

- Following the acquisition and consolidation of the results of Midas Group (currently Aero2 Group) from February 29, 2016, in order to better illustrate the business of Polsat Group, reported results¹ of Polsat Group in Q4'16, as well as pro-forma results² in Q4'15 are presented to the level of operating profit (EBIT).
- In Q4'16 Polsat Group revenue increased YoY compared to pro-forma revenue in Q4'15 by 1.5% to **PLN 2,535m** (reported income dynamics was -2.9%), mainly due to:
 - A 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 higher advertising and sponsorship revenue generated by our thematic channels and the main channel, which translates into an increase in pro-forma wholesale revenues,
 - Higher revenue from sale of equipment, mainly due to the growing share of sales of equipment based on the installment plan model.
- Operating costs of the Group decreased by 0.5% compared to pro-forma operating costs in Q4'15 and amounted to **PLN 2,141m** in Q4'16 (reported costs decreased by 0.9% YoY). Their level was mainly influenced by:
 - Lower depreciation costs – base effect (impairment of selected elements of infrastructure in 2015),
 - Decrease in the cost of equipment sold mainly due to lower total volume of equipment sold to customers,
 - Higher technical costs influenced by growing IC costs,
 - Higher depreciation, amortization, impairment and liquidation costs and higher other costs.
- Revenue from advertising and sponsorship of TV Polsat Group increased by 7.1% YoY in Q4'16, to **PLN 336m** (at that time the whole market grew at a rate of 2.0%). As a result of the dynamics of advertising revenue of TV Polsat channels compared to market dynamics, the Group's market share increased to **27.2%**.
- EBITDA of Polsat Group of **PLN 902m** recorded a YoY increase of 1.9% compared to pro-forma EBITDA in Q4'15 (reported EBITDA increased by 2.4%) with EBITDA margin of **35.6%**.
- EBIT of Polsat Group amounted to **PLN 390m** and increased compared to pro-forma EBIT in Q4'15 by 14.1% (reported EBIT decline of 12.3%).
- Finance costs decreased by PLN 147m YoY to **PLN 123m**. This decrease was due, among others, to the lack of foreign exchange costs related to the valuation of the PLK Senior Notes in connection with their early redemption on January 29, 2016, as well as lower costs of interest on loans and notes resulting from the refinancing of the Group's debt finalized in 2016.
- Reported net profit of the Group increased by 84.2% YoY to **PLN 342m**. A one-off impact on net profit was the recognition of an asset related to deferred income tax recognized in connection with transactions that are subject to elimination during the process of consolidation. The recognition of the abovementioned asset had a positive effect on the consolidated net profit of Polsat Group in the fourth quarter of 2016 in the amount of PLN 104m.
- Adjusted pro-forma LTM FCF after interest amounted to **PLN 458m** in Q4'16. At the same time the LTM result reached **PLN 1.557m** (YoY growth of 16.1%), exceeding the Company's previous guidance (PLN 1,200-1,400m).
- **In 2017**, Polsat Group expects to achieve adjusted LTM FCF **at a level not lower than in 2016**.
- The main bank covenant – net debt/EBITDA based on the carrying amount and in relation to the reported LTM EBITDA amounted to **3.06x** in Q4'16, while the net leverage according to SFA definition³ amounted to **2.83x**.
- Key performance indicators in Q4'16:
 - Total number of RGUs at the level of **16.525m**, 80% of which are RGUs provided in the contract model
 - Contract customer base totaled **5.883m**
 - ARPU per customer increased by 2.7% YoY, to **PLN 90.7**,
 - RGU saturation of **2.25** per customer with an upward trend,
 - Churn rate decreased to a low level of **8.3%**.
 - Growth of the total base of contract services by **640K** YoY (5.1%)
 - Growth of the number of pay TV RGUs by **263K** (5.8%), driven by continued demand for the Multiroom service, as well as good sales of OTT services,

¹ reported results, which take into account the consolidation of Midas Group starting from February 29, 2016

² pro-forma, Cyfrowy Polsat, TV Polsat, Metelem, Midas, consolidated financial statements and internal analysis

³ net leverage according to SFA definition, i.e. excluding non-cash serviced debt

- Increase of **214K** (3.3%) of mobile telephony RGUs (growth in **fifth consecutive quarter**) is the result of the favourable effects of our multiplay strategy, supported by a more intensive migration of customers from the prepaid segment,
- Dynamic growth in the number of mobile Internet RGUs by **163K** (10.2%).
- Dynamic growth of saturation of our customer base with integrated services:
 - As many as 22% of our contract customers already use the multiplay offer, which is positively reflected in reported churn (the lowest over the past 3 years).
- Statistics of the prepaid segment under the influence of actions resulting from the Anti-terrorist Act, which enforced the registration of SIM cards:
 - Intensified migration of prepaid customers to contract offers, combined with a rapid decrease in sales of new SIM cards on the entire prepaid market
 - At the beginning of February and March 2017, respectively, we had already over 2.7m and more than 2.8m registered prepaid SIM cards⁽⁴⁾ (this number does not include RGUs of pay TV),
 - Hence, in the case of Polsat Group the effects of the mandatory registration of prepaid cards will be fully reflected in the RGU base in Q1'17.

