

- Following the acquisition and consolidation of the results of Midas Group from February 29, 2016, in order to better illustrate the business of Polsat Group, reported results¹ of Polsat Group in Q2'16, as well as pro-forma results² in Q2'15 are presented to the level of operating profit (EBIT).
- In Q2'16 Polsat Group revenue increased YoY compared to pro-forma revenue in Q2'15 by 4.0% to **PLN 2,443m** (reported income dynamics was -1.1%), mainly due to:
 - A decrease of revenue from voice services, partially compensated by higher revenue from pay TV services, data transmission and Internet access services,
 - Growing advertising revenue of TV Polsat, monetization of UEFA EURO 2016, as well as growing IC settlements, which translate into better dynamics of wholesale revenue,
 - Higher revenue from equipment sales, resulting from the gradually growing share of installment plan sales, higher prices of subsidized equipment sold, as well as the optimization of stock levels.
- Operating costs of the Group increased compared to pro-forma operating costs in Q2'15 by 8.7% and amounted to **PLN 2.042m** in Q2'16 (reported costs increased by 7.5% YoY). Their level was mainly influenced by:
 - Higher cost of depreciation, primarily as the result of the recognition in Q2'16 of depreciation costs of telecommunications licenses, which belong to Midas Group for March 2016 (preliminary PPA) and the effect of a lower base in Q2'15 arising from the adjustment of the life-time of the Plus trademark,
 - Technical costs, affected by growing IC costs,
 - An increase in the cost of equipment sold caused by a higher unit cost of sold equipment, while the total volume of sales declined,
 - An increase in content costs due to higher costs of internal and external production, as well as higher costs of depreciation of sports licenses (including UEFA EURO 2016).
- Revenue from advertising and sponsoring of TV Polsat Group increased by 8.8% YoY in Q2'16, to **PLN 306m** (at that time the whole market grew at a rate of 0.5%). As a result of the dynamics of advertising revenue of TV Polsat compared to market dynamics, the Group's market share increased to **27.3%**.
- EBITDA of Polsat Group of **PLN 935m** recorded a YoY decrease of 3.1% compared to EBITDA pro-forma in Q2'15 (reported EBITDA decreased by 4.3%) with EBITDA margin of **38.3%** - decrease by 2.8pp YoY.
- EBIT of Polsat Group amounted to **PLN 408m** and decreased compared to EBIT pro-forma in Q2'15 by 16.3% (reported EBIT decline of 30.2%). The sharp decline in operating profit resulted mainly from the recognition of depreciation costs for 4 months of Midas Group telecommunication licenses (preliminary PPA), acquired on February 29, 2016.
- Reported finance costs decreased to **PLN 133m**, i.a. in effect of the lack of costs of interest on the PLK Senior Notes and lack of costs related to the valuation of the PLK Senior Notes in connection with their early redemption on February 1, 2016. The decrease in finance costs was partially offset by higher interest costs on term loans related to the drawing of the second tranche under the Combined SFA in January 2016. As a result of the acquisition of Litenite capital group, as of February 29, 2016 this position also comprises costs of interest on loans and notes of Litenite group for the period of consolidation.
- As a result, reported net profit of the Group decreased to **PLN 231m**.
- Adjusted LTM FCF pro-forma after interest amounted to **PLN 683m** in Q2'16. At the same time the LTM result reached **PLN 1.404m** (YoY growth of 7.4%), reaching the upper limit of the Company's previous guidance (PLN 1,200-1,400m).
- The main bank covenant – net debt/EBITDA based on the carrying amount and in relation to the reported LTM EBITDA amounted to **3.32x** in Q2'16, while the net leverage according to SFA definition³ amounted to 3.09x, which allows the Company to pay dividends (level of <3.2x).
- Key performance indicators in Q2'16:
 - Total number of RGUs at the level of **16.712m**, 77% of which are RGUs provided in the contract model
 - Stable contract customer base of **5.862m**
 - ARPU per customer increased by 1.6% YoY, to **PLN 88.4**
 - RGU saturation of **2.20** per customer with an upward trend
 - Churn rate decreased to **9.0%**

