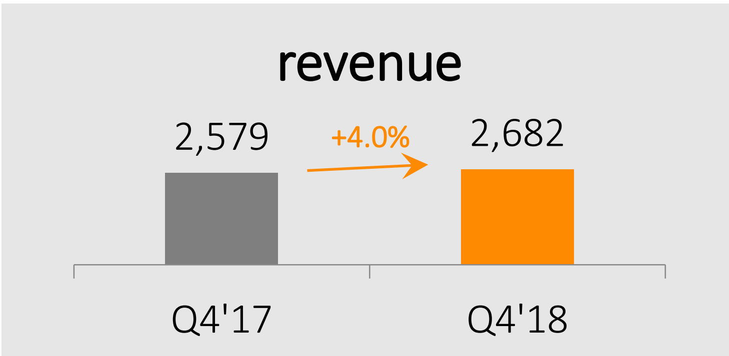
| Dividend per share | Payout date |
|---|---|
| at least **0.93** PLN | 2019 |
| at least **0.93** PLN | 2020 |
| at least **0.93** PLN | 2021 |

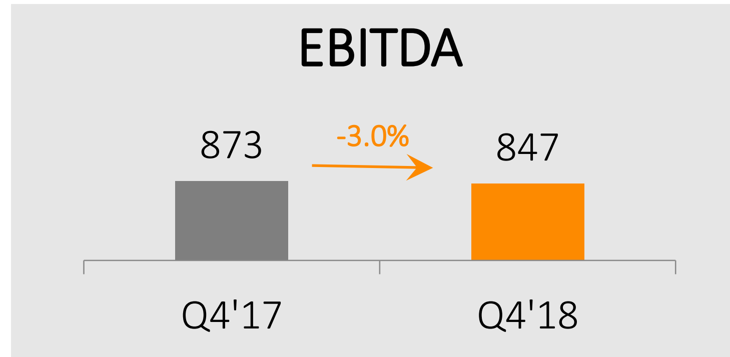
Dividend payout in the amount of PLN 0.93 per share generates a return rate of around 4.1% annually, based on Cyfrowy Polsat's average capitalization level in Q4'18

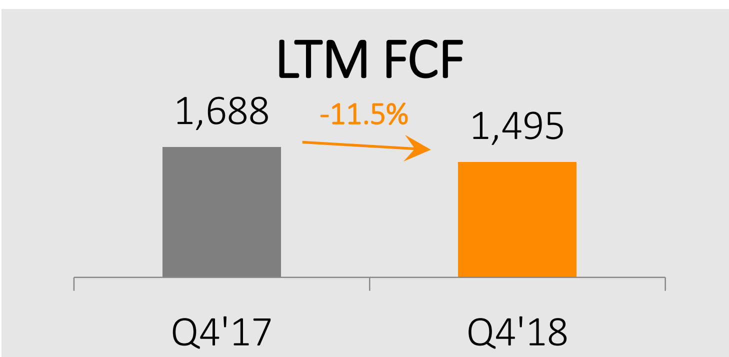
# 5c. Financial results based on previously applicable IAS 18 standard and excl. Netia Group’s results

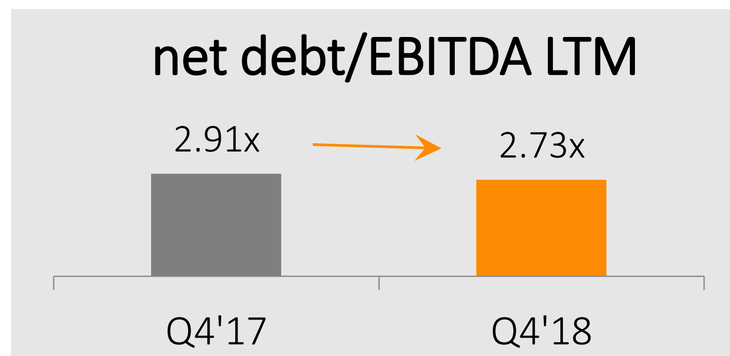
# Results of the Group in Q4’18

Based on previously applicable IAS 18 standard and excl. Netia Group’s results[1]



