

Cyfrowy Polsat IR Newsletter

21 – 27 July 2014

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Date
The press about TMT market in Poland
22.07
Parkiet: Netia's CEO agrees with analysts

Vectra's tender offer to purchase 33% of Netia's shares commenced on Wednesday. The offered price is PLN 5.31 per share, which is less than today's share price on the WSE. According to Zbigniew Jakubas, Netia's largest shareholder, the offer price is too low. In July entities controlled by and related to Jakubas purchased Netia's shares, driving up the share price and leaving 33.2% of shares in free float.

Analysts do not believe that the cable operator wants to buy Netia as a strictly financial investment, they perceive Vectra as a strategic investor. Adam Sawicki, CEO at Netia is of the same opinion and adds that Netia has many interesting development perspectives.

- Given the scale of potential synergies for Vectra, both on the revenue and costs sides, I don't think that investors will find the offered price of PLN 5.31 attractive. The current share price – PLN 5.5 – confirms this – says Konrad Książopolski, analyst at Espirito Santo Investment Bank.

Rzeczpospolita: „Neutral” for Cyfrowy Polsat

Analysts at Goldman Sachs commenced their coverage of Cyfrowy Polsat by issuing a “neutral” recommendation. On Tuesday shares of the company traded at PLN 23.8 on the WSE.

23.07
Rzeczpospolita: „Buy” TVN

Experts at Goldman Sachs raised their recommendation for TVN to “buy” from “neutral”. Yesterday shares of the media company traded at PLN 14.8.

Puls Biznesu: One screen is not enough

83% of Polish Internet users aged over 15 use several screens simultaneously. Almost all of them watch TV and surf the net at the same time. 31% browse websites, 16% are active on social media, 13% play games, while 11% use apps. According to research by IAB Polska, the intensity of multi-screening is growing dynamically mainly thanks to state-of-the-art devices offering internet access.

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Parkiet: Justification without guidelines

The Supreme Administrative Court issued a justification to its ruling of May 8, 2014, which order the repetition of the 1800 MHz frequency tender held in 2007. However, the justification does not include any guidelines for the Office of Electronic Communications (UKE) regarding actions to be taken.

In a separate court proceedings Midas, CenterNet and Mobyland, who won the 2007 tender, received confirmation that frequency reservations were issued to them without a breach of law. Theoretically, however, in order to repeat the tender, UKE would have to revoke the frequency reservations. Earlier UKE assured that the court ruling will not affect services provided to internet users.

Dziennik Gazeta Prawna: Poles don't want cable

According to the report „Projekt Cyfryzacja” („Digitization Project”) and research by MEC media house, a year after the switch-off of the analogue signal every third client of satellite platforms and every fourth of cable TV operators is considering resigning. They complain mainly about high prices and poor content in operators' offers. They also indicated the availability of free digital terrestrial television as a reason for potentially resigning.

37% of respondents said that internet access was the key factor for staying with the current cable operator. Also access to new films, sports programs and other channels not available in DTT are important factors. Joanna Nowakowska from MEC says that creating integrated services is an effective method of client retention. According to MEC research, ca. 20% of DTT users are considering switching to a pay TV operator.

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Puls Biznesu: Vectra rushes Netia's shareholders

The tender offer to purchase 33% of Netia's shares commenced on Wednesday and already at the start the offer price was raised. Until July 29 Vectra will pay PLN 5.41 per share, then until August 5 the price will be PLN 5.11 (originally Vectra offered PLN 5.31 per share). Tomasz Żurański, Vectra CEO, explains that the price was raised in the initial days of the tender offer in order to provide investors with information about the final shape of the tender offer as fast as possible and cut speculation about further actions. Vectra's representatives underline that they are paying a 30% premium over the share price in March, although there had not been any fundamental changes in the business and market position of the company. Investors with bigger stakes in Netia have the opportunity to exit at high liquidity and a good price.

Netia won't overpay. Żurański says that Netia is worth the price but it is facing structural problems related to market competition and lack of modern technology.