Reported financial results of Cyfrowy Polsat Group

| in mPLN | Q4'16 | Pro-forma YoY change | Market consensus ⁽⁵⁾ | Difference |
|---|--------------|-------------------------|------------------------------------|-------------|
| Revenues, incl.: | 2,535 | 1% | 2,525 | 0.4% |
| - Retail revenue | 1,589 | -2% | n/a | n/a |
| - Wholesale revenue | 658 | 4% | n/a | n/a |
| - Sale of equipment | 266 | 17% | n/a | n/a |
| - Other revenue | 22 | 16% | n/a | n/a |
| Operating costs, incl.: | 2,141 | -1% | n/a | n/a |
| - Depreciation, amortization, impairment and liquidation | 512 | -6% | n/a | n/a |
| - Technical costs and cost of settlements with telecommunication operators | 473 | 2% | n/a | n/a |
| - Cost of equipment sold | 380 | -4% | n/a | n/a |
| - Content costs | 297 | -1% | n/a | n/a |
| - Distribution, marketing, customer relation management and retention costs | 223 | 1% | n/a | n/a |
| - Salaries and employee-related costs | 164 | 2% | n/a | n/a |
| - Cost of debt collection services and bad debt allowance and receivables written off | 15 | 100% | n/a | n/a |
| - Other costs | 77 | 22% | n/a | n/a |
| EBITDA | 902 | 2% | 884 | 2.1% |
| <i>EBITDA Margin</i> | 35.6% | 0.1pp | 35.0% | 0.6pp |
| EBIT | 390 | 14% | 377 | 3.3% |
| Net profit | 342 | - | 231 | 47.7% |

⁴ according to the 90-day usage definition

⁵ As of March 15, 2017; based on estimates prepared by: BDM, Berenberg, BZ WBK, DB, Citi, DM BOŚ, DM mBanku, ERSTE, Haitong, Ipopema, Partia Finance, Pekao Investment Banking S.A., PKO BP, RCB, Trigon, Wood&Co

Services to individual and business customers segment

| | Q4 | | |
|---|-------------------|-------------------|----------------|
| | 2016 | 2015 | YoY change |
| Total number of RGUs (contract + prepaid) | 16,524,936 | 16,469,696 | 0.3% |
| CONTRACT SERVICES | | | |
| Total number of RGUs, including: | 13,254,598 | 12,614,703 | 5.1% |
| Pay TV, including: | 4,766,429 | 4,503,320 | 5.8% |
| <i>Multiroom</i> | 1,021,720 | 936,307 | 9.1% |
| Mobile telephony | 6,730,427 | 6,516,643 | 3.3% |
| Internet | 1,757,742 | 1,594,740 | 10.2% |
| Number of customers | 5,882,804 | 5,916,103 | (0.6%) |
| ARPU per customer [PLN] | 90.7 | 88.3 | 2.7% |
| Churn | 8.3% | 10.0% | (1.7pp) |
| RGU saturation per customer | 2.25 | 2.13 | 5.6% |
| PREPAID SERVICES | | | |
| Total number of RGUs, including: | 3,270,338 | 3,854,993 | (15.2%) |
| Pay TV | 79,306 | 31,972 | 148.0% |
| Mobile telephony | 2,972,443 | 3,591,736 | (17.2%) |
| Internet | 218,589 | 231,285 | (5.5%) |
| ARPU per prepaid RGU [PLN] | 19.2 | 18.5 | 3.8% |

- **The total number of active services** provided by the Group both in the contract and prepaid models amounted to 16,524,936.
- At the end of Q4'16 the share of contract services in the total number of provided active services was 80.2%. This indicator increased YoY from 76.6%.
- **Contract services:**
 - The total number of customers to whom we provided contract services amounted to 5,882,804 as at the end of 2016, which constitutes a decrease by 0.6% YoY. The decline of the customer base clearly decelerated in the second half of 2016, while in the fourth quarter we noted a QoQ increase, inter alia, due to the intensified migration of prepaid services users to contract tariffs as an effect of our actions aimed at encouraging customers to switch to postpaid tariffs while registering their prepaid SIM cards. We continue to observe the trend of merging of contracts under one, common contract for the household and the outflow of customers with only one service. In line with our strategic assumptions, the Group avoids conducting an aggressive sales policy for individual products and concentrates rather on increasing customer loyalty, in particular through offering a wide portfolio of bundled services, as well as on increasing ARPU per contract customer.