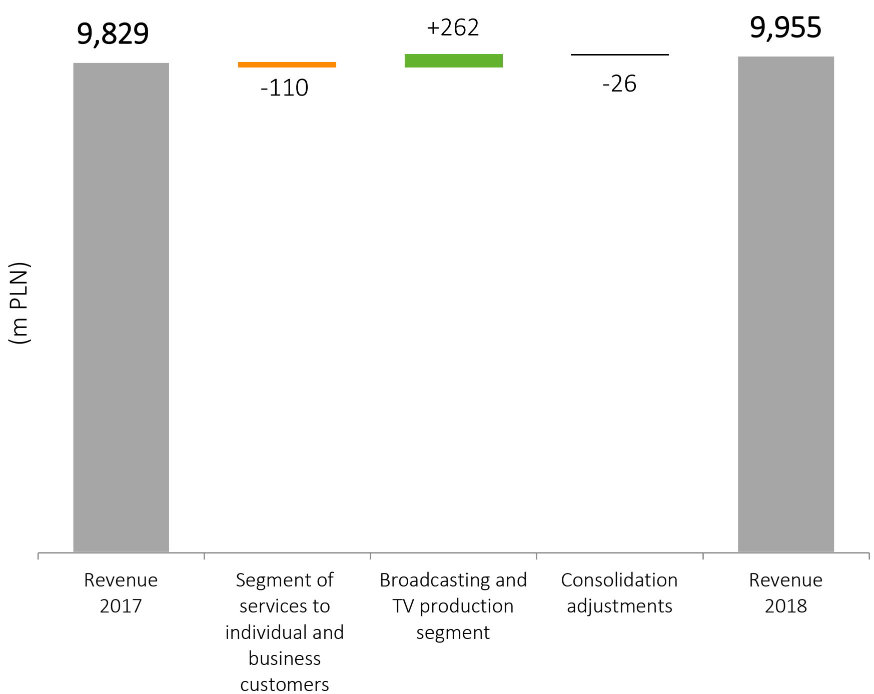

Source: Consolidated financial statements for the year ended December 31, 2018 and internal analysis
Note: (1) Applies to Revenues and EBITDA

