

# Management's discussion and analysis of financial condition and results of operations

Set forth below are our consolidated results for the years ended December 31, 2019 and 2018. As required by regulations issued by Comisión Nacional Bancaria y de Valores, or the Mexican Bank and Securities Commission, for listed companies in Mexico, our financial information is presented in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") for financial reporting purposes. The financial information set forth below should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2019 and 2018 included in this annual report.

	Year ended December 31,	
<i>Millions of Mexican Pesos</i> <sup>1</sup>	<b>2019</b>	<b>2018</b>
Net sales	Ps. 101,757.2	Ps. 101,282.3
Cost of sales	59,067.4	57,839.3
Selling expenses	11,099.0	11,023.4
Administrative expenses	13,269.2	13,729.3
Other (expense) income, net	(1,316.6)	1,562.3
Operating income	17,005.0	20,252.6
Finance expense, net	8,810.8	8,779.7
Share of income of associates and joint ventures, net	581.1	532.9
Income taxes	2,668.5	4,390.5
Net income	6,106.8	7,615.3
Net income attributable to non-controlling interests	1,480.7	1,605.9
Net income attributable to stockholders of the Company	Ps. 4,626.1	Ps. 6,009.4

<sup>1</sup> Certain data set forth in the table above may vary from the corresponding data set forth in our consolidated statements of income for the years ended December 31, 2019 and 2018 included in this annual report due to differences in rounding.

## RESULTS OF OPERATIONS

The following table sets forth the reconciliation between our operating segment income and the consolidated operating income according to IFRS, for the years ended December 31, 2019 and 2018:

	Year ended December 31,	
<i>Millions of Mexican Pesos</i> <sup>1</sup>	<b>2019</b>	<b>2018</b>
Net sales <sup>2</sup>	Ps. 100,915.8	Ps. 100,362.3
Cost of sales <sup>2,3</sup>	43,141.9	43,732.2
Selling expenses <sup>2,3</sup>	9,279.5	9,191.4
Administrative expenses <sup>2,3</sup>	7,534.5	7,103.3
Intersegment operations <sup>4</sup>	72.2	-
Operating segment income	41,032.1	40,335.4
Corporate expenses	1,888.4	2,154.7
Depreciation and amortization	21,008.8	19,834.2
Other (expense) income, net	(1,316.6)	1,562.3
Intersegment operations <sup>4</sup>	(72.2)	-
Held-for-sale operations <sup>2</sup>	258.9	343.8
Operating income	Ps. 17,005.0	Ps. 20,252.6

<sup>1</sup> Certain data set forth in the table above may vary from the corresponding data set forth in our consolidated statements of income for the years ended December 31, 2019 and 2018 included in this annual report due to differences in rounding.

<sup>2</sup> The assets and related liabilities of the Radio business are classified as held-for-sale in the Company's consolidated statement of financial position as of December 31, 2019. Accordingly, the net sales, cost of sales, operating expenses and the operating segment income associated with the Radio business, which was part of the Company's Other Businesses segment, are presented separately as held-for-sale operations for the years ended December 31, 2019 and 2018. The foregoing, notwithstanding that the transaction was consummated for legal purposes.

<sup>3</sup> Excluding corporate expenses and depreciation and amortization.

<sup>4</sup> As a result of the adoption of IFRS 16 Leases ("IFRS 16"), intersegment operations related to intercompany leases were not eliminated on the Operating Segment Income level as in prior years.



## OVERVIEW OF OPERATING SEGMENT RESULTS

The following table sets forth the net sales and operating segment income of each of our business segments, intersegment operations, corporate expenses, depreciation and amortization, other (expense) income, net and held-for-sale operations, for the years ended December 31, 2019 and 2018:

	Year ended December 31,		
			% Contri- bution to 2019 total segment net sales
<i>Millions of Mexican Pesos</i>	<b>2019</b>	<b>2018</b>	
<b>Segment net sales</b>			
Cable	Ps. 41,702.0	Ps. 36,233.0	39.2%
Sky	21,347.1	22,002.2	20.1
Content	35,060.5	39,223.7	33.0
Other Businesses	8,200.3	7,715.5	7.7
Segment net sales	106,309.9	105,174.4	100.0
Intersegment operations <sup>1</sup>	(5,394.1)	(4,812.1)	(5.1)
Held-for-sale operations <sup>2</sup>	841.4	920.0	0.8
Net sales	Ps. 101,757.2	Ps. 101,282.3	95.7%
<b>Operating segment income</b>			
Cable	Ps. 17,797.6	Ps. 15,302.5	
Sky	9,121.2	9,767.3	
Content	12,649.1	14,855.1	
Other Businesses	1,464.2	410.5	
Operating segment income <sup>3</sup>	41,032.1	40,335.4	
Corporate expenses <sup>3</sup>	(1,888.4)	(2,154.7)	
Depreciation and amortization <sup>3</sup>	(21,008.8)	(19,834.2)	
Other (expense) income, net	(1,316.6)	1,562.3	
Intersegment operations <sup>4</sup>	(72.2)	-	
Held-for-sale operations <sup>2</sup>	258.9	343.8	
Operating income <sup>5</sup>	Ps. 17,005.0	Ps. 20,252.6	

<sup>1</sup> For segment reporting purposes, intersegment revenues are included in each of the segment operations.

<sup>2</sup> The assets and related liabilities of the Radio business are classified as held-for-sale in the Company's consolidated statement of financial position as of December 31, 2019. Accordingly, the net sales and the operating segment income associated with the Radio business, which was part of the Company's Other Businesses segment, are presented separately as held-for-sale operations for the years ended December 31, 2019 and 2018. The foregoing, notwithstanding that the transaction was consummated for legal purposes.

<sup>3</sup> The operating segment income data set forth in this annual report do not reflect corporate expenses nor depreciation and amortization in any year presented, but are presented herein to facilitate the discussion of segment results.

<sup>4</sup> As a result of the adoption of IFRS 16 Leases ("IFRS 16"), intersegment operations related to intercompany leases were not eliminated on the Operating Segment Income level as in prior years.

<sup>5</sup> Operating income reflects corporate expenses, depreciation and amortization, other (expense) income, net, intersegment operations and held-for-sale operations in the years presented. See Note 26 to our consolidated year-end financial statements.

## OVERVIEW OF RESULTS OF OPERATIONS

### *Net Sales*

Net sales increased by Ps.474.9 million, or 0.5% to Ps.101,757.2 million in 2019 compared with Ps.101,282.3 million in 2018. This increase was mainly attributable to revenue growth in the Cable segment.

### *Cost of Sales*

Cost of sales decreased by Ps.573.1 million, or 1.3%, to Ps.43,563.6 million for the year ended December 31, 2019 from Ps.44,136.7 million for the year ended December 31, 2018. This decrease was due to lower costs principally in our Content segment.

### *Selling Expenses*

Selling expenses increased by Ps.74.9 million, or 0.8%, to Ps.9,403.4 million for the year ended December 31, 2019 from Ps.9,328.5 million for the year ended December 31, 2018. This increase was attributable to higher selling expenses, primarily in our Cable segment.

### *Administrative and Corporate Expenses*

Administrative and corporate expenses increased by Ps.167.2 million, or 1.8%, to Ps.9,459.8 million for the year ended December 31, 2019 from Ps.9,292.6 million for the year ended December 31, 2018. The growth reflects an increase in administrative expenses, principally in our Cable segment.

Corporate expense decreased by Ps.266.3 million, or 12.4%, to Ps.1,888.4 million in 2019, from Ps.2,154.7 million in 2018. The decrease reflected primarily a lower share-based compensation expense.

Share-based compensation expense in 2019 and 2018 amounted to Ps.1,129.6 million and Ps.1,327.5 million, respectively, and was accounted for as corporate expense. Share-based compensation expense is measured at fair value at the time the equity benefits are conditionally sold to officers and employees and is recognized over the vesting period.







### *Cable*

Cable net sales, representing 39.2% and 34.5% of our segment net sales for the years ended December 31, 2019 and 2018, respectively, increased by Ps.5,469.0 million, or 15.1%, to Ps.41,702.0 million for the year ended December 31, 2019 from Ps.36,233.0 million for the year ended December 31, 2018.

Total revenue generating units or RGUs reached 12.7 million, the net additions for the year were approximately 811.1 thousand.

