

*The Group expects to attract 90,000 customers by 2022 by expanding outside local markets*

## **The Euskaltel group posts a net profit of Euros 46.4 million, up 41%**

***The Group announces an interim dividend of Euros 0.14 per share, 10% more than the previous year***

- ***The Group's revenue is up 17.4% to Euros 521.1 million in the first nine months of 2018.***
- ***Ebitda increased 15.3% to over Euros 252.9 million in the third quarter with a revenue margin of 48.5%.***
- ***Operating cash flow rises to Euros 148.8 million with a 28.5% revenue margin, which would rise to 32.4% if the Group's integration and expansion plans were not taken into consideration.***
- ***The Euskaltel Group's net profit at 30 September 2018 is therefore Euros 46.4 million, up 41% compared to the first nine months of 2017.***
- ***Euskaltel, R and Telecable customers have contracts for over 2,363 million products, representing 39,000 new contracts this year.***
- ***Business segment performance confirms this year's positive trend with revenue growth of 0.3%, hitting Euros 143.4 million.***
- ***As a result of the company's convergent strategy, the number of high-value customers with 3P and 4P contracts stands at 69% of all customers, representing an average of 3.6 products per user.***
- ***Record penetration rates for all products across the customer base: broadband– 85.9%, an increase of 15 basis points–, mobile phones– 80.2%, an increase of 10 basis points–, pay TV– 70.9%, an increase of 36 basis points–, compared to the first half of 2018.***
- ***September has seen a positive trend in terms of customer base growth with 1,100 new net customer registrations.***
- ***The residential segment has posted a 0.5% increase in revenues in the latest quarter compared to the previous quarter.***

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- *The operator now has over 2,000 customers in Navarre, where it expects to forge ahead with its forecast expansion plan by opening new sales points and attract over 4,000 new customers in this region by the end of the year.*
- *The Group expects to attract 90,000 new customers by 2022 through its plan to expand outside local markets.*
- *In accordance with the company's commitment to maintaining a sustained and growing shareholder remuneration policy, the Euskaltel Group's Board of Directors has approved the distribution of an interim dividend of Euros 0.14 per share, an increase of 10% compared to the previous year. The payment date will be February 2019.*
- *The final dividend to be paid against 2018 results will be determined at the General Shareholders' Meeting to be held in 2019.*
- *As the profit per share over the first nine months of the year stands at Euros 0.26, up 41%, the Euskaltel Group expects the total 2019 dividend to experience double-digit growth compared to the previous year, as announced to the market.*

**Bilbao, 5 November 2018.** The Euskaltel Group, comprising Euskaltel, R and Telecable, has this morning announced its results for the third quarter of 2018, confirming the solid growth seen throughout the year. The Group's revenue is up 17.4% increasing turnover to Euros 521.1 million while net profit stands at Euros 46.4 million, which is 41% higher than in the first nine months of last year.

Ebitda hit Euros 252.9 million, up 15.3% compared to the third quarter of the prior year with a 48.5% revenue margin, which rises 61 basis points due to the announced synergies and efficiency measures.

Operating Cash Flow (the difference between Ebitda and investments) stands at Euros 148.8 million with a 28.5% revenue margin, which would have risen to 32.4% if the Group's integration and expansion plans had not been taken into consideration, compared to 31.3% in the first half of the year. Overall, the Euskaltel Group has generated Euros 85 million of free cash flow during the first nine months of the year, which is nearly 17% of revenue. The Euskaltel Group is a market leader in Cash Flow and Ebitda generation.

## **Positive expansion progress**

The Euskaltel Group's expansion plan, which was set in motion this year, is progressing satisfactorily. The operator now has over 2,000 customers in Navarre, where it expects to forge ahead with its expansion plan by opening new sales points, aiming to exceed 4,000 new customers in this region by the end of the year, as announced to the market.