Parkiet: Jakubas offers more than Vectra

Mennica Polska, the main shareholder of which is Zbigniew Jakubas, declares that it has means to continue the purchase of Netia's shares and is successively buying them on the market at PLN 5.49 – PLN 5.5, which is higher than the price currently offered by Vectra. – *If any of Netia's current shareholders, funds in particular, would like to sell shares, we are the best partner for the deal* – says Gregorz Zamrzycki, CEO at Mennica Polska. After the first quarter of 2014 Mennica had PLN 160m in cash and recently has received an investment loan in the amount of PLN 170m. Zamrzycki assures that the financial possibilities of Mennica are much bigger.

Mennica is not considering announcing a counter offer to Vectra's as its strategy does not assume the acceleration of the pace of acquisition of Netia's shares.

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Parkiet: Slower growth of the number of SIM cards

The General Statistical Office of Poland (GUS) informed that as at the end of June 2014 there were 56.581m active SIM cards in national mobile networks. That is 118 thousand more compared to the end of the first quarter of 2014 and 340 more compared to December 2013. The growth rate of the number of cards is significantly slower. For comparison, in the first half of 2014 1.2m new SIM cards were registered. The slowdown results i.a. from the reduced growth of P4, Play network operator, removing inactive SIM cards from client bases and not always successful attempts at migrating clients from old tariffs to new ones.

Rzeczpospolita: Espirito Santo on technological companies

In their latest report analysts at Espirito Santo Investment Bank consistently recommend buying Orange Polska shares, lowering at the same time the target price to PLN 10.8, which is 12.1% higher than the market price (PLN 9.63). The target price for Netia's shares fell to PLN 5.4. They were traded at PLN 5.59 on Wednesday (PLN 5.63 on Tuesday). The telecom received a "neutral" recommendation. As previously, Cyfrowy Polsat received a "buy" recommendation with the target price at PLN 27.1. That is 14.8% higher than the yesterday's market price of PLN 23.6.

Puls Biznesu: Precedent of the magenta operator

Following the price war and regulatory decisions the prices of telecommunication services in Poland are among the lowest in Europe. Until now nobody raised them in fear of losing clients to the competition. T-Mobile, however, decided to raise prices for those clients, who do not wish to switch to the new, simpler tariffs JUMP!/Blueconnect. T-Mobile will increase subscription fees of retail clients who refuse to migrate to the new tariffs by PLN 5 gross and by PLN 5 net in the case of business clients.

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According to recent data of the European Commission, ARPU per Polish subscriber (equal to EUR 95 according to 2012 data) is only half the European average. National operators are cost effective and despite low prices they are able to maintain EBIDTA margins at about 40%. This is a necessity, as constantly changing technologies and increasing client expectations force significant investments.

- Considering the high level of competition on the market, I do not expect other operators will follow. T-Mobile's decision is positive for Cyfrowy Polsat, whose smartDOM offer is heading in the opposite direction – says Konrad Książopolski, analyst at Espirito Santo Investment Bank. Orange and Polkomtel did not comment, while P4 wants to make its offer even more attractive.

Rzeczpospolita: Time for high-tech investments

Inea CEO, Janusz Kosiński argues, that FTTH (fiber to the home) is a solution with perspectives, it is reliable and unrivalled in terms of speed and quality of information transfer. Inea is one of few companies in the industry who decided to invest in FTTH and extend optical fiber networks to homes and offices. It currently has 16 thousand FTTH clients.

Fixed-line internet access based on FTTH is poorly developed in Poland. In 2013 investments on FTTH amounted to PLN 330m, PLN 54m came from European funds and 7,000 km of optical fiber networks were constructed. The plan for 2014 assumes investments in FTTH at the level of over PLN 700m, including PLN 440m EU funds.

Until now Orange Polska did not invest significant sums in FTTH because of unfavorable market conditions, claims Tomasz Kowal, investment management director at Orange Polska. The telecom will increase investment expenditure once it is deregulated in 76 municipalities.