Cable operating segment income increased by Ps.2,495.1 million, or 16.3%, to Ps.17,797.6 million for the year ended December 31, 2019 from Ps.15,302.5 million for the year ended December 31, 2018, and the margin reached 42.7%, 50 bps above the margin reached in 2018.

These favorable variances were partially offset by higher programming and personnel costs and expenses.

The following table sets forth the breakdown of RGUs per service type for our Cable segment as of December 31, 2019 and 2018:

	2019	2018
Video	4,318,863	4,384,247
Broadband	4,696,054	4,479,017
Voice	3,637,992	2,978,508
RGUs	12,652,909	11,841,772

### *Sky*

Sky net sales, representing 20.1% and 20.9% of our segment net sales for the years ended December 31, 2019 and 2018, respectively, decreased by Ps.655.1 million, or 3.0%, to Ps.21,347.1 million for the year ended December 31, 2019 from Ps.22,002.2 million for the year ended December 31, 2018.

At the end of 2019, the number of video RGUs was lower by 207.7 thousand compared with 2018. This is mainly explained by a lower number video RGUs given the disconnections



during 2018 and first quarter 2019 that followed Sky's transmission of the Soccer World Cup in 2018. Subsequent to this effect, Sky added video RGUs in each of the last three quarters of 2019 and closed year with 7.4 million. In addition, Sky closed the year with 169,692 video RGUs in Central America and the Dominican Republic.

During 2019 Sky continued expanding its broadband operations with the addition of 294.3 thousand broadband RGUs. It closed the year with 386.1 thousand broadband RGUs.

The following table sets forth the breakdown of RGUs per service type for Sky as of December 31, 2019 and 2018.

	2019	2018
Video	7,429,351	7,637,040
Broadband	386,114	91,841
Voice	1,145	-
RGUs	7,816,610	7,728,881

Sky operating segment income decreased by Ps.646.1 million, or 6.6%, to Ps.9,121.2 million for the year ended December 31, 2019 from Ps.9,767.3 million for the year ended December 31, 2018 and the margin was 42.7%. The decrease in operating segment income, was due to the decrease in revenues and an increase in programming and broadband costs.

### Content

We categorize our sources of revenue in our Content segment as follows:

- a) Advertising,
- b) Network Subscription, and
- c) Licensing and Syndication.

Given the cost structure of our Content segment, operating segment income is reported as a single line item.

The following table presents net sales and operating segment income in our Content segment, and the percentage of change when comparing 2019 with 2018:

	Year ended December 31,		
<i>Millions of Mexican Pesos</i>	<b>2019</b>	<b>2018</b>	Chg %
<b>Net sales</b>			
Advertising	Ps. 19,459.4	Ps. 21,154.9	(8.0)%
Network Subscription Revenue	4,993.2	4,814.3	3.7
Licensing and Syndication	10,607.9	10,520.9	0.8
Subtotal net sales	Ps. 35,060.5	Ps. 36,490.1	(3.9)%
World Cup Rights	-	2,733.6	n/a
Total net sales	Ps. 35,060.5	Ps. 39,223.7	(10.6)%
Subtotal operating segment income	Ps. 12,649.1	Ps. 13,444.6	(5.9)%
Income World Cup Rights	-	1,410.5	n/a
Total operating segment income	Ps. 12,649.1	Ps. 14,855.1	(14.9)%

Content net sales, representing 33.0% and 37.3% of our segment net sales for the years ended December 31, 2019 and 2018, respectively, decreased by Ps.4,163.2 million, or 10.6%, to Ps.35,060.5 million for the year ended December 31, 2019 from Ps.39,223.7 million for the year ended December 31, 2018. Excluding the non-recurring licensing revenue, net sales decreased by 3.9% to Ps.35,060.5 million in 2019 compared with Ps.36,490.1 million in 2018.

Advertising revenue decreased 8.0%. The decrease is substantially explained by a significant drop in government advertising. Core private sector advertising sales were down by 1.8%.

Network Subscription Revenue increased by 3.7%. The increase is mainly due to a rates increase.

