

- In Q2'17 Polsat Group revenue increased YoY by 1.1% to **PLN 2,470m**. The level of revenue was mainly affected by the following factors:
 - As regards retail services: decrease of revenue from voice services (mainly due to the change in the model of offering equipment to residential customers, a lower number of prepaid activations, which is related to the statutory obligation of prepaid SIM registration and the resulting elimination of one-time use SIM cards from the base, as well as the high level of competitiveness on the telecommunications market) partially compensated by higher revenue from pay TV services and Internet access services and data services,
 - Higher revenue from sale of equipment, mainly due to the growing share of installment plan sales of equipment, as well as to the customers' increased preference for more advanced and expensive devices,
 - Increase in other sales revenue mainly as a result of growing revenue from interest on installment plan sales of equipment to residential customers,
 - Increase in wholesale revenue primarily as a result of growing revenue from IC settlements. Dynamic of growth of wholesale revenue was distorted to a significant extent by the effect of a high base in the comparative period, as in Q2'16 this item comprised additional revenue related to the multichannel monetization of sports rights to the EURO UEFA 2016 tournament.
- In Q2'17 Polsat Group costs decreased YoY by 3.9% to **PLN 1,963m**. Their level was mainly influenced by:
 - Decrease in amortization costs among others due to the termination of the amortization period of certain intangible and legal assets, acquired alongside Polkomtel in 2014, as well as lower costs of depreciation of the telecommunications infrastructure which is connected with the termination of the depreciation period of selected elements of this infrastructure,
 - Lower content costs and other costs are due primarily to the high base effect – higher costs of sports licenses and internal production were recognized in the comparative period in connection with the broadcasting of UEFA EURO 2016 – and was partially offset by higher costs of programming licenses connected with the expansion of the programming packages chosen by our pay TV customers,
 - Higher technical costs resulted from higher IC costs related to the popularization of tariffs offering unlimited connections to other telecommunication networks and higher costs related to the wholesale purchase of traffic in international roaming,
 - Higher distribution, marketing, customer relation management and retention costs among others due to the recognition of higher marketing costs and higher costs of customer service and retention, which is associated with an increase in per hour rates resulting from an upward pressure on wages on the Polish labor market.
- Revenue from advertising and sponsorship of TV Polsat Group increased by 0.5% YoY in Q2'17, to **PLN 307m** despite an unfavorable high base effect (UEFA EURO 2016), while the whole market was down by 1.2%. As a result of higher dynamics of advertising revenue of TV Polsat channels as compared to market dynamics, the Group's market share increased to **27.6%**.
- EBITDA of Polsat Group, amounting to **PLN 964m**, recorded a YoY increase of 3.1% with EBITDA margin of **39.0%**. As a result, Polsat Group managed to compensate for the high base effect resulting from the successful monetization of a one-off event (UEFA EURO 2016) in Q2'16.
- EBIT of Polsat Group amounted to **PLN 517m** and increased YoY by 26.9%.
- Finance costs decreased by 14.9% YoY as a result of, among other factors, a decline in costs of interest on bonds following the early redemption of the Litenite Notes in April 2017, as well as lower interest costs related to the service of the Combined SFA as a result of repayments according the schedule and a lower margin resulting from a lower level of indebtedness of the Group.
- Net profit of the Group increased by 22.0% YoY to **PLN 282m**.
- Adjusted FCF after interest amounted to **PLN 466m** in Q2'17 (and in the six-month period PLN 946m). At the same time the LTM result reached **PLN 1.770m** (YoY growth of 26.1%).
- High level of cash generated coupled with partial support of the cheaper Revolving Facility Loan enabled the **full early redemption of zero-coupon Litenite Notes** with interest at 10% per annum for a total of PLN 945m (including a premium), as a consequence of which the prospective average weighted interest **cost of Polsat Group's debt was reduced to 3.3%**.
- The main bank covenant – net debt/EBITDA based on the carrying amount and in relation to the reported LTM EBITDA amounted to **2.74x** in Q2'17.
- Key performance indicators in Q2'17:
 - Total number of RGUs at the level of **16.274m**, 82.5% of which are RGUs provided in the contract model
 - Contract customer base totaled **5.819m**
 - ARPU per customer increased by 1.4% YoY, to **PLN 89.6**, despite the unfavorable base effect (sale of UEFA Euro 2016 packages to retail customers) and the first effects of the RLAH regulation,
 - RGU saturation of **2.31** per customer with an upward trend,
 - Churn rate decreased to the level of **8.6%**.