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Parkiet: Orange PL in the center of attention following results publication

Following the publication of 1H2014 results, Orange shares were one of the most popular on the WSE with volume exceeding 4,5m shares and share price slightly increasing to over PLN 10.

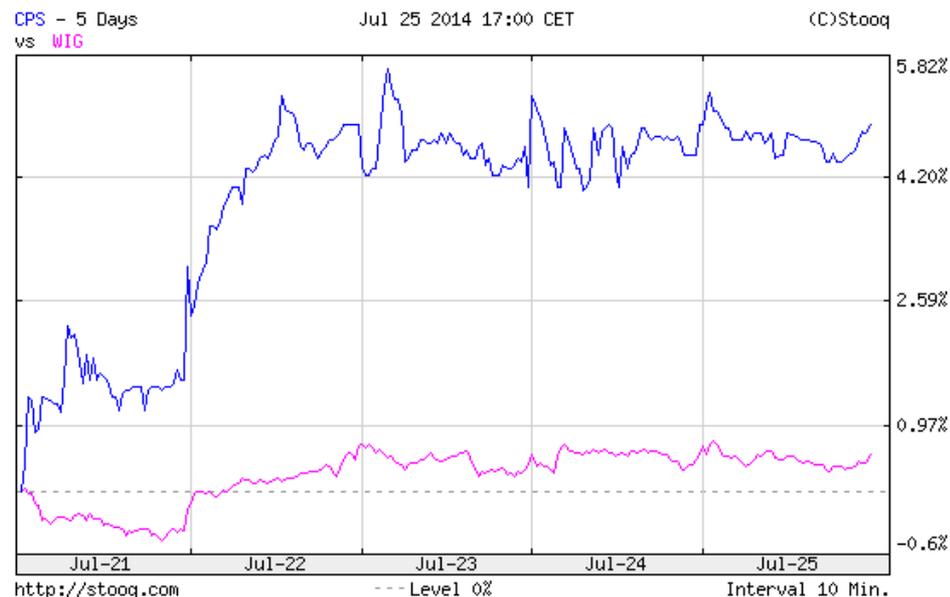
Orange Polska reported decreasing revenue, but at a slower rate – YoY revenue decreased by 5.4% to PLN 3.084bn. Revenue from fixed-line telephony services is declining the most rapidly, while improvement is visible in the mobile services segment. In the first half of 2014 revenue from mobile services amounted to PLN 1.56bn, i.e. 3.9% less compared to the previous year. This is primarily due to the introduction of installment-based sales of equipment. – *In the second half of 2014 the decline of revenue will decelerate, but we expect further price pressure* – said Orange CEO, Bruno Duthoit.

Orange believes that competition will increase in the data transmission segment, therefore commercial expansion and new offers will be a priority. This approach yielded positive effects in the I half of 2014 – the number of users of dedicated internet access increased by 86 thousand in the second quarter, to 1.32m.

Orange continues its cost optimization policy and is looking to improve cash management effectiveness. 6-month EBIDTA and margin exceeded PLN 2.1bn and 35%, respectively. Net profit also increased: in the second quarter it amounted to PLN 94m (increase by 34%), while in the first half of 2014, it amounted to PLN 365m.

Cyfrowy Polsat shares

Date	Maximum price (PLN)	Minimum price (PLN)	Closing price (PLN)	Change (%)	Trade value (PLN ths.)
21-07-2014	23.35	22.66	23.35	2.41%	5 655
22-07-2014	23.89	23.20	23.80	1.93%	9 870
23-07-2014	23.98	23.60	23.60	-0.84%	4 557
24-07-2014	23.95	23.56	23.80	0.85%	11 518
25-07-2014	23.95	23.58	23.80	0.00%	5 537



Investor's calendar

August 14 - 28, 2014	Closed period prior to the publication of H1 2014 results
August 28, 2014	Publication of the semi-annual report for H1 2014