

- Following the acquisition and consolidation of the results of Midas Group (currently Aero2 Group) since February 29, 2016, in order to better illustrate the business of Polsat Group, reported results<sup>1</sup> of Polsat Group in Q1'17, as well as pro-forma results<sup>2</sup> in Q1'16 are presented to the level of operating profit (EBIT).
- In Q1'17 Polsat Group revenue increased YoY compared to pro-forma revenue in Q1'16 by 4.6% to **PLN 2,389m** (reported income dynamics was +1.0%), mainly due to:
  - Decrease of revenue from voice services partially compensated by higher revenue from pay TV services, Internet access services and data services,
  - Growing revenue from IC settlements impact the dynamics of wholesale revenue,
  - Higher revenue from sale of equipment, mainly due to the growing share of installment plan sales of equipment.
- Operating costs of the Group increased by 3.4% compared to pro-forma operating costs in Q1'16 and amounted to **PLN 1,938m** in Q1'17 (reported costs decreased by 0.5% YoY). Their level was mainly influenced by:
  - Higher technical costs due to higher interconnection costs related to the popularization of tariffs offering unlimited connections to other telecommunication networks,
  - Higher content costs caused primarily by the recognition of higher costs of programming licenses related to the expansion of our pay TV offer, as well as higher costs of internal production for the main channel,
  - Higher distribution, marketing, customer relation management and retention costs, among others due to the recognition of higher costs of customer service and retention related to the increase in per hour rates, as well as higher marketing costs.
- Revenue from advertising and sponsorship of TV Polsat Group increased by 1.9% YoY in Q1'17, to **PLN 234m** (at that time the whole market grew at a rate of 0.3%). As a result of the dynamics of advertising revenue of TV Polsat channels compared to market dynamics, the Group's market share increased to **25.7%**.
- EBITDA of Polsat Group of **PLN 929m** recorded a YoY increase of 7.4% compared to pro-forma EBITDA in Q1'16 (reported EBITDA increased by 9.8%) with EBITDA margin of **38.9%**.
- EBIT of Polsat Group amounted to **PLN 457m** and increased compared to pro-forma EBIT in Q1'16 by 9.8% (reported EBIT amounted to +8.1%).
- Finance costs remained at an almost unchanged level of **PLN 185m** (incl. a one-off cost in the amount of ca. PLN 58.7 million related to the recognition in the balance sheet valuation of the Litenite Notes as at March 31, 2017 of a premium for the early redemption of these notes, executed on April 26, 2017).
- Reported net profit of the Group increased by 52.0% YoY to **PLN 271m** mainly due to growth in EBITDA and foreign exchange gains resulting from the decrease in the valuation of liabilities related to the UMTS license.
- Adjusted FCF after interest amounted to **PLN 480m** in Q1'17. At the same time the LTM result reached **PLN 1.987m** (YoY growth of 50.6%).
- The main bank covenant – net debt/EBITDA based on the carrying amount and in relation to the reported LTM EBITDA amounted to **2.88x** in Q1'17.
- Key performance indicators in Q1'17:
  - Total number of RGUs at the level of **16.216m**, 82% of which are RGUs provided in the contract model
  - Contract customer base totaled **5.847m**
    - ARPU per customer increased by 2.4% YoY, to **PLN 89.1**,
    - RGU saturation of **2.28** per customer with an upward trend,
    - Churn rate decreased to the level of **8.5%**.
  - Growth of the total base of contract services by ca **593K** YoY (4.7%)
    - Increase of **249K** (3.8%) of mobile telephony RGUs is the result of the favorable effects of our multiplay strategy, supported in recent months by a more intensive migration of customers from the prepaid segment,
    - Growth of the number of pay TV RGUs by **226K** (4.9%), driven by continued demand for the Multiroom service, as well as good sales of paid OTT services,
    - Dynamic growth in the number of mobile Internet RGUs by **119K** (7.2%).