# Revenue and EBITDA – change drivers

## Based on previously applicable IAS 18 standard and excl. Netia Group's results

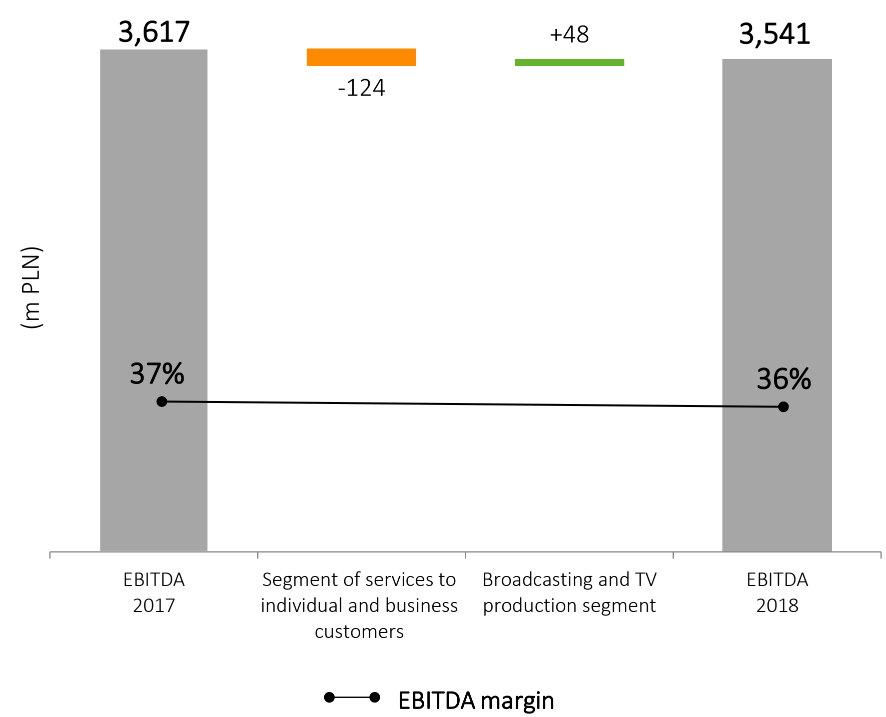
### Revenue

YoY change **+1,3%** **+126m**




### EBITDA

YoY change **-2,1%** **-76m**




Source: Consolidated financial statements for the year ended December 31, 2018 and internal analysis

# Results of the segment of services to individual and business customers

Based on previously applicable IAS 18 standard and excl. Netia Group's results

| mPLN | Q4'18 | *YoY change* | 2018 | *YoY change* |
|---|---|---|---|---|
| Revenue | 2,183 | *-1%* | 8,495 | *-1%* |
| Operating costs(1) | 1,509 | *3%* | 5,517 | *0%* |
| EBITDA | 674 | *-7%* | 2,989 | *-4%* |
| EBITDA margin | 30.9% | *-2.1pp* | 35.2% | *-1.0pp* |

Source: Consolidated financial statements for the year ended December 31, 2018 and internal analysis
Note: (1) Costs exclude depreciation, amortization, impairment and liquidation

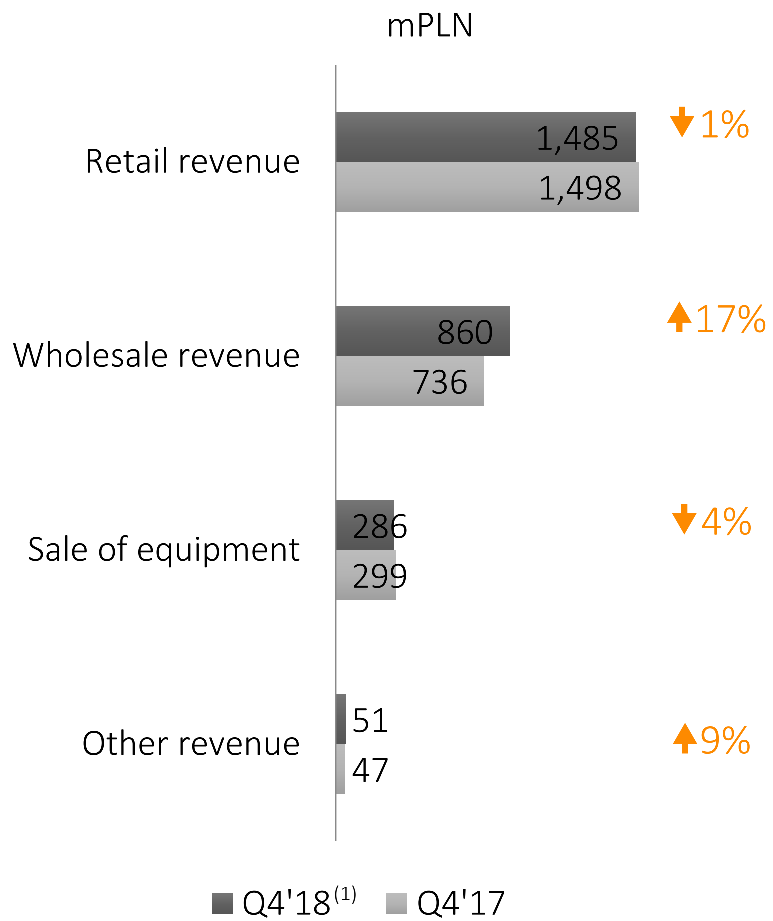
# Results of the broadcasting and TV production segment

| mPLN | Q4'18 | *YoY change* | 2018 | *YoY change* |
|---|---|---|---|---|
| Revenue | 558 | *29%* | 1,696 | *18%* |
| Operating costs[1] | 386 | *36%* | 1,143 | *22%* |
| EBITDA | 172 | *15%* | 553 | *10%* |
| EBITDA margin | 30.9% | *-3.7pp* | 32.6% | *-2.6pp* |