This expansion experience in Navarre has highlighted the Group's technical expertise in providing fibre to home solutions and IPTV via a third party network, as a result of the strategic agreement with Orange that gives the Euskaltel Group access to 10 million homes across Spain.

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The Euskaltel Group has announced growth forecasts for its plan to expand beyond its local markets, a total of 700,000 homes, where it expects to attract 90,000 new clients by 2022. Similarly, the Group has updated its business plans due to results and new business opportunities and it expects revenue generated in the new territories to be around 8% of the Group's total revenues in 2022.

Furthermore, with regards the deployment of its network in regions within the Group's local markets where there was still no access to services, Euskaltel, R and Telecable will provide access to services for 100,000 new homes.

During the third quarter the Group has also continued to modernise the quality and capacity of its network, rolling out Docsis 3.1 technology. This improvement will ensure that Euskaltel's network offers customers the highest speeds and most advanced products and services. At today's presentation, the Euskaltel Group announced that it is about to finalise the Docsis 3.1 roll-out across all its markets, strengthening Euskaltel, R and Telecable's long-term technological competitiveness.

## **Business segment growth**

In terms of the business segment, it is important to note the performance posted in these first nine months of the year, which confirms the positive trend seen at the end of last year with revenue growth of 0.3% up to Euros 143.4 million. This reverses the trend seen over the last few years and lays the foundations for future growth in the business segment.

This growth in both revenues and customers -in line with announcements made to the market-, is based on new contracts in the SME and large account segments thanks to the new sales initiatives aimed at SMEs and the strategic alliance signed in the first quarter of the year with Microsoft, which consolidates the Euskaltel Group's position and strength as the lead operator in the digital transformation of companies. In line with the forecasts announced, large account revenues increased over 9% during last year.

As part of the digital transformation projects the Group expects to put into action in the coming quarters, it is important to note that R has been awarded the development and execution phases of the Smart City project for the city of Lugo.

## **39,000 new contracts and record penetration rates in broadband, mobile phones and TV**

The first nine months of the year have seen good progress in contracts for products by Group users. Euskaltel, R and Telecable customers have contracts for over 2,363 million products, representing 39,000 new contracts this year.

During the year, there have been 32,528 new lines. The TV segment has seen 13,555 new customers and the number of contracts for broadband products has increased by 4,024.

Progress in contracts for services and products in the residential segment is evidenced by the record penetration rates for all products across the customer base: broadband- 85.9%, an increase of 15 basis points-, mobile phones- 80.2%, an increase of 10 basis points-, pay TV- 70.9%, an increase of 36 basis points-, compared to the first half of 2018.

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As a result of the company's convergent strategy, the number of high-value customers with 3P and 4P contracts stands at 69% of all customers, representing an average of 3.6 products per user.

The third quarter of the year has witnessed fierce competition within the industry, namely the intense "war" between operators to acquire football content which began during the summer and has had an impact on the entire market. The Euskaltel Group was the first operator to remove the football supplement on TV so as to avoid burdening customers with additional costs. This, coupled with Telecable's decision not to broadcast the Champions League on its TV platform due to the increasing cost of TV broadcasting rights, has meant that the Group's customer base has remained pretty steady over the first nine months of the year. Net growth in residential customers in the first nine months of the year dropped slightly by 0.3%.

Having overcome the negative impact of football shown on TV during the summer, growth in the residential segment in September has shown a positive trend for the Group with 1,100 new net customer registrations.

Revenue over this last quarter in the residential segment has been positive with growth of 0.5% compared to the previous quarter.

## **Double-digit dividend growth**

The Euskaltel Group continues to stand out for its leading profitability margins in the industry, holding on to its dominant position in Europe in terms of the cash conversion ratio with a high revenue margin of 28.5% -this figure would be 32.4% if the Group's integration and expansions plans weren't taken into consideration-. This high cash flow conversion is mainly due to the Group having its own next generation fibre optic network and to the operator's business strategy, which allows it to concentrate its capital investments on maintenance and customer acquisition.