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

- Growth of the total base of contract services by **4.1% YoY**
 - o Dynamic growth in the number of mobile Internet RGUs by **13.9%**, supported by the highest quality offered by our network
 - o Growth of the number of pay TV RGUs by **5.9%**, driven by continued demand for the Multiroom service, as well as good sales of OTT services
 - o Progressive stabilization of the voice service base, driven i.a. by a visible slowdown of the price pressure on the mobile telephony market. In Q2'16 the RGU base of contract mobile telephony increased again QoQ, this time by 22.9K
- Dynamic growth of saturation of our customer base with integrated services:
 - o As many as 20% of our contract customers already use the multiplay offer, which is positively reflected in reported churn
 - o Total number of RGUs contracted by this group of customers amounts to 3.44m

Reported financial results of Cyfrowy Polsat Group

in mPLN	Q2'16	Pro-forma YoY change	Market consensus ⁽¹⁾	Difference
Revenues, incl.:	2,443	4%	2,437	0.2%
- Retail revenue	1,587	-4%	n/a	n/a
- Wholesale revenue	645	13%	n/a	n/a
- Sale of equipment	191	76%	n/a	n/a
- Other revenue	20	37%	n/a	n/a
Operating costs, incl.:	2,042	9%	n/a	n/a
- Technical costs and cost of settlements with telecommunication operators	457	10%	n/a	n/a
- Depreciation, amortization, impairment and liquidation	528	10%	n/a	n/a
- Cost of equipment sold	317	8%	n/a	n/a
- Content costs	316	15%	n/a	n/a
- Distribution, marketing, customer relation management and retention costs	202	5%	n/a	n/a
- Salaries and employee-related costs	138	-3%	n/a	n/a
- Cost of debt collection services and bad debt allowance and receivables written off	16	-41%	n/a	n/a
- Other costs	68	25%	n/a	n/a
EBITDA	935	-3%	922	1.4%
<i>EBITDA Margin</i>	38.3%	-2.8pp	37.8%	0.5pp
EBIT	408	-16%	481	-15.3%
Net profit	231	-	305	-24%

(1) based on estimates prepared by: Berenberg, BZ WBK, Citi, DB, DM BOŚ, DM mBanku, Erste, Haitong, Ipopema, Pekao Investment Banking S.A., PKO BP, RCB, Trigon, Wood&Co

Services to individual and business customers segment

	Q2		
	2016	2015	YoY change
Total number of RGUs (contract + prepaid)	16,711,541	16,349,090	2.2%
CONTRACT SERVICES			
Total number of RGUs, including:	12,880,725	12,377,021	4.1%
Pay TV, including:	4,632,246	4,374,517	5.9%
<i>Multiroom</i>	972,771	886,305	9.8%
Mobile telephony	6,559,223	6,519,311	0.6%
Internet	1,689,256	1,483,193	13.9%
Number of customers	5,862,310	5,990,051	-2.1%
ARPU per customer [PLN]	88.4	87.0	1.6%
Churn	9.0%	10.1%	-1.1pp
RGU saturation per customer	2.20	2.07	6.3%
PREPAID SERVICES			
Total number of RGUs, including:	3,830,816	3,972,069	-3.6%
Pay TV	73,544	41,517	77.1%
Mobile telephony	3,473,228	3,737,282	-7.1%
Internet	284,044	193,270	47.0%
ARPU per prepaid RGU [PLN]	18.9	18.3	3.3%

- **The total number of active services** provided by the Group, both in the contract and prepaid models, amounted to 16,711,541.
- At the end of Q2'16 the share of contract services in the total number of provided active services was 77.1%. This indicator increased YoY from 75.7%.
- **Contract services:**
 - The total number of customers, to whom we provided contract services, amounted to 5,862,310 as at the end of Q2'16, i.e. 2.1% less compared to the number of customers in Q2'15. The drivers behind this decrease include the 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 customer acquisition 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 4.1%, that is by 503,704, to 12,880,725 in Q2'16. This change is primarily the effect of a higher number of pay TV and mobile Internet services provided in the contract model.

