Euskaltel – Third Quarter 2015 Results

28 October 2015

Executive summary (i/iv)

Key financials for the 9-month period ended September 30th, 2015 and 2014

	3Q15	3Q15 Adjusted (**)	3Q14	3Q15 adjusted vs 3Q14	%3Q14
Total Revenue	**244.4**	**244.4**	**239.0**	**5.4**	**2.3%**
Residential	151.5	151.5	146.1	5.4	3.7%
Business	69.0	69.0	70.4	(1.4)	-2.0%
Wholesale & Other	17.3	17.3	17.3	0.0	0.1%
Others (*)	6.6	6.6	5.2	1.4	27.3%
Ebitda	**103.9**	**116.7**	**112.3**	**4.4**	**3.9%**
Ebitda Margin	*42.5%*	*47.7%*	*47.0%*	*0.8 pp*	
OpFCF	**75.3**	**88.1**	**86.3**	**1.8**	**2.0%**
conversion rate	*72.5%*	*75.5%*	*76.9%*	*-1.4 pp*	
Net Income	**(3.3)**	**36.0**	**25.6**	**10.4**	**40.7%**
Net Financial Debt	**449.8**		**266.6**	**183.2**	**68.7%**
Net Debt / Ebitda	2.8x		1.7x	1.1x	

(*) Profit neutral operations

(**) Excluded costs related to the IPO process, debt cancellation and the acquisition of R Cable.

Executive summary (ii/iv)

Business: Inflexion point in revenue

- Total revenue for the period ended September 30th, 2015, have been €244.4mn vs €239.0mn, +€5.4mn (+2.3% YoY). This represents an increase in revenue for the first time since 2012, consolidating the positive revenue performance in the third quarter of 2015 compared to 2014.
- Residential revenue continues with the positive trend of the previous months and amounted to €151.5mn showing a +3.7% YoY growth on the 9-month period ended September 2015. This growth has been mainly driven by (i) a lower churn ratio (churn fell to 13.9% from 14.3% in 2014), (ii) an improved GARPU (Global ARPU grew by €2.18 YoY up to €55.75) and (iii) an ongoing increase in mobile customer penetration rate. In terms of fixed customers in 2015, both the number of customers and the number of RGUs per customer have slightly increased vs. 2014 (from 279,212 to 279,353 and 2.23 to 2.25 respectively). With regards to mobile postpaid customers in 2015, the number of customers increased by 40,987 (+26.6%) while the number of RGUs per customers also grew from 1.78 to 1.81.
- The business segment has shown total revenue in September 2015 YTD of €69.0mn, -2.0% YoY. This trend is stabilizing quarter after quarter, namely: -4.8% in the first quarter, -0.5% in the second quarter and -0.5% in the third quarter, mainly driven by an accelerated revenue growth in SoHo and the stabilization in SMEs and Large Accounts segments.
- Other Revenue is in line with 2014 levels, despite the negative evolution of Wholesale revenues on the back of regulatory changes in the last quarter of 2014.

Executive summary (iii/iv)

Margins and Profitability: strong performance in operating results

- EBITDA for the 9-month period ended September 2015 amounted to €103.9mn. This result includes expenses related to the IPO process and the acquisition of R Cable. Excluding these expenses, adjusted EBITDA amounted to €116.7mn, +3.9% YoY, being the adjusted EBITDA margin 47.7%, +70bps YoY. This margin increase is mainly driven by the successful management of operating costs and, in particular, interconnection costs despite the increase in data traffic.
- Financial result was negative amounting to €50.3mn, compared to €17.6mn for the same period of the previous year. The negative amount as of September 2015 includes the extraordinary costs associated with the IPO process, debt refinancing and the acquisition of R Cable.
- Net income for the first nine months was negative of €3.3mn, again as a result of the extraordinary costs. Excluding these extraordinary items, the adjusted net income for the period would have been +€36.0mn, compared with +€25.6mn for the nine months ended September 30th, 2014.

