Analyst and investor briefing Q2'18

- Starting from January 1, 2018, the Group is obligated to apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The Group has decided to apply IFRS 15 retrospectively without restating the comparative figures for 2017. In order to ensure full comparability of the data for Q2'17 and Q2'18, financial figures in the income statement for Q2'18 have been presented in two ways: in accordance with the previously binding IAS 18 and in accordance with the newly applied IFRS 9 and IFRS 15.

- In the Management Board's opinion, when analyzing operational and financial results of the Group year-on-year, above all the comparability of applied accounting standards should be maintained. In particular, comparing the financial results for 2018, presented in accordance with IFSR 9 and IFRS 15, with the financial results for 2017, presented in accordance with the previously binding accounting standard (IAS 18), would lead, in the Management Board's opinion, to drawing the wrong conclusions concerning the Group's financial results.

- In Q2'18 Polsat Group's revenue based on hitherto applicable accounting standards and excl. Netia Group's results increased YoY by 0.3% to **PLN 2,477m (revenues after the implementation of IFRS 15 and incl. Netia Group's results amounted to PLN 2,603m)**. Revenue dynamics was mainly affected by the following factors:
  - The decrease of **retail revenue** was primarily due to lower revenue from voice services. The erosion of revenue from voice services resulted, among others, from the full implementation of the *Roam Like at Home* regulation, which imposed the levelling of retail roaming charges with domestic charges from June 2017, and the change in the model of offering equipment to retail customers. The decrease in retail revenue was partially compensated by higher revenue from pay TV and data transmission services.
  - The increase in **wholesale revenue was** primarily due to higher advertising revenue, resulting from the inclusion of new TV channels to the Group's portfolio as well as higher revenue from interconnection services, which in turn was the result of the increasing volume of traffic exchanged with other networks.
  - Slightly lower revenue from **sale of equipment**, mainly due to a lower volume of sales of end-user devices, which was also reflected in the lower cost of equipment sold.
- In Q2'18 Polsat Group's costs based on hitherto applicable accounting standards and excl. Netia Group's results amounted to **PLN 1,987m** and increased YoY by 1.2% **(costs after the implementation of IFRS 15 and incl. Netia Group's results amounted to PLN 2,127m)**. Their level was mainly influenced by the following factors:
  - Increase in **technical costs** mainly as a result of higher costs of purchasing traffic in international roaming, related to a significant increase in the volume of traffic generated by Poles travelling abroad (effect of the *Roam Like at Home* regulation), as well as higher interconnection costs due to a higher volume of calls terminated by our customers in networks of other operators.
  - Decrease in **amortization costs,** among others due to the termination of the amortization period of certain intangible assets, recognized upon the acquisition of Polkomtel in 2014, which was partially offset by the shortening of the amortization period of certain tangible assets.
  - Lower **cost of equipment sold** as a consequence of a lower volume of sales of end-user devices.
  - Increase in **content costs** was the result of higher cost of internal production due to, among others, recognizing the costs of the newly acquired TV channels, as well as higher license fees resulting from the growing popularity of "premium" type program packages among our pay TV customers.
  - Higher **salaries and employee-related costs** due to, among others, concluded acquisitions and the related increase in Group's headcount, an increase in the average salary per employee (including a bonus provision) as well as increased scope of trainings for employees).
- Revenue from advertising and sponsorship of TV Polsat Group increased by 4.5% YoY in Q2'18, to **PLN 321m**, while the whole market grew by 7.9%. The level of TV Polsat Group revenues was influenced by the strong impact of The FIFA World Cup 2018 Russia tournaments aired on open stations of TVP, the public service broadcaster, in June and July 2018.

- EBITDA of Polsat Group, based on hitherto applicable accounting standards and excl. Netia Group's results, amounted to **PLN 928m and** recorded a YoY decrease of 3.7% with an EBITDA margin of **37.5%**. **EBITDA after the implementation of IFRS 15 and incl. Netia Group's results amounted to PLN 946m with an EBITDA margin of 36.4%.** In Q2'18, EBITDA remained under the adverse effected of the *Roam Like at Home* regulation, which translated into a decrease in margins on international roaming services by PLN 22 million YoY.