- The number of pay TV services provided in the contract model amounted to 4,632,246 year as at the end of Q2'16, which constitutes an increase by 257,729, or 5.9% YoY. This increase is due among others to the growing popularity of our Multiroom service (YoY increase by almost 86.5 thousand provided services), as well as to higher sales of OTT paid services.
- The number of contract services provided in the area of broadband Internet access increased by 206,063, i.e. 13.9%, to 1,689,256 as at the end of Q2'16. The dynamic growth in the number of mobile Internet RGUs was supported by the broadest coverage offered by our network, as well as its highest quality proven by a survey by UKE, published in January 2016.
- Concurrently, the number of provided mobile telephony services increased by almost 40 thousand reaching the level of 6,559,223 as at the end of Q2'16.
- We believe that further saturation of our customer base with integrated services, including our product smartDOM, will positively influence the growth of the number of contract RGUs provided by us in the future.
- As a result of the implementation of our strategy, we note an increase of ARPU in the contract services segment. ARPU per customer increased by 1.6%, to PLN 88.4, in Q2'16. In line with the assumptions of our long-term strategy, our Group aims to maximize revenue per contract customer through sales 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.
- Our churn rate decreased to 9.0% in the twelve-month period ended June 30, 2016 compared to 10.1% in the twelve-month period ended June 30, 2015. This is the effect of the systematically growing loyalization of our customers connected with the success of the smartDOM program.
- The saturation of our customer base with multiplay services is systematically growing. As at the end of Q2'16, each customer in our customer base had on average 2.20 active contract services, which constitutes an increase of 6.3% compared to Q2'15. 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.
- The smartDOM program continues to record very good sales results and has a positive effect on the level of RGU saturation per one customer, ARPU per contract customer and the churn rate. As at the end of Q2'16 already 1.16 million customers had joined the program and had bought a total of 3.44 million RGUs. RGU saturation per customer in this group was close to 3.0 as at the end of Q2'16. Bearing in mind the long-term goal of our Group, which is to maximize revenue per contract customer through sales of additional products and services, 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 Q2'16 decreased by 3.6%, to 3,830,816. This decrease was caused among others by the migration of part of our customers from prepaid tariffs towards the contract services segment, driven by relatively more attractive terms of post-paid tariffs, as well as discounts offered in the smartDOM program.
- At the same time ARPU per prepaid RGU increased by 3.3% YoY to PLN 18.9 in Q2'16. The increase in the level of ARPU in the prepaid segment is connected mainly with higher consumption of data on smartphones, as well as higher volumes of exchanged voice traffic at stable retail prices in the segment.

Broadcasting and television production segment

	Q2		
	2016	2015	% change
Audience share¹, including:	25.5%	24.7%	3.3%
POLSAT (main channel)	13.8%	13.4%	3.4%
Thematic channels	11.7%	11.3%	3.1%
Advertising market share²	27.3%	25.2%	8.3%
Television ad market expenditure³ (mPLN)	1,119	1,114	0.5%

¹ NAM, All 16-49, all day, SHR%

² Our estimates based on SMG Poland data (formerly SMG Starlink)

³ SMG Poland, air time and sponsorship

- Very good viewership results:
 - Polsat's main channel and Polsat Group are the viewership leaders in the commercial group
 - Positive effect of viewership figures of the UEFA EURO 2016
- Revenue from advertising and sponsorship in Q2'16 increased by 8.8% YoY (at that time the whole market grew at a rate of 0.5%) to PLN 306m, thanks to what our share in the TV advertising market increased to 27.3%.
- We revise our expectations regarding the growth of the TV advertising and sponsorship market in 2016 to approx. 2-3%.