Growth of the total base of contract services by ca **539K** YoY (4.2%):

- Increase of **252K** (3.8%) of mobile telephony RGUs is the result of the favorable effects of our multiplay strategy, supported in the transition -period by a more intensive migration of customers from the prepaid segment,
 - Growth of the number of pay TV RGUs by **203K** (4.4%), driven by continued demand for the Multiroom service, as well as good sales of paid OTT services,
 - Growth in the number of mobile Internet RGUs by **84K** (5.0%).
- Continuation of the multiplay strategy:
 - Opening of the multiplay offer also for customers with low-end TV subscriptions (former “Mini” segment) is reflected in higher growth dynamics of the multiplay customer base
 - Total number of RGUs contracted by multiplay customers amounts to 4.09m
 - Stable, low churn rate amounting to 8.6%, mainly thanks to our multiplay strategy.
 - Stabilization of the prepaid base with high ARPU:
 - All the SIM cards reported by Cyfrowy Polsat have been effectively registered, hence there is no effect of a "deferred cleaning of the base",
 - Elimination of one-time use cards from the base combined with the expiring effect of promotions related to registration resulted in a high positive dynamics of prepaid ARPU (PLN 20.5, +8.5% YoY).

Financial results of Cyfrowy Polsat Group

in mPLN	Q2'17	YoY change	Market consensus ¹	Difference
Revenue, incl.:	2,470	1%	2,450	0.8%
- Retail revenue	1,533	-3%	n/a	n/a
- Wholesale revenue	652	1%	n/a	n/a
- Sale of equipment	243	27%	n/a	n/a
- Other revenue	41	106%	n/a	n/a
Operating costs, incl.:	1,963	-4%	n/a	n/a
- Depreciation, amortization, impairment and liquidation	447	-15%	n/a	n/a
- Technical costs and cost of settlements with telecommunication operators	484	6%	n/a	n/a
- Cost of equipment sold	319	1%	n/a	n/a
- Content costs	298	-6%	n/a	n/a
- Distribution, marketing, customer relation management and retention costs	216	7%	n/a	n/a
- Salaries and employee-related costs	134	-3%	n/a	n/a
- Cost of debt collection services and bad debt allowance and receivables written off	16	0%	n/a	n/a
- Other costs	50	-27%	n/a	n/a
EBITDA	964	3%	939	2.6%
<i>EBITDA Margin</i>	39.0%	<i>0.7pp</i>	38.3%	<i>0.7pp</i>
EBIT	517	27%	466	<i>11.0%</i>
Net profit	282	22%	301	<i>-6.5%</i>

¹ based on estimates prepared by: BDM, Berenberg, BZ WBK, Citi, 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

	2Q		
	2017	2016	YoY change
Total number of RGUs (EOP) (contract + prepaid)	16,273,840	16,711,541	(2.6%)
CONTRACT SERVICES			
Total number of RGUs (EOP), including:	13,419,539	12,880,725	4.2%
Pay TV, including:	4,835,534	4,632,246	4.4%
<i>Multiroom</i>	1,058,982	972,771	8.9%
Mobile telephony	6,810,999	6,559,223	3.8%
Internet	1,773,006	1,689,256	5.0%
Number of customers (EOP)	5,819,386	5,862,310	(0.7%)
ARPU per customer [PLN]	89.6	88.4	1.4%
Churn	8.6%	9.0%	(0.4 pp)
RGU saturation per customer	2.31	2.20	5.0%
PREPAID SERVICES			
Total number of RGUs (EOP), including:	2,854,301	3,830,816	(25.5%)
Pay TV	57,183	73,544	(22.2%)
Mobile telephony	2,616,592	3,473,228	(24.7%)
Internet	180,526	284,044	(36.4%)
ARPU per prepaid RGU [PLN]	20.5	18.9	8.5%