Source: Consolidated financial statements for the year ended December 31, 2018 and internal analysis
Note: (1) Costs exclude depreciation, amortization, impairment and liquidation

# Revenue structure

## Based on previously applicable IAS 18 standard and excl. Netia Group's results

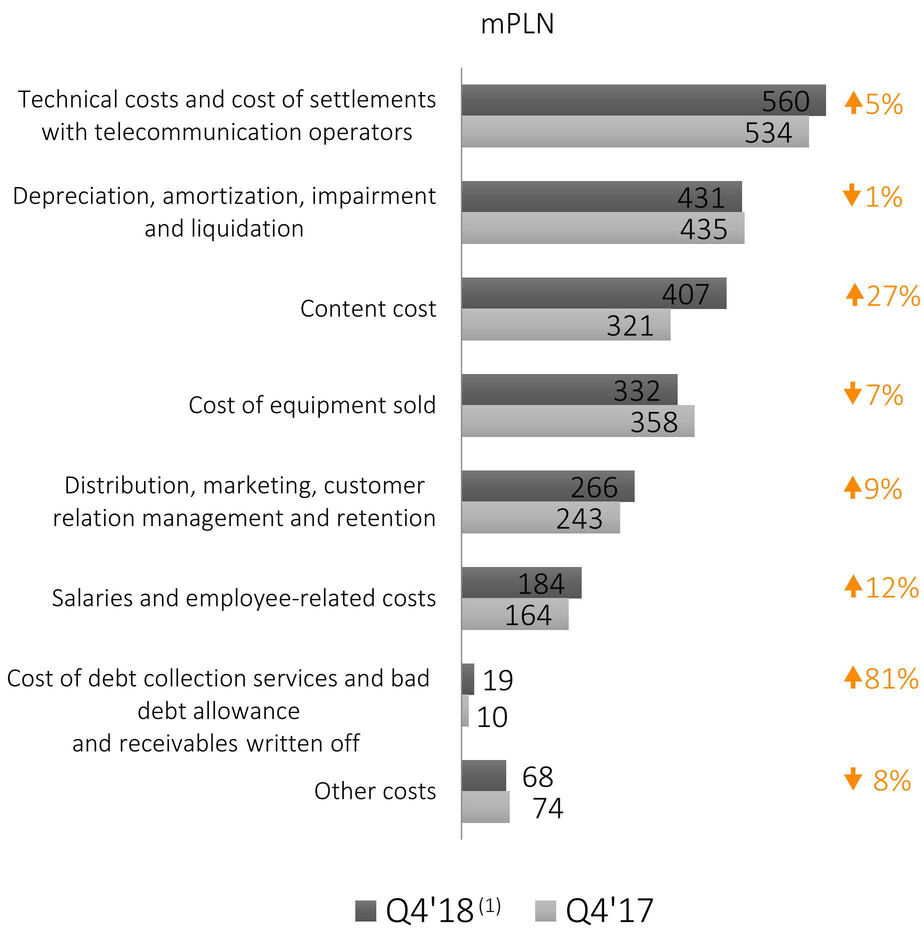



- Stable level of **retail revenue** primarily due to lower revenue from voice services which was compensated by higher revenue from pay TV and data transmission services.
- The increase in **wholesale revenue** was primarily due to higher advertising revenue and the inclusion of new TV channels to our wholesale offering, in particular the Eleven Sports Network and Polsat Sport Premium packages, which resulted in higher revenue from cable and satellite operators. Furthermore, we recorded higher revenue from the sale of programming sublicenses.
- Lower revenue from **sale of equipment**, mainly due to a lower volume of sales of end-user devices, which was also reflected in the lower cost of equipment sold.