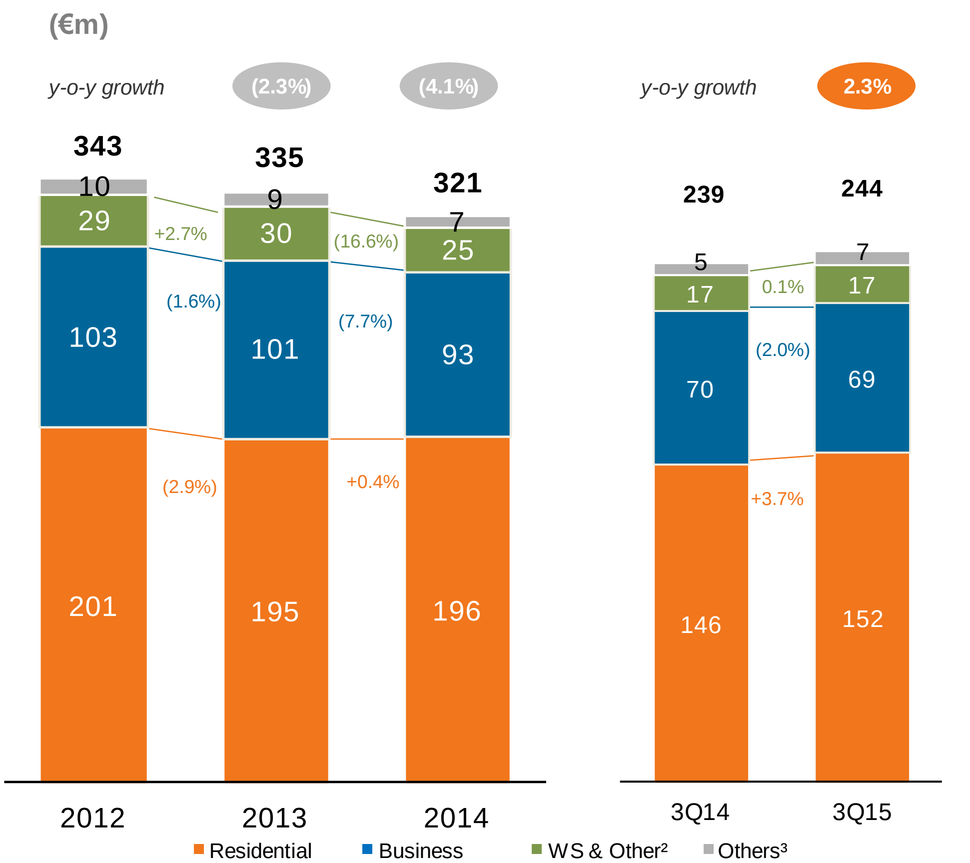
Executive summary (iv/iv)

Cash Flow and net debt: Strong cash flow conversion and capital structure optimization

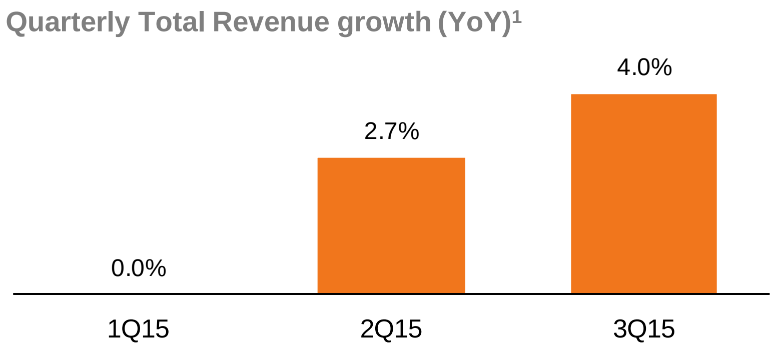
- We generated adjusted FCF of €57.2mn during the period
- Capex for the 9-month ended September 2015 was €28.6mn, equivalent to 12.0% of revenue, in line with the same period of the previous year.
- Adjusted OFCF (adjusted EBITDA - Capex) amounted to €88.1mn, representing a conversion rate of 75.5% on the adjusted Ebitda.
- Net financial debt at the end of the third quarter amounted to €449.8mn, representing a leverage ratio of 2.8 times the adjusted LTM EBITDA, significantly below to the average of our European peers.

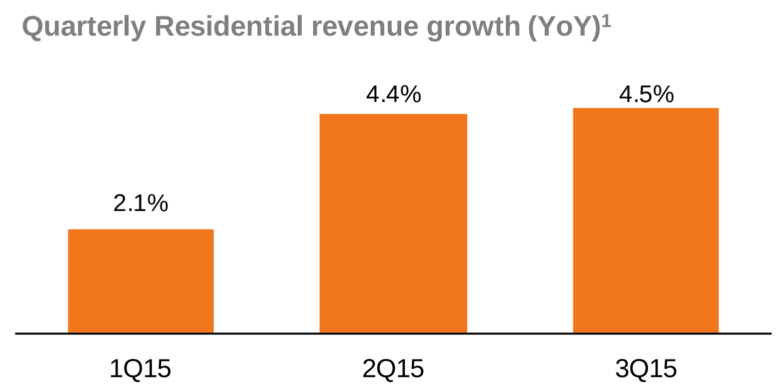
Top-line inflexion point led by Residential segment

Growth in revenues after inflexion point reached in 1Q15



Accelerating growth momentum driven by Residential segment



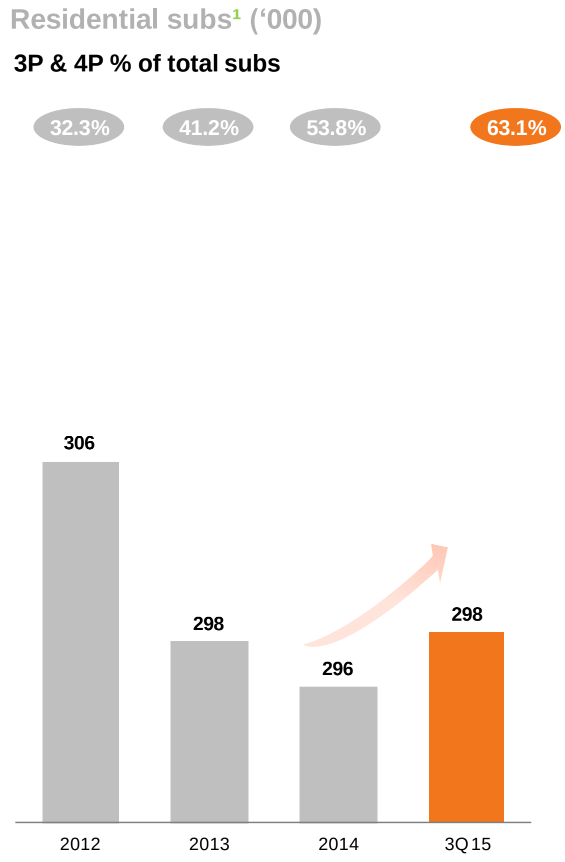


Notes:

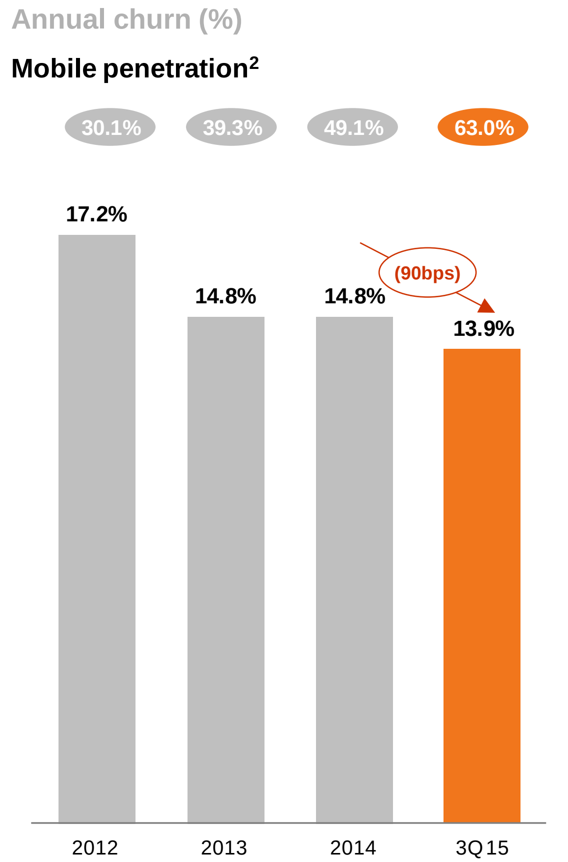
1. In accordance with management accounts prepared under Spanish GAAP
2. Mainly includes RACC, services to Telecable, other corporate revenue and Other income and Work performed by the entity and capitalized
3. Profit neutral operations

Residential: Continuous growth momentum in 3Q15

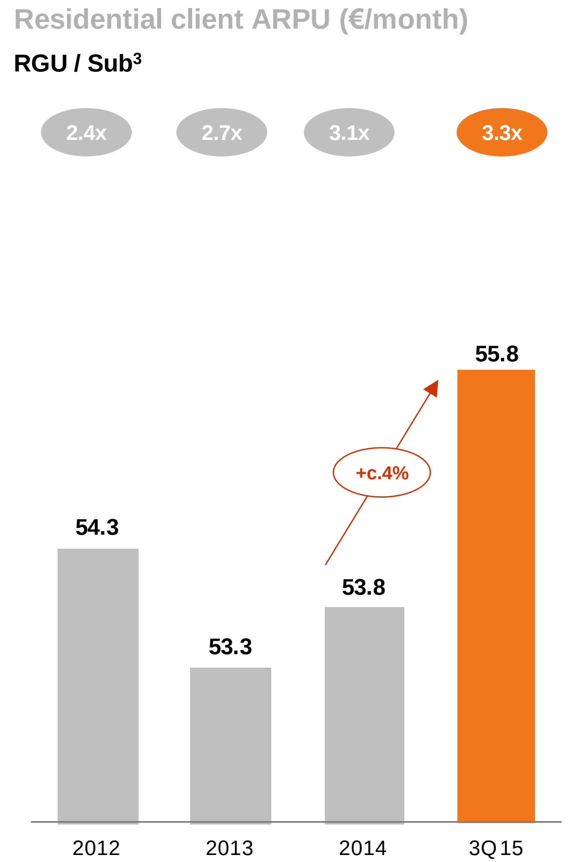
Inflexion point in Residential subs



Low and stable churn



Significant ARPU rebound

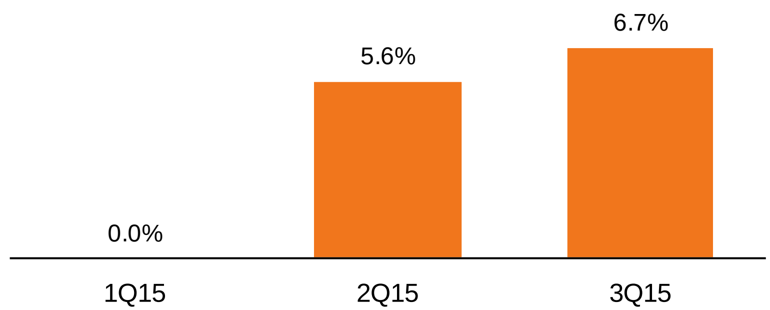


Notes:
(1) Includes mobile-only subscribers
(2) Residential fixed customers with mobile (excl. mobile-only) as percentage of total residential fixed subscriber
(3) RGU/sub calculated excluding mobile-only customers