- EBIT of Polsat Group, based on hitherto applicable accounting standards and excl. Netia Group's results, amounted to **PLN 488m** and decreased YoY by 5.5%. **EBIT after the implementation of IFRS 15 and incl. Netia Group's results amounted to PLN 476m.**

- Finance costs based on hitherto applicable accounting standards and excl. Netia Group's results decreased by 12.8% YoY, due to, among others, lower interest expenses on loans and bonds, resulting from the scheduled repayments of the Combined SFA during 2017, as well as our Group's consistent policy of deleveraging.

- Net profit of the Group, based on hitherto applicable accounting standards and excl. Netia Group’s results, decreased by 10.2% YoY to **PLN 253m**. **Net profit of the Group after the implementation of IFRS 15 and incl. Netia Group’s results amounted to PLN 231,4m.**
- Adjusted FCF after interest amounted to **PLN 394m** in Q2’18 (PLN **1,411m** in the twelve-month period).
- The main bank covenant – net debt/EBITDA LTM amounted to **2.91x** in Q2’18.
- Key performance indicators in Q2’18 (excl. consolidation of Netia Group’s results):
  - Total number of RGUs at the level of **16.699m**, 83.4% of which are RGUs provided in the contract model,
  - Contract customer base totaled **5.724m:**
    - ARPU per customer remained unchanged YoY at **PLN 89.6**,
    - **After applying the currently effective IFRS 15 standard**, reported contract ARPU amounted to **PLN 82.9** in Q2’18, **growing YoY by 2.1%** compared to PLN 81.2 in Q2'17,
    - RGU saturation of **2.43** per customer with an upward trend,
    - Low churn rate of **8.3%.**
  - Growth of the total base of contract services by **510K** YoY (3.8%):
    - Increase of **287K** (4.2%) of mobile telephony RGUs thanks to the positive effect of our multiplay strategy and good reception by customers of the new, simple tariffs launched by Plus in February 2018, supported by good sales in the B2B segment (m2m). The favorable balance of Mobile Number Portability to companies from Polsat Group has been maintained in recent months.
    - Growth of the number of pay TV RGUs by **192K** (4.0%), 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 **31K** (1.8%).
  - Continuation of the multiplay strategy:
    - Effective strategy results in the stable increase in the number of customers of bundled services by 83K QoQ in Q2’18,
    - The total number of customers using bundled offers exceeded the level of 1.66m,
    - The number of RGUs owned by customers of bundled services increased to 4.94m,
    - Very low churn level, mainly due to our multiplay strategy.
  - Stabilization of the prepaid base with high ARPU:
    - Stable prepaid base of 2.8m services, reflecting the actual number of users,
    - High ARPU at a stable high level of **PLN 20.4** in 2Q18.

Financial results of Cyfrowy Polsat Group based on currently applicable IFRS 15 standard and incl. Netia Group's results

in mPLN	Q2'18	Market consensus[1]	*Difference*
Revenue, incl.:	**2,603**	**2,561**	*1.6%*
- Retail revenue	1,482	n/a	n/a
- Wholesale revenue	738	n/a	n/a
- Sale of equipment	342	n/a	n/a
- Other revenue	41	n/a	n/a
Operating costs, incl.:	**2,127**	**n/a**	**n/a**
- Technical costs and cost of settlements with telecommunication operators	578	n/a	n/a
- Depreciation, amortization, impairment and liquidation	471	n/a	n/a
- Cost of equipment sold	282	n/a	n/a
- Content costs	323	n/a	n/a
- Distribution, marketing, customer relation management and retention costs	224	n/a	n/a
- Salaries and employee-related costs	169	n/a	n/a
- Cost of debt collection services and bad debt allowance and receivables written off	18	n/a	n/a
- Other costs	62	n/a	n/a
EBITDA	**946**	**927**	***2.1%***
EBITDA Margin	36.4%	36.2%	*0.2pp*
EBIT	476	449	*5.8%*
Net profit	231	260	*-11.1%*