- **The total number of services** provided by the Group both in the contract and prepaid models amounted to 16,273,840.
- At the end of Q2'17 the share of contract services in the total number of provided services was 82.5%. This indicator increased YoY from 77.1%.
- **Contract services:**
 - The total number of customers to whom we provided contract services amounted to 5,819,386 as at the end of Q2'17, which constitutes a decrease by 0.7% YoY. The main driver behind the decline of the contract customer base was the outflow of single-play customers, as well as the merging of contracts under one common contract for the household. In line with our strategic assumptions, we avoid conducting an aggressive sales policy on individual products and concentrate 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 538,814, that is by 4.2% YoY, to 13,419,539 as at the end of Q2'17. 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 4,835,534 as at end of Q2'17, which constitutes an increase by 203,288, or 4.4% YoY. This increase is due in particular to the growing popularity of our Multiroom service (YoY increase by over 86 thousand, to 1.06 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 251,776, or 3.8% YoY, reaching the level of 6,810,999 as the end of Q2'17. 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.
- In terms of mobile broadband, as at the end of Q2'17, we provided 1,773,006 RGUs in the contract model, that is by 83,750, or 5.0%, more than as the end of Q2'16. 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., selling 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 on an annual basis. In Q2'17 ARPU increased by 1.4% YoY, to PLN 89.6. ARPU in Q2'17 was negatively impacted by the levelling of retail roaming charges with domestic fees across the European Economic Area as of June 15, 2017 (the *Roam like at home* concept). We anticipate that this impact will be reflected to its full extent in ARPU dynamics starting from the third quarter of 2017, which may translate into a decelerated rate of growth of ARPU over the next four quarters.
- Our churn rate decreased by 0.4 percentage points, to 8.6% in the twelve-month period ended June 30, 2017, compared to 9.0% in the twelve-month period ended June 30, 2016. This is primarily the effect of the systematically growing loyalty of our customers connected with the successful implementation of our multiplay strategy.
- Our bundled services offer, based on a mechanism of offering attractive rebates on every additional product or service purchased from the Group's portfolio, 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 June 30, 2017, each customer in our customer base had on average 2.31 active contract services which constitutes an increase of 5.0% compared to 2.2 active contract services per customer as at June 30, 2016. 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.
- As at the end of Q2'17, already 1,374,291 customers were using our bundled offer, which constitutes an increase of 212,598 customers, or 18.3%, YoY. This means that the saturation of our customer base with multiplay services was at the level of 23.6% at the end of the second quarter of 2017. This group of customers had a total of 4,086,604 RGUs, by 647,128, or 18.8%, more than in the previous year. In Q2'17 we addressed the bundled services offer also to customers who subscribe to services in low-end tariffs, which should have a positive influence on the growth dynamics of the multiplay customer base as well as the blended level of ARPU across the entire customer base. Bearing in mind the long-term goal of our Group, that is the maximization of revenue per contract customer through cross-selling, our bundled services offer is perfectly in line with our strategy.

- **Prepaid services**

- The number of prepaid services provided by us at the end of Q2'17 decreased by 976,515, that is by 25.5% YoY. The year on year 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 validly registered. As opposed to other large operators on the Polish market, we decided to report only validly registered prepaid SIM cards as of February 1, 2017. This decision translated into an explicit stabilization of our reported volume statistics in the prepaid segment in Q2'17, as well as an improved level of APRU in this segment.
- In Q2'17 ARPU per prepaid RGU increased by 8.5% YoY to PLN 20.5. High growth dynamics of prepaid ARPU both in the second quarter and the first half of 2017 was, among other things, the effect of a significant elimination of SIM cards characterized by low ARPU (so called one-time use cards).

Broadcasting and television production segment

	Q2		
	2017	2016	YoY change
Audience share⁽¹⁾, including:	24.88%	25.34%	-0.46 pp
POLSAT (main channel)	12.61%	13.76%	-1.15 pp
Thematic channels	12.27%	11.58%	0.69 pp
Advertising market share²	27.6%	27.1%	0.5 pp
Television ad market expenditure³ (mPLN)	1,115	1,129	-1.2%

¹ NAM, All 16-49, all day, SHR%

² Our estimates based on Starcom data

³ Starcom, preliminary data, air time and sponsorship

- Viewership in line with the long-term strategy, in spite of the high base effect in 2016 related to the influence of UEFA EURO 2016.
- Despite the effect of a high base resulting from UEFA EURO 2016, revenue from TV advertising and sponsorship of TV Polsat Group in Q2'17 increased by 0.5% YoY (during this period the whole market was down by 1.2%) to PLN 307m, thanks to what our share in the TV advertising market increased by 0.5pp YoY to 27.6%.
- We maintain our expectations on a low single digit growth of the TV advertising and sponsorship market in 2017.