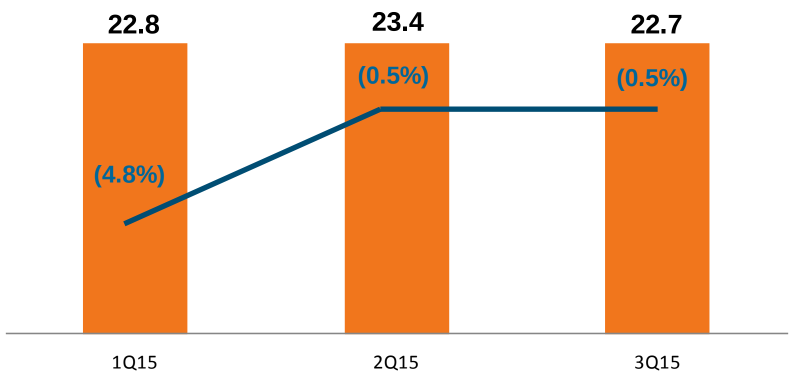
Top-line stabilization point on Business segment

Accelerating growth momentum in SoHo and recovery in SME´s and LA's

Quarterly SoHo revenue growth (YoY)

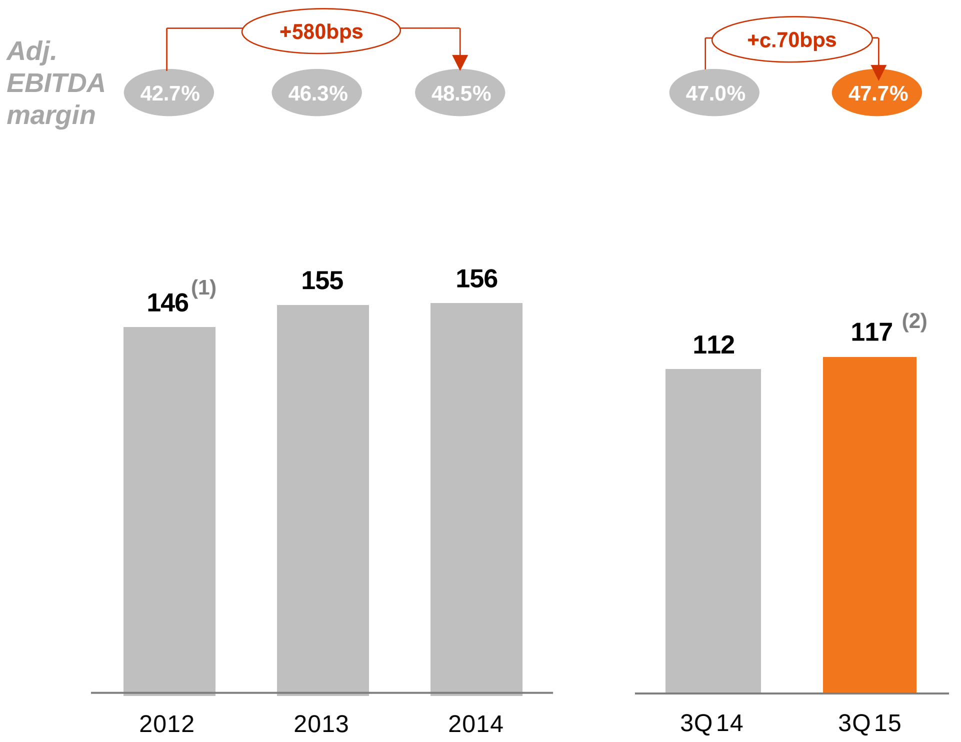


Quarterly Total Business revenue (€m) and YoY growth

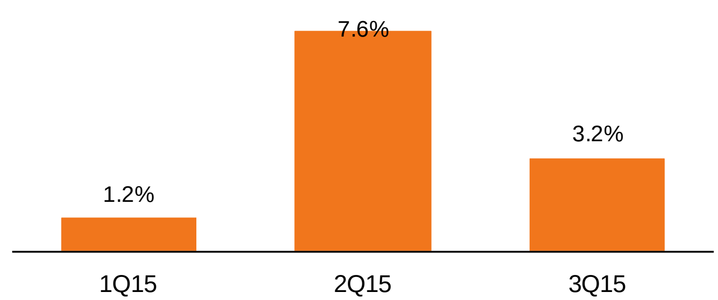


Strong Adjusted EBITDA performance

Adj. EBITDA (€m)



Quarterly adjusted Ebitda growth (YoY)2



Notes:

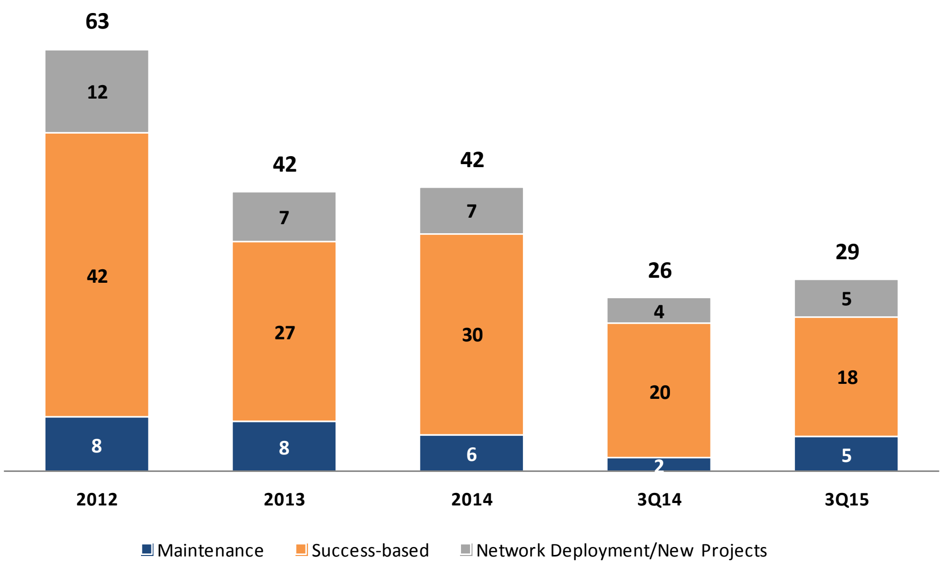
1. Adjusted EBITDA in FY2012 adjusted (to be like-for-like with 2013 and 2014) for €11.6m of capitalised SAC which were expensed. Adjusted EBITDA in 2012 was €135m
2. Adjusted EBITDA in 2015 adjusted for the costs related to the IPO process and the acquisition of R Cable.

Capex largely linked to commercial success

As % of revenue

2012	2013	2014	3Q14	3Q15
18%	12%	13%	11%	12%

Capex[1] (€m)



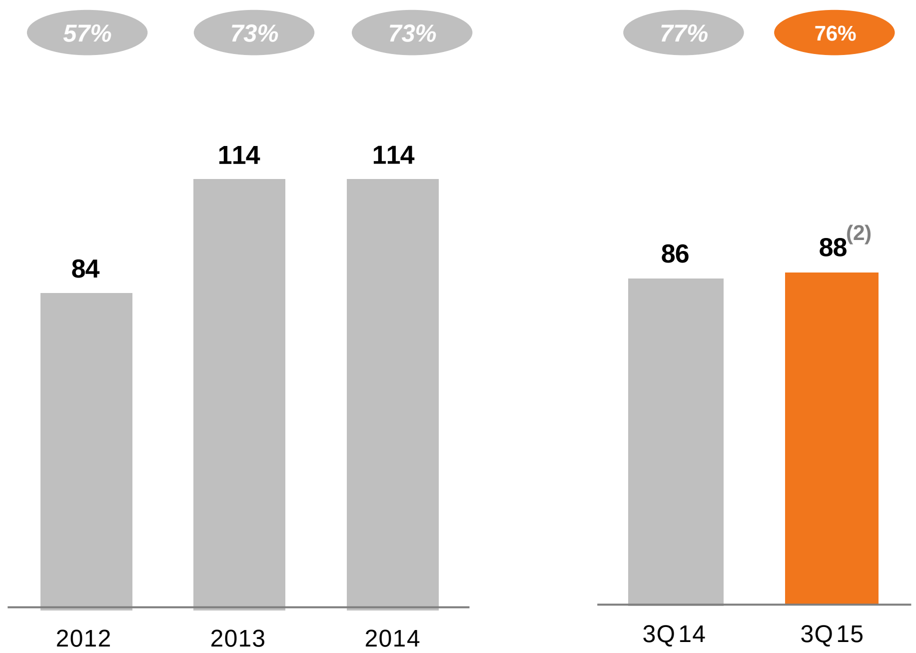
Note:

1. FY2012 adjusted (to be like-for-like with 2013 and 2014) for €11.6m of capitalised SAC which were expensed; excluding €68m one-off payment for acquisition of leased backbone. Capex in 2012 was €119m

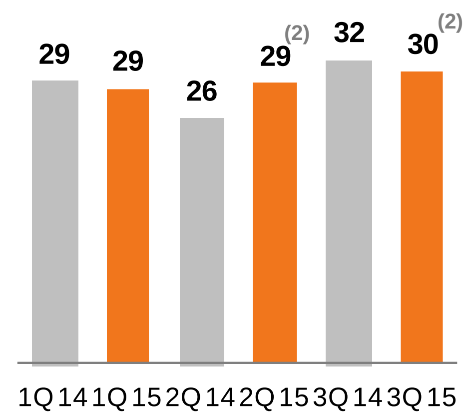
Strong cash flow conversion

Adjusted OpFCF [1](%)

OpFCF conversion[1](%)



Quarterly adjusted OpFCF evolution (€m)