[2] *Based on estimates prepared by: BDM, BZ WBK, DM BOŚ, DM mBanku, ERSTE, Haitong, Ipopema, Pekao Investment Banking S.A., PKO BP, RCB, Trigon, Wood&Co*

Financial results of Cyfrowy Polsat Group based on hitherto applicable accounting standards (MSR 18) excl. Netia Group's results

in mPLN	Q2'18	*YoY change*
Revenue, incl.:	**2,477**	***0%***
- Retail revenue	1,484	*-3%*
- Wholesale revenue	709	*9%*
- Sale of equipment	239	*-2%*
- Other revenue	46	*11%*
Operating costs, incl.:	**1,987**	***1%***
- Technical costs and cost of settlements with telecommunication operators	521	*8%*
- Depreciation, amortization, impairment and liquidation	439	*-2%*
- Cost of equipment sold	275	*-14%*
- Content costs	317	*6%*
- Distribution, marketing, customer relation management and retention costs	215	*0%*
- Salaries and employee-related costs	146	*9%*
- Cost of debt collection services and bad debt allowance and receivables written off	18	*12%*
- Other costs	55	*12%*
EBITDA	**928**	***-4%***
EBITDA Margin	37.5%	*-1.5pp*
EBIT	488	*-6%*
Net profit	253	*-10%*

Services to individual and business customers segment[2]

	Q2		
	2018	2017	*YoY change*
Total number of RGUs (EOP) (contract + prepaid)	**16,698,622**	**16,273,840**	***2.6%***
CONTRACT SERVICES			
Total number of RGUs (EOP), including:	**13,929,804**	**13,419,539**	***3.8%***
Pay TV, including:	5,027,520	4,835,534	*4.0%*
Multiroom	*1,127,285*	*1,058,982*	*6.4%*
Mobile telephony	7,098,239	6,810,999	*4.2%*
Internet	1,804,045	1,773,006	*1.8%*
Number of customers (EOP)	**5,724,492**	**5,819,386**	***(1.6%)***
ARPU per customer acc. to IAS 18 [PLN]	89.6	89.6	*0.0%*
ARPU per customer acc. to IFRS 15 [PLN]	82.9	81.2	*2.1%*
Churn	8.3%	8.6%	*(0.3 pp)*
RGU saturation per customer	2.43	2.31	*5.2%*
PREPAID SERVICES			
Total number of RGUs (EOP), including:	**2,768,818**	**2,854,301**	***(3.0%)***
Pay TV	59,722	57,183	*4.4%*
Mobile telephony	2,545,749	2,616,592	*(2.7%)*
Internet	163,347	180,526	*(9.5%)*
ARPU per prepaid RGU [PLN]	20.4	20.5	*(0.5%)*

- **The total number of services** provided by the Group both in the contract and prepaid models increased YoY by 2.6% to 16.698m.
- At the end of Q2’18 the share of contract services in the total number of provided services was 83.4%. This indicator increased YoY from 82.5%.
- **Contract services:**
  - The total number of customers to whom we provided contract services amounted to 5.724m as at the end of Q2’18, which constitutes a decrease by 1.6% YoY. The main driver behind the decline of the contract customer base was the further merging of contracts under one common contract for the household, which is reflected in the growing RGU saturation per customer ratio (increase by 5.2% YoY).
  - The number of contract services provided by us increased by 510K that is by 3.8% YoY, to 13.930m as at the end of Q2’18. We recorded growth in the number of all types of services provided in the contract model. We believe that further saturation of our customer base with integrated services, including our

[2] *KPIs regarding services to individual and business customers segment do not take into account the consolidation of the Netia Group's results.*

flagship product smartDOM to which we consistently add new products, will positively influence the growth of the number of contract RGUs provided by us in the future.

– The number of pay TV services provided in the contract model amounted to 5.028m as at the end of Q2’18, which constitutes an increase by 192K or 4.0% YoY. This increase is mainly due in particular to the growing popularity of our Multiroom service (YoY increase by nearly 68K, to over 1.1m RGUs), as well as to dynamically increasing sales of paid OTT services.