- The number of active contract services provided by us increased by 639,895, that is by 5.1%, to 13,254,598 in Q4'16. We recorded growth in the number of all services provided in the contract model.
- We noted the highest growth dynamics with respect to the number of contract services provided in the area of broadband Internet access due, among other things, to the broad coverage offered by our LTE//LTE-Advanced network, as well as its high quality, which is confirmed by surveys by UKE published in January and December 2016. As at the end of Q4'16, we provided 1,757,742 mobile Internet RGUs in the contract model, that is 163,002, or 10.2%, more than as at the end of Q4'15.
- The number of pay TV services provided in the contract model amounted to 4,766,429 as at the end of Q4'16, which constitutes an increase by 263,109, or 5.8%, compared to Q4'15. This increase in due, among other things, to the growing popularity of our Multiroom service (YoY increase by over 85 thousand provided services), as well as to increasing sales of OTT paid services.
- The number of provided mobile telephony services in the contract model increased by 213,784, or 3.3%, reaching the level of 6,730,427 as at the end of Q4'16. This growth was driven by the successful implementation of our strategy of cross-selling, as well as by the intensified migration of users of prepaid services to contract tariffs. We believe that further saturation of our customer base with integrated services, including our flagship product smartDOM, will positively influence the growth of the number of contract RGUs provided by us in the future.
- In line with the assumptions of our long-term strategy, we aim to maximize revenue per contract customer through cross-selling, i.e., the sale of additional products and services to the joined customer bases of Cyfrowy Polsat and Polkomtel, among others within the framework of our program smartDOM, which has a positive impact on ARPU per contract customer. As a result of the implementation of our multiplay strategy, we continue to record a successive increase of ARPU in the contract services segment. In Q4'16 ARPU per customer increased by 2.7% YoY to PLN 90.7. This is the effect of the success of our multiplay strategy and the price stabilization on the telecommunications market.
- Our churn rate decreased by 1.7 p.p. to 8.3% in the twelve-month period ended December 31, 2016, compared to 10.0% in the twelve-month period ended December 31, 2015. This is primarily the effect of the systematically growing loyalty of our customers connected with the successful implementation of our multiplay strategy.
- The saturation of our customer base with additional services offered in bundles is systematically growing. As at December 31, 2016, each customer in our customer base had on average 2.25 active contract services which constitutes an increase of 5.6% compared to 2.13 active contract services per customer as at December 31, 2015. The increase in RGU saturation per customer is the result of our marketing and sales activities aimed at maximizing the sale of products and services to a single customer.
- Our bundled services offer, the smartDOM program in particular, remains very popular and continues to record very good sales results, which has a positive effect on the level of RGU saturation per customer, ARPU per contract customer, and the churn rate. At the end of Q4'16, already 1,306,463 customers were part of the program, which constitutes an increase of 285,291, or 27.9%, YoY. This group of customers had a total of 3,870,173 RGUs, over 831 thousand, or 27.4%, more than in the previous year. A customer of the smartDOM program owns 3 services, on average. Bearing in mind the long-term goal of our Group, which is to maximize revenue per contract customer through cross-selling, the smartDOM program is perfectly in line with the implementation of our strategy.

- **Prepaid services**

- The number of prepaid services provided by us as at the end of Q4'16, decreased by 584,655, that is, 15.2% YoY, to 3,270,338. The erosion of the prepaid RGUs base is driven mainly by the statutory obligation to register newly purchased prepaid SIM cards starting from July 25, 2016, that led to a significant decline in the number of new activations in the second half of 2016 on the entire market. The decrease of our prepaid RGUs base is further deepened by intensified migration, which we encourage, of our prepaid tariff users towards the contract services segment, driven by relatively more attractive terms of post-paid tariffs, as well as discounts offered in the smartDOM program.
- In Q4'16 ARPU per prepaid RGU increased by 3.8% YoY to PLN 19.2.

Broadcasting and television production segment

| | Q4 | | |
|--|---------------|---------------|--------------|
| | 2016 | 2015 | % change |
| Audience share⁽¹⁾, including: | 25.07% | 24.78% | 1.17% |
| POLSAT (main channel) | 13.50% | 13.20% | 2.27% |
| Thematic channels | 11.57% | 11.58% | -0.09% |
| Advertising market share² | 27.20% | 25.90% | 5.02% |
| Television ad market expenditure³ (mPLN) | 1,236 | 1,212 | 2.0% |

¹ NAM, All 16-49, all day, SHR%

² Our estimates based on Starcom data

³ Starcom, air time and sponsorship

- Very good viewership results – Polsat Group and the main channel POLSAT are invariably viewership leaders in the commercial group.
- Revenue from advertising and sponsorship in Q4'16 increased by 7.1% YoY (during this period the whole market grew at a rate of 2.0%) to PLN 336m, thanks to what our share in the TV advertising market increased to 27.2%.
- We expect a low single digit growth of the TV advertising and sponsorship market in 2017.