As a result of this solid cash generation capacity and in accordance with the company's commitment to maintaining a sustained and growing shareholder remuneration policy, the Euskaltel Group's Board of Directors has approved the distribution of an interim dividend against 2018 results for a gross amount of Euros 0.14 per share, an increase of around 10% compared to the previous year. The payment date will be February 2019.

The final dividend to be paid against 2018 results will be determined at the General Shareholders' Meeting to be held during the first half of 2019.

As the profit per share over the first nine months of the year stands at Euros 0.26, up 41%, the Euskaltel Group expects double-digit dividend growth compared to the previous year as announced to the market in its previous message to investors.

## Assessment by the CEO, Francisco Arteche. Long-term strategic vision

Having stated that 2018 and 2019 will be transition years, Francisco Arteche, the Euskaltel Group's CEO, detailed the Group's long-term strategy during the Q3 presentation of results, which is based on four pillars:

*"Firstly, we are strongly committed to giving our customers the best experience: the best broadband experience, based on the highly technological capacity of the DOCSIS 3.1 network, coupled with the best Wi-Fi experience in homes, companies and on the street; the best TV experience backed up by the 4K decoder and the agreements we're signing with global content leaders, such as Netflix; and the best mobile phone offers for families living in our markets. Thanks to this improved overall experience, we continue to be the preferred operator in our markets, ensuring a stable customer base".*

Secondly, Arteche highlighted the business segment growth, *"where we're able to continue growing as a result of a unified sales strategy and the launch of new products and services relating to the digital transformation of companies".*

Thirdly, he emphasised the process to transform and simplify the operating model by unifying and digitising processes, as announced at the 2017 investor day. *"Our networks and platforms converge to make processes much simpler, standardising and improving the services offered to our customers".*

The fourth cornerstone of the Euskaltel Group's strategy is its expansion. *"The first steps taken beyond our local markets have shown our ability to strongly penetrate new markets using an efficient CAPEX model. This initial success has encouraged us to increase our plans for expansion both in terms of geographical area and commercial penetration".*

As noted during previous public appearances, Arteche emphasised that 2018 and 2019 are transition years for the Group. *"In 2018 we are still recovering from the fall in our residential customer base seen in 2017. Once customer base growth stabilises in 2019, our residential segment revenues will once again rise".*

In terms of cash generation, as previously announced to the market, the Group's integration and expansion plans require efforts in investment. The Euskaltel Group's CEO mentioned that 2018's free cash flow will be greater than last year's and he announced that free cash flow in 2019 will grow above the level expected at this year's close.

Arteche commented that *"this strategy and our results, coupled with a strong focus on long-term sustainability and the creation of shareholder value, are the keys to our management".*

Francisco Arteche concluded by saying that *"we will continue working to hold on to our lead position in our traditional markets and to become a key player in the new territories we are forging into. All of this we shall do without losing sight of our main objective: to maintain a sound capacity for cash generation in order to maximise the value we create for our shareholders".*

*“ The commercial results of the expansion are a success. We can today announce that we have updated our expansion plans and we are confident that the new territories will represent around 8% of our revenues in 2022. ”*

*“ We will continue working to hold on to our lead position in our traditional markets and to become a key player in the new territories we are forging into. ”*

*“ In the business segment, it is important to note the positive performance, which confirms the trend seen at the end of last year with revenue growth of 0.3% up to Euros 143.4 million, auguring well for the future. ”*

*“ Despite fierce competition within the industry, highlighted by the war to purchase Pay TV football content and aggressive pricing campaigns, we have stuck to our principles and our customer base has held steady over the first nine months of the year. ”*

*“ Our strategy and the results achieved, coupled with a strong focus on long-term sustainability and the creation of shareholder value, are the keys to our management. ”*

*“ We continue to be committed to a sustainable and growing shareholder remuneration strategy. There is double-digit dividend growth compared to last year. ”*