Source: Consolidated financial statements for the year ended December 31, 2018 and internal analysis
Nota: (1) Based on previously applicable accounting standards

# Operating costs structure

## Based on previously applicable IAS 18 standard and excl. Netia Group's results




- Increase in **technical costs** resulted mainly from higher costs of telecommunications network maintenance, in particular due to higher provisions for the cost of electricity.
- Increase in **content costs** was mostly the result of higher cost of internal and external production and amortization of sports rights due to, among others, the consolidation of the Eleven Sports Networks channels and the launch of the Polsat Sport Premium channels broadcasting, among others, football games of the UEFA Champions League and the UEFA Europa League.
- Decrease in the **cost of equipment sold** as a consequence of a lower volume of sales of end-user devices.
- Increase in **distribution, marketing, customer relation management and retention costs** was mainly due to the intensification of marketing campaigns, including those related to football games of the UEFA Champions League and the UEFA Europa League and to Eleven Sports Network.
- Higher **salaries and employee-related costs** due to concluded acquisitions and the related increase in Group's headcount, an increase in the average salary per employee (including a bonus provision) as well as increased scope of trainings for employees.

Source: Consolidated financial statements for the year ended December 31, 2018 and internal analysis
Nota: (1) Based on previously applicable accounting standards

# 5d. Changes in international accounting standards

# A new accounting standard, the IFRS16, will be introduced in 2019, which will have substantial impact on our bottom line

IFRS16
*Leases*

- The standard involves new approach to operational leases which, in accordance with IFRS16, will be fully recognized in the balance sheet as financial leases
- In Polsat Group's case this will mainly affect lease of base station sites, POS rental, offices, technical areas and fiber optic lease
- In accordance with IFRS16, the lessee will recognize a leasing liability and the corresponding right to use an asset
- At the same time, the cost of operational leases, which have so far been charged to OPEX thus leading to reduction of EBITDA, will in accordance with the requirements of IFRS16 be recognized as cost of depreciation and amortization and as financial costs during the contract's term. Thus EBITDA will be substantially adjusted upward.

# The new accounting standard will result in the growth of EBITDA by around PLN 400m without affecting FCF

| | IFRS16 (estimated impact on 2019) |
|---|---|
| impact on EBITDA | Around PLN 400m of positive impact. **However, the impact of IFRS 16 is excluded from the current credit facility documentation** |
| impact on balance sheet total | Leasing liability and corresponding asset due to the right to use ca. PLN 1.5 bn in the first period will be recognized |
| impact on debt level | The recognized leasing liability will be classified as a debt. **However, the impact of IFRS 16 is excluded from the current credit facility documentation** |
| impact on depreciation and amortization costs | Depreciation of assets on account of the right to use fixed assets |
| impact on gross profit | Recognized interest cost, in combination with higher cost of depreciation and amortization, will offset the positive impact of IFRS16 on EBITDA |
| impact on FCF | No impact |

# Implementation of IFRS 15 – impact on ARPU from contract services

| PLN | Q1'17 | Q2'17 | Q3'17 | Q4'17 | Q1'18 | Q2'18 | Q3'18 | Q4'18 |
|---|---|---|---|---|---|---|---|---|
| contract ARPU based on previously applicable accounting standards | 89,1 | 89,6 | 88,4 | 89,0 | 88,7 | 89,6 | 90,1 | 90,5 |
| contract ARPU after the implementation of IFRS 15 | 80,3 | 81,2 | 80,5 | 81,9 | 81,9 | 82,9 | 84,0 | 84,0 |

NOTE: Starting from Q1'19 Cyfrowy Polsat Group will be reporting ARPU only in line with the currently valid IFRS 15 standard

# 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.<br><br>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

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