Licensing and Syndication revenue increased by 0.8%. The increase was due by higher royalties from Univision by 1.4%, reaching U.S.\$389.1 million dollars, achieving a record high; and was partially offset by lower contract revenues in Europe and Asia.

In 2018, Content net sales benefited from the sublicensing of certain broadcast and digital rights of the FIFA World Cup Russia 2018 in Latin American markets, by Ps.2,733.6 million; and the income for this operation was Ps.1,410.5 million.

Content operating segment income decreased by Ps.2,206.0 million, or 14.9%, to Ps.12,649.1 million for the year ended December 31, 2019 compared with Ps.14,855.1 million for the year ended December 31, 2018. Excluding the non-recurring licensing revenue, decreased by 5.9% to Ps.12,649.1 million compared with Ps.13,444.6 million in 2018. The margin was 36.1%, in line with the previous year.

#### **Other Businesses**

Other Businesses net sales, representing 7.7% and 7.3% of our segment net sales for the years ended December 31, 2019 and 2018, respectively, increased by Ps.484.8 million, or 6.3%, to Ps.8,200.3 million for the year ended December 31, 2019 from Ps.7,715.5 million for the year ended December 31, 2018. The increase in revenues was mainly driven by performance in our soccer and gaming businesses, partially offset by our publishing and film distribution businesses.

Other Businesses operating segment income increased by Ps.1,053.7 million, or 256.7%, to Ps.1,464.2 million for the year ended December 31, 2019 from Ps.410.5 million for the year ended December 31, 2018, mainly reflecting an increase in soccer, gaming and film distribution businesses, partially offset by the performance of our publishing business.

### *Depreciation and Amortization*

Depreciation and amortization expense increased by Ps.1,174.6 million, or 5.9%, to Ps.21,008.8 million for the year ended December 31, 2019 from Ps.19,834.2 million for the year ended December 31, 2018. This change primarily reflected an increase in depreciation and amortization expense in our Cable and Content segments.

### *Other Income or Expense, Net*

Other income or expense, net, changed by Ps.2,878.9 million to other expense, net, of Ps.1,316.6 million for the year ended December 31, 2019, from other income, net, of Ps.1,562.3 million for the year ended December 31, 2018. This unfavorable change reflected primarily the absence in 2019 of a Ps.3,513.8 million pre-tax gain on disposition of our 19.9% stake in Imagina Media Audiovisual, S.L. ["Imagina"], a Spanish media group, which sale closed in June 2018, and a higher expense related to legal, financial and accounting advisory and professional services. These unfavorable variances were mainly offset by the absence in 2019 of other taxes paid by Sky in Central America in 2018, as well as a lower loss on disposition of property and equipment and an interest income on asset tax recovered from prior years.

### *Operating Income*

Operating Income decreased by Ps.3,247.6 million, or 16.0%, to Ps.17,005.0 million for the year ended December 31, 2019 from to Ps.20,252.6 million for the year ended December 31, 2018. This decrease reflects primarily the absence of other income, net, and an increase in operating and depreciation and amortization expenses; partially offset by the increase in net sales and the decrease in cost of sales.

## **NON-OPERATING RESULTS**

### *Finance Income or Expense, Net*

Finance income or expense, net, significantly impacts our consolidated financial statements in periods of currency fluctuations. Under IFRS, finance income or expense, net, reflects:

- interest expense;
- interest income;
- foreign exchange gain or loss attributable to monetary assets and liabilities denominated in foreign currencies; and
- other finance income or expense, net, including gains or losses from derivative instruments.

Our foreign exchange position is affected by our assets or liabilities denominated in foreign currencies, primarily U.S. dollars. We record a foreign exchange gain or loss if the exchange rate of the Mexican Peso to the other currencies in which our monetary assets or liabilities are denominated varies.

