Analyst and investor briefing Q4'18

- *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 Q4'17 and Q4'18, financial figures in the income statement for Q4'18 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 Q4'18 Polsat Group's revenue based on hitherto applicable accounting standards and excl. Netia Group's results increased YoY by 4.0% to **PLN 2,682 m (revenues after the implementation of IFRS 15 and incl. Netia Group's results amounted to PLN 3.002 m)**. Revenue growth was mainly affected by the following factors:
  - Stable level of **retail revenue** primarily due to lower revenue from voice services which was compensated by higher revenue from pay TV and data transmission services.
  - The increase in **wholesale revenue** was primarily due to higher advertising revenue and the inclusion of new TV channels to our wholesale offering, in particular the Eleven Sports Network and Polsat Sport Premium packages, which resulted in higher revenue from cable and satellite operators. Furthermore, we recorded higher revenue from the sale of programming sublicenses.
  - 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 Q4'18 Polsat Group's costs based on hitherto applicable accounting standards and excl. Netia Group's results amounted to **PLN 2,266 m** and increased YoY by 5.9% **(costs after the implementation of IFRS 15 and incl. Netia Group's results amounted to PLN 2,589 m)**. Their level was mainly influenced by the following factors:
  - Increase in **technical costs** resulted mainly from higher costs of telecommunications network maintenance, in particular due to higher provisions for the cost of electricity.
  - Increase in **content costs** was mostly the result of higher cost of internal and external production and amortization of sports rights due to, among others, the consolidation of the Eleven Sports Networks channels and the launch of the Polsat Sport Premium channels broadcasting, among others, football games of the UEFA Champions League and the UEFA Europa League.
  - Decrease in the **cost of equipment sold** as a consequence of a lower volume of sales of end-user devices.
  - Increase in **distribution, marketing, customer relation management and retention costs** was mainly due to the intensification of marketing campaigns, including those related to football games of the UEFA Champions League and the UEFA Europa League and to Eleven Sports Network.
  - Higher **salaries and employee-related costs** due to 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 4.8% YoY in Q4'18, to **PLN 370m**, while the whole market grew by 2.4%. As a result of a 2 times higher dynamics of advertising revenue of TV Polsat channels compared to ad market, the Group's market share increased to 27.7%.
- EBITDA of Polsat Group, based on hitherto applicable accounting standards and excl. Netia Group's results, amounted to **PLN 847m** and recorded a YoY decrease of 3.0%, with an EBITDA margin of **31.6%**. **EBITDA after the implementation of IFRS 15 and incl. Netia Group's results amounted to PLN 941m with an EBITDA margin of 31.4%.**
- EBIT of Polsat Group, based on hitherto applicable accounting standards and excl. Netia Group's results, amounted to **PLN 416m** and decreased YoY by 5.0%. **EBIT after the implementation of IFRS 15 and incl. Netia Group's results amounted to PLN 419m.**
- Finance costs, net based on hitherto applicable accounting standards and excl. Netia Group's results increased by 7.5% YoY. This increase was due to a change in valuation of transactions hedging interest rate risk executed under the Group's hedging policy.
- Net profit of the Group, based on hitherto applicable accounting standards and excl. Netia Group's results, decreased by 63.2% YoY to **PLN 58m**. **Net profit of the Group after the implementation of IFRS 15 and incl. Netia Group's results** amounted to PLN 65m. Net profit was adversely impacted by a one-off, non-cash change in the balance of deferred income tax liabilities (PLN 162.6 million in Q4'18) of which the Company informed in the current report.