– The number of provided mobile telephony services in the contract model increased by 287K, or 4.2% YoY, reaching the level of 7.098m as at the end of Q2’18. This growth was driven by the successful implementation of our strategy of cross-selling and the introduction in February 2018 of new, attractive tariff plans addressed to contract customers, as well as by high demand among business customers (m2m services).

– In terms of mobile broadband, as at the end of Q2’18, we provided 1.804m RGUs in the contract model, that is increase by 31K, or 1.8% YoY.

– Based on the previous reporting standard IAS 18, in Q2’18 ARPU was at the same level as in Q2’17 and amounted to PLN 89.6.

– After applying the currently effective IFRS 15 standard, reported contract ARPU amounted to PLN 82.9 in Q2’18, growing YoY by 2.1% compared to PLN 81.2 in Q2'17.

– ARPU in Q2’18 was still 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 regulation). We anticipate that this impact will cease to adversely affect the rate of growth of contract ARPU in the quarters to come.

– Our churn rate amounted to 8.3% in the twelve-month period ended June 30, 2018, decreasing by 0.3 p.p. as compared to 8.6% in the twelve-month period ended June 30, 2017. This is primarily the effect of the high level of loyalty of our customers of bundled services resulting from the successful implementation of our multiplay strategy.

– Our bundled services offer, based on a mechanism of offering attractive discounts 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 churn rate, RGU saturation per customer rate and ARPU per contract customer. At the end of Q2’18, already 1.655m customers were using our bundled services, which constitutes an increase of 281K customers, or 20.4%, YoY. This means that the saturation of our contract customer base with multiplay services was at the level of 28.9% at the end of Q2’18. This group of customers had a total of 4.939m RGUs, that is by 853K or 20.9%, more than in the corresponding period of 2017. In Q1’18 we lifted entry thresholds for the smartDOM program, thus making our bundled services offering available to all customers on identical terms, which translated positively into the dynamics of growth of our multiplay services customer base and blended ARPU level for the total customer base.

- Prepaid services
  - The number of prepaid services provided by us as at the end of Q2'18 decreased by 85K, that is by 3.0% YoY, to 2.769m. The regulation implemented by the policymaker in 2016 imposed an obligation on customers to register newly purchased prepaid SIM cards which led to a significant decline in the number of new activations on the entire market. In parallel, thanks to the continuous unification of prices between tariff plans for contract and prepaid customers, a significant portion of them decided to use the contract services offering.
  - In Q2'18, average revenue per prepaid RGU (prepaid ARPU) amounted to PLN 20.4 as compared to PLN 20.5 in the corresponding period of 2017. The observed stabilization of ARPU in the prepaid services segment is in line with our expectations.

Broadcasting and television production segment

	Q2		
	2018	2017	*YoY change*
Audience share[(1)], including:	**24.16%**	**24.25%**	*-0.09pp*
POLSAT (main channel)	11.14%	12.61%	*-1.47pp*
Thematic channels	13.01%	11.64%	*+1.37pp*
Advertising market share[(2)]	**26.7%**	**27.6%**	***-0.9pp***
Market expenditures on TV advertising and sponsorship[(3)] (mPLN)	**1,204**	**1,115**	***+7.9%***
Revenue from advertising and sponsorship of TV Polsat Group[(4)] (mPLN)	**321**	**307**	***+4.5%***

[1] NAM, All 16-49, all day, SHR%
[2] Our estimates based on Starcom data
[3] Starcom, preliminary data, spot advertising and sponsorship
[4] Revenue from advertising and sponsorship of TV Polsat Group according to Starcom’s definition

- Polsat Group’s viewership in line with its strategy despite the temporary impact of The FIFA World Cup 2018.
- Revenue from TV advertising and sponsorship of TV Polsat Group in Q2’18 increased by 4.5% YoY to PLN 321m, and as a consequence our share in the TV advertising market reached 26.7%. The level of TV Polsat Group revenues was influenced by the strong impact of The FIFA World Cup 2018 Russia tournaments aired on open stations of TVP, the public service broadcaster, in June and July 2018.
- We maintain our expectations on the average single-digit growth rate of the TV advertising and sponsorship market throughout 2018.

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