Finance expense, net, increased by Ps.31.1 million, or 0.4%, to Ps.8,810.8 million for the year ended December 31, 2019, from Ps.8,779.7 million for the year ended December 31, 2018. This increase reflected primarily: (i) a Ps.694.7 million increase in interest expense, primarily due to a higher average principal amount of debt in 2019, as well as interest expense in the amount of Ps.426.5 million related to additional lease liabilities recognized beginning on January 1, 2019, in connection with the adoption of IFRS 16, which became effective on that date; (ii) a Ps.38.0 million decrease in interest income, primarily explained by a lower average amount of cash equivalents; and (iii) a Ps.13.6 million increase in other finance expense, net, resulting primarily from changes in fair value of our derivative contracts. These unfavorable variances were partially offset by a Ps.715.2 million increase in foreign exchange gain, net, resulting primarily from the effect of a 4.0% appreciation of the Mexican peso against the U.S. dollar in 2019, in comparison with a 0.2% appreciation in 2018, on our average net U.S. dollar liability position.

### *Share of Income of Associates and Joint Ventures, Net*

This line item reflects our equity participation in the operating results and net assets of unconsolidated businesses in which we maintain an interest, but which we do not control. We recognize equity in losses of associates and joint ventures up to the amount of our initial investment, subsequent capital contributions and long-term loans, or beyond that amount when we have made guaranteed commitments in respect of obligations incurred by associates and joint ventures.

Share of income of associates and joint ventures, net, increased by Ps.48.2 million, or 9.0%, to Ps.581.1 million in 2019, from Ps.532.9 million in 2018. This increase reflected mainly a higher share of income of Univision Holdings, Inc. or UHI, the controlling company of Univision Communications Inc., which was partially offset by the absence of share of income of Ocesa Entretenimiento, S.A. de C.V. ("OCEN"), for the last five months of 2019, as we classified our investment in OCEN as current assets held for sale, in connection with a related sale agreement.

### *Income Taxes*

Income taxes decreased by Ps.1,722.0 million, or 39.2%, to Ps.2,668.5 million in 2019, compared with Ps.4,390.5 million in 2018. This decrease reflected mainly a lower income tax base, as well as a reduction in effective income tax rate.

The Mexican corporate income tax rate was 30% in each of the years 2019, 2018 and 2017, and will be 30% in 2020.

### *Net Income Attributable to Non-controlling Interests*

Net income attributable to non-controlling interests reflects that portion of operating results attributable to the interests held by third parties in the businesses, which are not wholly-owned by us, including our Cable and Sky segments, as well as our Radio business.

Net income attributable to non-controlling interests decreased by Ps.125.2 million, or 7.8%, to Ps.1,480.7 million in 2019, compared with Ps.1,605.9 million in 2018. This decrease reflected primarily a lower portion of net income attributable to non-controlling interests in our Sky segment.





### *Net Income Attributable to Stockholders of the Company*

Net income attributable to stockholders of the Company reached the amount of Ps.4,626.1 million for the year ended December 31, 2019, compared with Ps.6,009.4 million for the year ended December 31, 2018. The net decrease of Ps.1,383.3 million, or 23.0% reflected:

- a Ps.2,878.9 million unfavorable changes in other income or expense, net; and
- a Ps.1,174.6 million increase in depreciation and amortization.

These changes were partially offset by:

- a Ps.1,722.0 million decrease in income taxes;
- a Ps.805.9 million increase in operating income before depreciation and amortization and other income or expenses, net; and
- a Ps.125.2 million decrease in net income attributable to non-controlling interests.

### *Capital Expenditures and Investments*

During 2019, we:

- made aggregate capital expenditures for property, plant and equipment totaling approximately U.S.\$992.2 million, of which approximately U.S.\$675.3 million are for our Cable segment, U.S.\$209.1 million are for our Sky segment, and the remaining U.S.\$107.8 million are for our Content and Other Businesses segments; and
- provided financing to Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C.V. ("GTAC") in connection with long-term credit facilities and our 33.3% interest in GTAC in the aggregate principal amount of Ps.172.2 million (U.S.\$8.8 million);

During 2018, we:

- made aggregate capital expenditures for property, plant and equipment totaling approximately U.S.\$969.9 million, of which approximately U.S.\$665.5 million are for our Cable segment, U.S.\$209.6 million are for our Sky segment, and the remaining U.S.\$94.8 million are for our Content and Other Businesses segments;
- provided financing to Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C.V. ("GTAC") in connection with long-term credit facilities and our 33.3% interest in GTAC in the aggregate principal amount of Ps.58.2 million (U.S.\$3.0 million);
- acquired from Axtel, S.A.B. de C.V. its residential fiber-to-the-home business and related assets in Mexico City, Zapopan, Monterrey, Aguascalientes, San Luis Potosí and Ciudad Juárez. The total cash value of the transaction amounted to Ps.5,466.9 million (U.S.\$272.1 million), including Ps.753.9 million (U.S.\$37.5 million) of value added tax; and
- renewed our concession titles for the broadcast television signals known as Las Estrellas, Canal 5, Canal 9, Foro TV and other local television stations, for a term of 20 years after the existing expiration dates. For this renewal, we paid Ps.5,753.0 million (U.S.\$281.7 million).