- Adjusted FCF after interest amounted to **PLN 564m** in Q4’18 (PLN **1,495m** in the twelve-month period).
- The main bank covenant – net debt/EBITDA LTM fell to **2.73x** in Q4’18.
- Key performance indicators in Q4’18 (excl. consolidation of Netia Group’s results):
  - Total number of RGUs at the level of **16.906m**, 84.3% of which are RGUs provided in the contract model,
  - Contract customer base totaled **5.706m:**
    - **After applying the currently effective IFRS 15 standard**, reported contract ARPU amounted to **PLN 84.0** in Q4’18, **growing YoY by 2.6%** compared to PLN 81.9 in Q4'17,
    - Contract ARPU based on previously applicable accounting standards IAS 18 **increased by 1.7% YoY, to PLN 90.5,**
    - RGU saturation of **2.50** per customer with an upward trend,
    - Churn in a downward trend, reaching a record low level of **7.6%.**
  - Growth of the total base of contract services by **574K** YoY (4.2%), incl. 202K in Q4’18 alone (high sales season):
    - Increase of **413K** (6.0%) 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).
    - Growth of the number of pay TV RGUs by **156K** (3.2%), driven by continued demand for the Multiroom service, as well as good sales of paid OTT services,
    - Stable base of mobile internet services.
  - Continuation of the multiplay strategy:
    - Effective strategy results in the stable increase in the number of customers of bundled services by 68K QoQ in Q4’18,
    - The total number of customers using bundled offers exceeded the level of 1.80m,
    - The percentage of customers using multiplay packages reached 31.5%,
    - The number of RGUs owned by customers of bundled services increased to 5.38m,
    - Record low churn (7.6%), mainly thanks to our multiplay strategy.
  - Stable, high prepaid ARPU with structural change in terms of the base:
    - Prepaid base of 2.6m services, under the influence of seasonal factors and the decision to sell the a2mobile brand,
      - A2mobile customers are still served by the Polkomtel network, they will generate wholesale revenue.
    - High, stable ARPU at PLN **20.3** in Q4'18.

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

in mPLN	Q4’18	Market consensus[1]	*Difference*
Revenue, incl.:	**3,002**	**2,944**	*2.0%*
- Retail revenue	1,628	n/a	n/a
- Wholesale revenue	928	n/a	n/a
- Sale of equipment	398	n/a	n/a
- Other revenue	48	n/a	n/a
Operating costs, incl.:	**2,589**	**n/a**	**n/a**
- Technical costs and cost of settlements with telecommunication operators	691	n/a	n/a
- Depreciation, amortization, impairment and liquidation	522	n/a	n/a
- Cost of equipment sold	338	n/a	n/a
- Content costs	424	n/a	n/a
- Distribution, marketing, customer relation management and retention costs	269	n/a	n/a
- Salaries and employee-related costs	239	n/a	n/a
- Cost of debt collection services and bad debt allowance and receivables written off	20	n/a	n/a
- Other costs	87	n/a	n/a
EBITDA	**941**	**927**	*1.5%*
EBITDA Margin	31.4%	31.5%	*-0.1pp*
EBIT	419	405	*3.5%*
Net profit	65	95*	*-31.6%**

* Please note that some of the net profit forecasts included in the 4Q'18 consensus did not take into account the impact of a one-time non-cash event concerning the change in the deferred tax liability, which resulted in a decrease of net profit by PLN 162.6 m, of which the company informed in the current report on January 23, 2019.

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

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

in mPLN	Q4'18	*YoY change*
Revenue, incl.:	**2,682**	***4%***
- Retail revenue	1,485	*-1%*
- Wholesale revenue	860	*17%*
- Sale of equipment	286	*-4%*
- Other revenue	51	*9%*
Operating costs, incl.:	**2,266**	***6%***
- Technical costs and cost of settlements with telecommunication operators	560	*5%*
- Depreciation, amortization, impairment and liquidation	431	*-1%*
- Cost of equipment sold	332	*-7%*
- Content costs	407	*27%*
- Distribution, marketing, customer relation management and retention costs	266	*9%*
- Salaries and employee-related costs	184	*12%*
- Cost of debt collection services and bad debt allowance and receivables written off	19	*81%*
- Other costs	68	*-8%*
EBITDA	**847**	***-3%***
EBITDA Margin	31.6%	*-2.2pp*
EBIT	416	*-5%*
Net profit	58	*-63%*

Services to individual and business customers segment[2]

	4Q		
	2018	2017	*YoY change*
Total number of RGUs (EOP) (contract + prepaid)	16,906,133	16,522,597	*2.3%*
CONTRACT SERVICES			
Total number of RGUs (EOP), including:	14,259,264	13,685,044	*4.2%*
Pay TV, including:	5,098,917	4,942,640	*3.2%*
Multiroom	*1,160,353*	*1,099,582*	*5.5%*
Mobile telephony	7,345,213	6,932,676	*6.0%*
Internet	1,815,134	1,809,728	*0.3%*
Number of customers (EOP)	5,706,147	5,776,598	*(1.2%)*
ARPU per customer acc. to IFRS 15 [PLN]	84.0	81.9	*2.6%*
ARPU per customer acc. to IAS 18 [PLN]	90.5	89.0	*1.7%*
Churn	7.6%	8.8%	*(1.2 pp)*
RGU saturation per customer	2.50	2.37	*5.5%*
PREPAID SERVICES			
Total number of RGUs (EOP), including:	2,646,869	2,837,553	*(6.7%)*
Pay TV	95,685	79,561	*20.3%*
Mobile telephony	2,423,774	2,579,613	*(6.0%)*
Internet	127,410	178,379	*(28.6%)*
ARPU per prepaid RGU [PLN]	20.3	20.1	*1.0%*