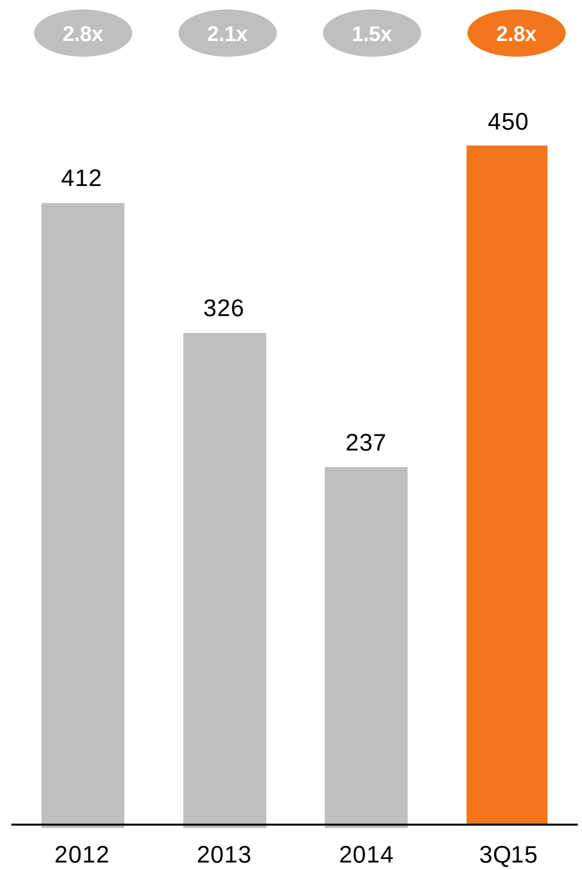
Notes:

1. OpFCF defined as Adjusted EBITDA–Capex and OpFCF conversion defined as (Adjusted EBITDA-Capex)/Adjusted EBITDA
2. Adjusted EBITDA in 2015 adjusted for the costs related to the IPO process and the acquisition of R Cable.

Capital structure optimization before IPO

Net debt evolution (€m)

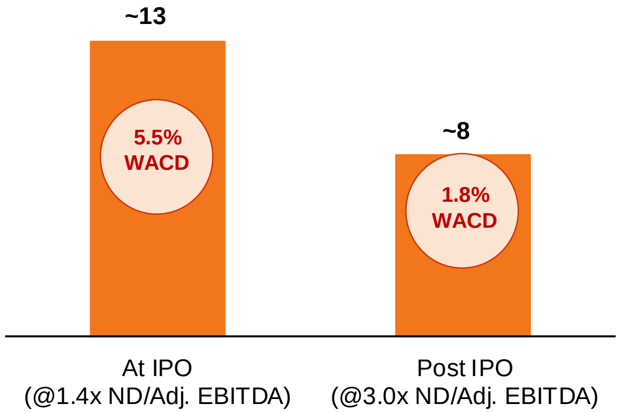
ND/Adjusted EBITDA[1]



Capital structure at IPO

- Releverage at **2.8x Net Debt/Adj. EBITDA**
- Total **new financial facilities: €470m**
- 50/50 split TLA and TLB
- **WACD: 1.8%** (vs. 5.5% until June)[2]
- Flexibility provided through **€60m RCF**
- **Financial covenant**: 4.5x Net Debt/Adj. EBITDA with flexibility to increase to 5.5x if M&A

Illustrative impact on annual interest costs (€m)



Source: Company filings

Notes:

1. Adjusted EBITDA in FY2012 adjusted (to be like-for-like with 2013 and 2014) for €11.6m of capitalised SAC which were expensed. Adjusted EBITDA in 2012 was €135m
2. WACD at 3.0x Net Debt/Adj. EBITDA. Existing margin step-up mechanism of 25bps for every 0.5x step upwards or downwards

Additional information

Key performance indicators – KPIs (i/ii)

Residential										
KPI	**Unit**	**2012**	**2013**	**2014**	**1Q14**	**2Q14**	**3Q14**	**1Q15**	**2Q15**	**3Q15**
Homes passed	#	863,461	866,716	869,900	867,532	868,217	868,908	872,053	873,254	876,937
Household coverage	%	*84%*	*84%*	*85%*	*84%*	*85%*	*85%*	*85%*	*85%*	*85%*
Residential subs	#	305,761	298,495	296,023	298,178	299,375	297,713	295,360	300,751	298,419
o/w fixed services	#	287,457	284,105	279,212	283,507	283,812	281,362	278,051	282,890	279,353
as % of homes passed	%	33.3%	32.8%	32.1%	31.9%	32.7%	32.4%	31.9%	32.4%	31.9%
o/w mobile only subs	#	18,304	14,390	16,811	14,671	15,563	16,351	17,309	17,861	19,066
o/w 1P (%)	%	26.5%	23.1%	17.8%	22.4%	17.8%	17.9%	17.6%	17.3%	17.5%
o/w 2P (%)	%	41.2%	35.8%	26.9%	34.2%	29.6%	28.3%	24.8%	21.5%	19.3%
o/w 3P (%)	%	26.4%	31.8%	35.0%	32.6%	33.9%	34.6%	35.5%	36.6%	36.6%
o/w 4P (%)	%	6.0%	9.4%	20.3%	10.8%	18.7%	19.2%	22.1%	24.6%	26.5%
Total RGUs	#	719,033	769,036	896,077	784,713	870,852	884,226	918,120	968,023	982,290
RGUs / sub	#	*2.4*	*2.6*	*3.0*	*2.6*	*2.9*	*3.0*	*3.1*	*3.2*	*3.3*
Residential churn fixed customers	%	17.2%	14.8%	14.8%	16.2%	14.5%	14.3%	14.8%	12.2%	13.9%
Global ARPU fixed customers	€/month	54.28	53.25	53.80	53.23	53.28	53.57	55.15	55.50	55.75