### *Indebtedness*

As of December 31, 2019, our consolidated long-term portion of debt amounted to Ps.121,885.8 million, and our consolidated current portion of debt was Ps.492.5 million. As of December 31, 2019, our total consolidated debt was denominated in U.S. dollars (69%) and Mexican pesos (31%). Additionally, as of December 31, 2019, our consolidated long-term portion of capital lease liabilities amounted to Ps.8,105.8 million, and our consolidated current portion of capital lease liabilities was Ps.1,257.8 million.



The major components of our total consolidated indebtedness as of December 31, 2019, were as follows:

- 5.25% Senior Notes due 2049 for a principal amount of U.S.\$750.0 million;
- 6.125% Senior Notes due 2046 for a principal amount of U.S.\$900.0 million;
- 5.0% Senior Notes due 2045 for a principal amount of U.S.\$1,000.0 million;
- 7.25% Notes due 2043 for a principal amount of Ps.6,500.0 million;
- 6.625% Senior Notes due 2040 for a principal amount of U.S.\$600.0 million;
- 8.49% Senior Notes due 2037 for a principal amount of Ps.4,500.0 million;
- 8.5% Senior Notes due 2032 for a principal amount of U.S.\$300.0 million;
- 8.79% Notes due 2027 for a principal amount of Ps.4,500.0 million;
- 4.625% Senior Notes due 2026 for a principal amount of U.S.\$300.0 million;
- 6.625% Senior Notes due 2025 for a principal amount of U.S.\$600.0 million;
- Syndicated loan due 2024 for a principal amount of Ps.10,000.0 million with an annual interest rate of TIIE plus 105 basis points;
- Long-term loan facility due 2023 for a principal amount of Ps.2,500.0 million with an average annual interest rate of 7.13%;
- Long-term loan facility due 2023 for a principal amount of Ps.3,000.0 million with an average annual interest rate of 7.0%;
- Long-term loan facility due 2023 for a principal amount of Ps.2,500.0 million with an annual interest rate of TIIE plus 130 basis points;
- Long-term loan facility due 2022 for a principal amount of Ps.2,000.0 million with an annual interest rate of TIIE plus 130 basis points;
- Long-term loan facility due 2022 for a principal amount of Ps.1,500.0 million with an annual interest rate of TIIE plus 125 basis points;
- Long-term loan facility due 2022 for a principal amount of Ps.1,095.4 million with an annual interest rate of TIIE plus 100 basis points (TVI);
- Long-term loan facility due 2020 for an aggregate principal amount of Ps.250.0 million with an average annual interest rate of TIIE plus 125 basis points (TVI);
- Satellite transponder lease liabilities with maturities through 2027 for an amount equivalent to U.S.\$212.6 million with an average annual interest rate of 7.3%;
- Lease liabilities recognized on January 1, 2019 under IFRS 16 for an aggregate amount of Ps.4,641.7 million with maturities after 2024;
- Lease liabilities for right to use a certain capacity telecommunications network with maturities through 2029 for an amount of Ps.699.1 million with an annual interest rate of 6.79%;
- Other capital lease liabilities with maturities through 2020 for an aggregate amount of Ps.8.2 million with an annual interest rate a range between of 7.20% and 15.6787%; and
- Other notes payable with maturities in 2020 for an aggregate amount of Ps.1,324.1 million.

The amounts of debt in our consolidated statement of financial position as of December 31, 2019 are presented net of unamortized finance costs in the aggregate amount of Ps.1,441.6 million and interest payable in the aggregate amount of Ps.1,943.9 million.

*For a further description of this indebtedness, see Note 14 to the consolidated financial statements.*