- **The total number of services** provided by the Group both in the contract and prepaid models increased YoY by 2.3% to 16.906m.
- At the end of Q4’18 the share of contract services in the total number of provided services was 84.3%. This indicator increased YoY from 82.8%.
- **Contract services:**
  - The total number of customers to whom we provided contract services amounted to 5,706m as at the end of Q4’18, which constitutes a decrease by 1.2% 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 5.5% YoY).
  - The number of contract services provided by us increased by 574K, that is by 4.2% YoY, to 14.259m as at the end of Q4’18. 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 5.099m as at the end of Q4'18, which constitutes an increase by 156K or 3.2% YoY. This increase is mainly due in particular to the growing popularity of our Multiroom service (YoY increase by nearly 61K, to over 1.2m 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 413K, or 6.0% YoY, reaching the level of 7.345m as at the end of Q4'18. 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 Q4'18, we provided 1.815m RGUs in the contract model, that is increase by 5K, or 0.3% YoY. Slower growth dynamics is associated, among others, with the gradual saturation of the market with dedicated mobile Internet access services and constantly growing popularity of data transmission in mobile telephony tariff plans (smartphones).
- After applying the currently effective IFRS 15 standard, reported contract ARPU amounted to PLN 84.0 in Q4'18, growing YoY by 2.6% compared to PLN 81.9 in Q4'17.
- Based on the previous reporting standard IAS 18, in Q4'18 ARPU increased by 1.7% to PLN 90.5.
- Our churn rate amounted to 7.6% in the twelve-month period ended December 31, 2018, decreasing by 1.2 pp as compared to 8.8% in the twelve-month period ended December 31, 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 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 churn rate, RGU saturation per customer rate and ARPU per contract customer. At the end of Q4'18, already 1.796m customers were using our bundled services, which constitutes an increase of 285K customers, or 18.9%, YoY. This means that the saturation of our contract customer base with multiplay services was at the level of 31.5% at the end of Q4'18. This group of customers had a total of 5,385m RGUs, that is by 865K, or 19.1%, more than in 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. Bearing in mind the long-term goal of our Group - 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 as at the end of Q4'18 decreased by 191K, that is by 6.7% YoY, to 2.647m. We strive to grow the number of customers using our contract services by, among others, encouraging the customers of prepaid services to choose our contract tariff plans. Furthermore, in Q4'18 we decided to join the customers using the prepaid services provided by our subsidiary Aero 2 under the "a2mobile" brand to Premium Mobile, a company in which we hold a minority stake, which was reflected in Q4 2018 results. Due to that, starting from the fourth quarter of 2018 the services used by customers of the "a2mobile" brand are not included into the above provided data while we obtain additional wholesale revenue from servicing the traffic generated by these customers. In parallel, thanks to the continuous unification of prices between tariff plans for the contract and prepaid customers, a significant portion of them decided to use the contract services offering.
  - In Q4'18, average revenue per prepaid RGU (prepaid ARPU) amounted to PLN 20.3 as compared to PLN 20.1 in the corresponding period of 2017.

Broadcasting and television production segment

	Q4		
	2018	2017	*YoY change*
Audience share[(1)], including:	24.17%	23.87%	*0.30pp*
POLSAT (main channel)	11.07%	12.04%	*(0.97pp)*
Thematic channels	13.10%	11.82%	*1.28pp*
Advertising market share[(2)]	27.7%	27.1%	*0.6pp*
Market expenditures on TV advertising and sponsorship[(3)] (mPLN)	1.335	1.304	*2.4%*
Revenue from advertising and sponsorship of TV Polsat Group[(4)] (mPLN)	370	353	*4.8%*

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

- Polsat Group and its main channel are the viewership leaders in the commercial group.
- Revenue from TV advertising and sponsorship generated by Polsat Group grew by 4.8%, i.e. 2x faster than the TV advertising and sponsorship market, as a result, our share in the TV advertising and sponsorship market increased to 27.7%.
- We expect the TV advertising and sponsorship market will show a low single-digit increase in 2019.