SOHO										
KPI	**Unit**	**2012**	**2013**	**2014**	**1Q14**	**2Q14**	**3Q14**	**1Q15**	**2Q15**	**3Q15**
Subs	#	45,637	46,317	47,038	46,474	46,993	46,907	47,136	47,932	47,775
o/w 1P (%)	%	37.8%	35.0%	32.7%	34.7%	33.7%	33.4%	32.1%	30.3%	29.7%
o/w 2P (%)	%	31.0%	29.9%	26.1%	29.1%	26.7%	26.9%	23.9%	21.9%	20.4%
o/w 3P (%)	%	27.2%	30.0%	31.1%	30.6%	29.6%	29.9%	32.9%	35.2%	36.9%
o/w 4P (%)	%	3.9%	5.1%	10.2%	5.6%	10.0%	9.9%	11.1%	12.6%	13.0%
Total RGUs	#	125,772	133,079	143,472	134,317	140,675	140,807	147,585	155,881	158,589
RGUs / sub	#	2.8	2.9	3.1	2.9	3.0	3.0	3.1	3.3	3.3
Global ARPU Fixed customers	€/month	72.0	68.2	64.8	66.3	65.7	65.2	64.4	65.1	65.4

SMEs and Large Accounts										
KPI	**Unit**	**2012**	**2013**	**2014**	**1Q14**	**2Q14**	**3Q14**	**1Q15**	**2Q15**	**3Q15**
Clientes	#	5,291	5,251	5,094	5,198	5,162	5,134	5,041	5,072	5,053

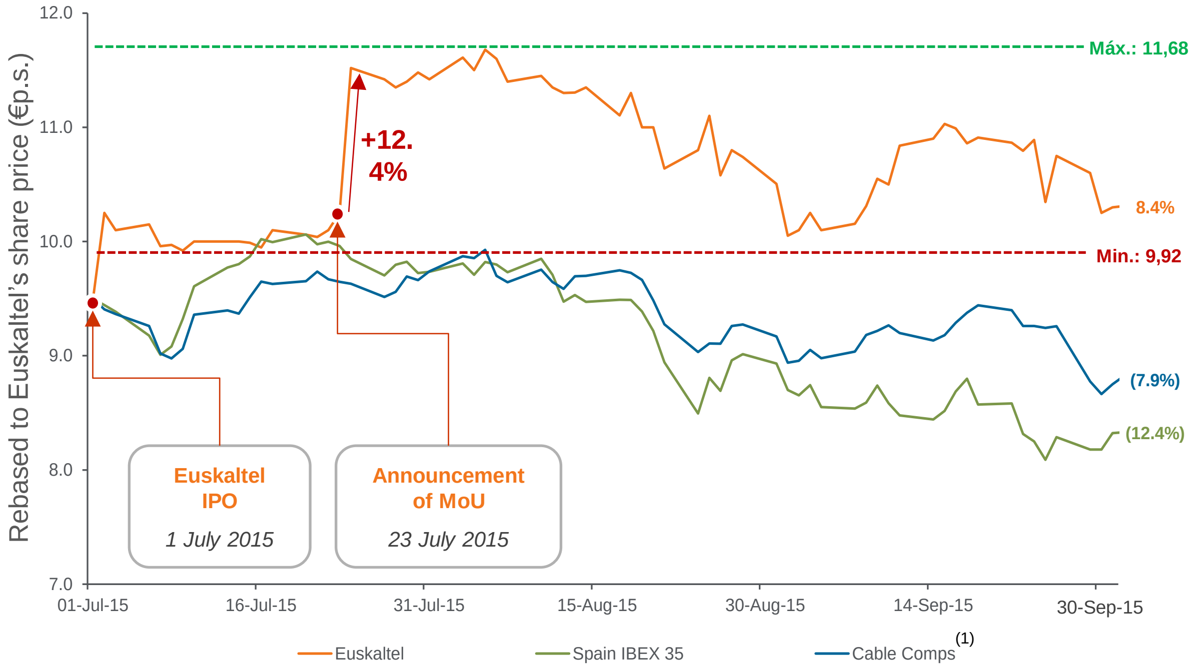
euskaltel

Key performance indicators – KPIs (ii/ii)