<sup>1</sup> reported results, which take into account the consolidation of Aero2 Group (previously Midas Group) starting from February 29, 2016

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

- Dynamic growth of saturation of our customer base with integrated services:
  - As many as 23% of our contract customers already use the multiplay offer, which is positively reflected in reported churn.
- The effects of the obligatory prepaid SIM registration is fully reflected in the customer base for 1Q'17 – all the SIM cards reported by Cyfrowy Polsat have been effectively registered
  - **Prepaid RGUs**, after eliminating all non-registered SIM cards, reached 2.879m,
  - at the same time, the elimination of one-time users combined with the expiring effect of promotions related to registration resulted in a **high positive dynamics of prepaid ARPU** (PLN 18.7, + 5.7% YoY).

## Financial results of Cyfrowy Polsat Group

in mPLN	Q1'17	Pro-forma YoY change	Market consensus <sup>(3)</sup>	Difference
<b>Revenue, incl.:</b>	<b>2,389</b>	<b>5%</b>	<b>2,343</b>	<b>2.0%</b>
- Retail revenue	1,543	-2%	n/a	n/a
- Wholesale revenue	562	8%	n/a	n/a
- Sale of equipment	249	43%	n/a	n/a
- Other revenue	35	55%	n/a	n/a
<b>Operating costs, incl.:</b>	<b>1,938</b>	<b>3%</b>	<b>n/a</b>	<b>n/a</b>
- Depreciation, amortization, impairment and liquidation	472	5%	n/a	n/a
- Technical costs and cost of settlements with telecommunication operators	468	5%	n/a	n/a
- Cost of equipment sold	324	-1%	n/a	n/a
- Content costs	264	6%	n/a	n/a
- Distribution, marketing, customer relation management and retention costs	211	5%	n/a	n/a
- Salaries and employee-related costs	128	-9%	n/a	n/a
- Cost of debt collection services and bad debt allowance and receivables written off	19	101%	n/a	n/a
- Other costs	52	-1%	n/a	n/a
<b>EBITDA</b>	<b>929</b>	<b>7%</b>	<b>876</b>	<b>6.1%</b>
<i>EBITDA Margin</i>	38.9%	1.0pp	37.4%	1.5pp
EBIT	457	10%	390	17.3%
Net profit	271	-	185	47.1%

<sup>3</sup> based on estimates prepared by: BDM, Berenberg, BZ WBK, DB, 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

	Q1		
	2017	2016	YoY change
<b>Total number of RGUs (EOP)</b> (contract + prepaid)	<b>16,216,128</b>	<b>16,531,833</b>	<b>(1.9%)</b>
<b>CONTRACT SERVICES</b>			
<b>Total number of RGUs (EOP), including:</b>	<b>13,337,038</b>	<b>12,744,166</b>	<b>4.7%</b>
Pay TV, including:	4,785,947	4,560,267	4.9%
<i>Multiroom</i>	1,031,294	957,952	7.7%
Mobile telephony	6,785,002	6,536,366	3.8%
Internet	1,766,089	1,647,533	7.2%
<b>Number of customers (EOP)</b>	<b>5,847,401</b>	<b>5,893,225</b>	<b>(0.8%)</b>
ARPU per customer [PLN]	89.1	87.0	2.4%
Churn	8.5%	9.8%	(1.3 p.p.)
RGU saturation per customer	2.28	2.16	5.6%
<b>PREPAID SERVICES</b>			
<b>Total number of RGUs (EOP), including:</b>	<b>2,879,090</b>	<b>3,787,667</b>	<b>(24.0%)</b>
Pay TV	48,224	35,754	34.9%
Mobile telephony	2,646,477	3,495,733	(24.3%)
Internet	184,389	256,180	(28.0%)
ARPU per prepaid RGU [PLN]	18.7	17.7	5.6%