Selected financial data	Unit	2012	2013	2014	Quarter 1Q14	2Q14	3Q14	1Q15	2Q15	3Q15	YTD 3Q 2014	3Q 2015
Total revenues	**€m**	**342.8**	**334.9**	**321.2**	**79.6**	**79.9**	**79.5**	**79.6**	**82.1**	**82.7**	**238.9**	**244.4**
Y-o-y change	%		*-2.3%*	*-4.1%*				*0.0%*	*2.8%*	*4.0%*		2.3%
o/w residential	€m	201.3	195.4	196.2	48.0	48.6	49.5	49.0	50.8	51.7	146.1	151.5
Y-o-y change	%		*-2.9%*	*0.4%*				*2.1%*	*4.4%*	*4.5%*		3.7%
o/w Business	€m	102.8	101.2	93.4	23.9	23.6	22.9	22.8	23.4	22.8	70.3	69.0
Y-o-y change	%		*-1.6%*	*-7.7%*				*-4.8%*	*-0.5%*	*-0.5%*		-1.9%
o/w Wholesale and Other	€m	28.9	29.7	24.7	6.1	5.7	5.5	5.6	5.6	6.2	17.3	17.3
Y-o-y change	%		*2.8%*	*-1.7%*				*-8.2%*	*-2.9%*	*12.5%*		*0.1%*
o/w Other Profit Neutral Revenues	€m	9.8	8.6	6.9	1.6	1.9	1.6	2.2	2.3	2.0	5.2	6.6
Y-o-y change	%		*-12.3%*	*-20.1%*				*38.5%*	*19.1%*	*24.5%*		*26.8%*
Adjusted EBITDA	**€m**	**134.7**	**155.1**	**155.9**	**37.3**	**35.6**	**39.4**	**37.7**	**38.3**	**40.6**	**112.3**	**116.7**
Y-o-y change	%		*15.2%*	*0.5%*				*1.2%*	*7.6%*	*3.2%*		3.9%
Margin	%	*39.3%*	*46.3%*	*48.5%*	*46.8%*	*44.6%*	*49.5%*	*47.4%*	*46.7%*	*49.2%*	*47.0%*	*47.7%*
Capital expenditures	**€m**	**(119.2)**	**(41.5)**	**(42.2)**	**(7.9)**	**(10.3)**	**(7.8)**	**(9.1)**	**(9.2)**	**(10.3)**	**(26.0)**	**(28.6)**
Y-o-y change	%		*-65.2%*	*1.7%*				*14.5%*	*-10.4%*	*32.0%*		10.0%
% total revenues	%	*-34.8%*	*-12.4%*	*-13.1%*	*-9.9%*	*-12.9%*	*-9.8%*	*-11.4%*	*-11.2%*	*-12.4%*	*-10.9%*	*-11.7%*
Operational Free Cash Flow	**€m**	**15.5**	**113.6**	**113.7**	**29.4**	**25.3**	**31.6**	**28.6**	**29.1**	**30.4**	**86.3**	**88.1**
Y-o-y change	%		*632.9%*	*0.1%*				*-2.4%*	*14.9%*	*-3.8%*		2.1%
% EBITDA	%	*11.5%*	*73.2%*	*72.9%*	*78.8%*	*71.1%*	*80.2%*	*75.9%*	*76.0%*	*74.7%*	*76.9%*	*75.5%*

Events of the period

- On July 1st, 2015, Euskaltel was successfully listed on the Spanish Stock Exchange through the sale of shares representing 63.5% of the share capital (69.9% of the share capital following the exercise of the greenshoe by the Joint Global Coordinators on July 7th, 2015).
- On July 23th, 2015 Euskaltel and R Cable y Telecomunicaciones Galicia, S.A. (R Cable) announced they had signed a preliminary agreement for the integration of both companies. Following the completion of this transaction, the new Euskaltel Group would have pro forma revenue of approximately €570mn and EBITDA of €265mn.
- Share price performance in the Jun-Sep quarter:



Source: FactSet as of September 30, 2015.
Note: (1) Includes: Liberty Global, Com Hem, NOS, Tele Columbus and Telenet.

Events after the reporting period (i/ii)

Events after the reporting period

- Euskaltel and the shareholders of R Cable entered on 5th October 2015 into a sale and purchase agreement in respect of all the shares of R Cable. The final price of the Transaction was fixed at €1,190mn, including approximately €300mn of estimated net debt of R Cable as of September, 30th 2015 (which will be refinanced by Euskaltel), with the consideration being fully payable in cash. This consideration will be financed by Euskaltel through the extension of the existing financial facilities by €600mn, the raising of an institutional debt tranche of €300mn underwritten by four banks, the issuance of new shares and with cash on hand.

  The effectiveness of the Transaction, which is binding on R Cable's shareholders, is subject to the approval by the Extraordinary General Shareholders Meeting of Euskaltel and the authorization by the Spanish Competition Authority (CNMC).

- On October 9th, 2015, Euskaltel's Management and Employee's Legal Representatives have signed a Collective Bargaining Agreement that will rule Euskaltel's labor conditions until 2018, guarantying sufficient stability for the next years.

Events after the reporting period (ii/ii)

Events after the reporting period (Cont´d)

- On October 23th, 2015 Standard & Poor's and Moody's, the ratings agencies, assigned Euskaltel a credit rating of "BB-" and "B1" respectively, with stable outlook in both cases.

  Standard & Poor's has assigned Euskaltel a credit rating of "BB-", in line with other peers, such as Liberty Global and Com Hem, and a notch above other European peers, such as Telenet, Numericable and TeleColumbus ("B+").

  Moody's has assigned Euskaltel a long-term credit rating of "B1", in line with other European peers, such as Telenet, Numericable and Com Hem, and a step above Tele Columbus ("B2").

  Both agencies have pointed Euskaltel's large capacity for generating cash flow, a stable market situation and the good growth perspective of the company, which are supported by a solid business plan sustainable in the forthcoming years, as the Company's main strengths.