- **The total number of services** provided by the Group both in the contract and prepaid models amounted to 16,216,128.
- At the end of Q1'17 the share of contract services in the total number of provided services was 82.2%. This indicator increased YoY from 77.1%.
- **Contract services:**
  - The total number of customers to whom we provided contract services amounted to 5,847,401 as at the end of Q1'17, which constitutes a decrease by 0.8% YoY. 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 the 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 contract services provided by us increased by 592,872, that is by 4.7% YoY, to 13,337,038 as at the end of Q1'17. We recorded growth in the number of all services provided in the contract model.
- The number of pay TV services provided in the contract model amounted to 4,785,947 as at the end of Q1'17, which constitutes an increase by 225,680, or 4.9% YoY. This increase is due, among other things, to the growing popularity of our Multiroom service (YoY increase by over 73 thousand, to 1.03 million RGUs), as well as to increasing sales of paid OTT services.
- The number of provided mobile telephony services in the contract model increased by 248,636, or 3.8% YoY, reaching the level of 6,785,002 as at the end of Q1'17. This growth was driven by the successful implementation of our strategy of cross-selling, as well as by the temporarily 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.
- Invariably, 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. As at the end of Q1'17, we provided 1,766,089 mobile Internet RGUs in the contract model, that is by 118,556, or 7.2%, more than at the end of Q1'16.
- 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 and the systematic development of our bundled offer, we continue to record a successive increase of ARPU in the contract services segment. In Q1'17, ARPU increased by 2.4% YoY to PLN 89.1, which is the effect of the success of our multiplay strategy, as well as price stabilization on the telco market.
- Our churn rate decreased by 1.3 p.p. to 8.5% in the twelve-month period ended March 31, 2017, compared to 9.8% in the twelve-month period ended March 31, 2016. 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 consistently growing. As at March 31, 2017, each customer in our customer base had on average 2.28 active contract services which constitutes an increase of 5.6% YoY. 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 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. As at the end of Q1'17, already 1,325,079 customers were using our bundled offer, which constitutes an increase of 237,473 customers, or 21.8%, YoY. This group of customers had a total of 3,947,134 RGUs, by 724,799, or 22.5%, more than in the previous year. A multiplay customer 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 decreased by 908,577, that is by 24.0% YoY, to 2,879,090 as at the end of Q1'17. The decline was the most severe in the areas of mobile telephony and prepaid internet, amounting to 24.3% and 28.0% YoY, respectively (we emphasize that we have decided to report only registered SIM cards). The erosion of the prepaid RGU base was 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 on the entire market, as well as the obligation to deactivate after February 1, 2017 all prepaid SIM cards that had not been correctly registered. The decrease of our prepaid RGU base, visible over the past three quarters, was further deepened by the migration, intensified during the period of registration, of our prepaid tariff users towards the contract services segment.
- In Q1'17 ARPU per prepaid RGU increased by 5.6% YoY to PLN 18.7. High growth dynamics of prepaid ARPU in Q1'17 was, among other things, the effect of eliminating SIM cards characterized by low ARPU (one-time users) from the prepaid RGU base and the gradual phasing out of the negative effect of promotional offers aimed at encouraging customers to register their prepaid cards.

## Broadcasting and television production segment

	Q1		
	2017	2016	% change
<b>Audience share<sup>(1)</sup>, including:</b>	<b>24.27%</b>	<b>24.40%</b>	<b>-0.53%</b>
POLSAT (main channel)	12.73%	12.73%	0.00%
Thematic channels	11.53%	11.67%	-1.20%
<b>Advertising market share<sup>2</sup></b>	<b>25.7%</b>	<b>25.3%</b>	<b>1.6%</b>
<b>Television ad market expenditure<sup>3</sup> (mPLN)</b>	<b>910</b>	<b>908</b>	<b>0.3%</b>

<sup>1</sup> NAM, All 16-49, all day, SHR%

<sup>2</sup> Our estimates based on Starcom data

<sup>3</sup> Starcom, preliminary data, air time and sponsorship

- Viewership in line with the long-term strategy.
- Revenue from advertising and sponsorship in Q1'17 increased by 1.9% YoY (during this period the whole market grew at a rate of 0.3%) to PLN 234m, thanks to what our share in the TV advertising market increased to 25.7%.
- We maintain our expectations on a low single digit growth of the TV advertising and sponsorship market in 2017.