



Third quarter 2016 results

27 October 2016



CEO since September 1st, 2016

 First Executive of the company

 Member of the Board of Directors

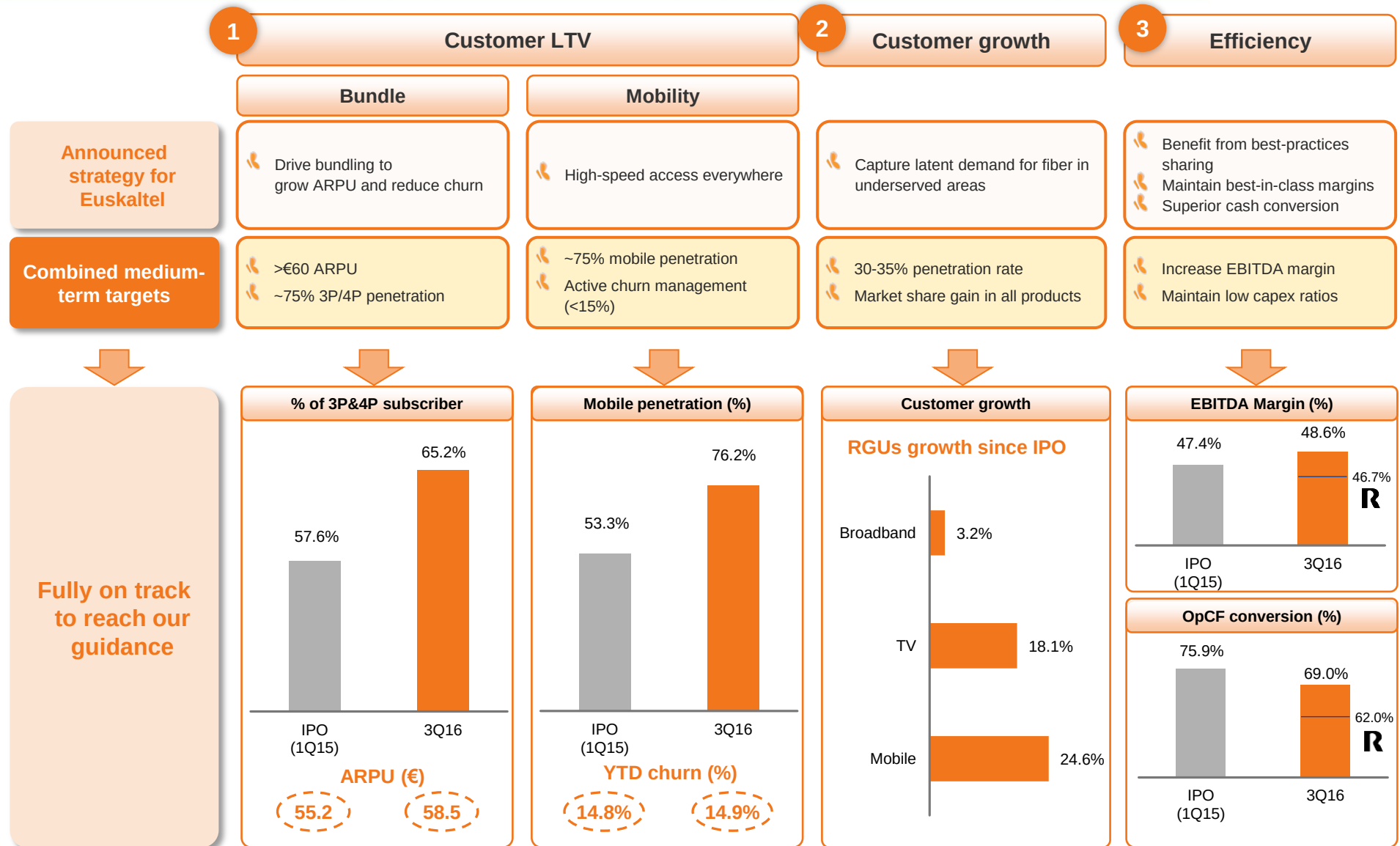
 Previous experience includes:

 *Microsoft: General Manager of Consumer Channel Group Iberia*

 *EA Software: General Manager of Electronic Arts for Spain and Portugal*

 *Compliance Champion at Microsoft and Member of the ICA*

Full commitment to our strategy announced at IPO



Key highlights of the quarter (1/2)

1

Market environment

- 🔥 Aggressive **commercial offerings by our competitors**, trying to monetise their **investment in football content**
- 🔥 Continued **market consolidation** with the acquisitions of Yoigo and Pepephone by MásMóvil

2

Increased perimeter

- 🔥 **Residential subscriber base** almost doubled (+250k subs / 84% growth)
- 🔥 YTD **Residential revenue** increased by 85% whilst maintaining strong KPI momentum in both regions
- 🔥 YTD **EBITDA growth** (+€93m / c.80%) while reaching **48.7% margin**
- 🔥 YTD **OpCF** (+€54m / c.61%) while achieving around **68% cash flow conversion rate**
- 🔥 **Accumulated net income** at **€45m**

3

Solid KPI performance in the quarter

- 🔥 **Turn around in net subs** which are now increasing on the back of **strong gross additions in the quarter (+20k)**
- 🔥 **Solid TV intake** with c.25k new services and **mobile penetration reaching record-high (76%)** with c.74k new mobile lines
- 🔥 **Residential ARPU growth** of €2.8 YoY (+0.4€ in the quarter) on the back of continued upselling (**65% 3P&4P bundles in 3Q16 vs. 62% in 3Q15**)
- 🔥 Contained **YTD churn rate at 14.9%** despite challenging competitive environment

Key highlights of the quarter (2/2)

4

Efficient cost and synergy management

- 🔥 Gross margin at **75.3%** with efficient management of data traffic growth
- 🔥 Delivery of estimated synergies on track **with initial targets revised upwards by 15% in 2017**
- 🔥 YTD **EBITDA margin of 48.7%**

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Strong cash flow conversion allowing to meet leverage target

- 🔥 **Disciplined capex management driving superior cash conversion rate** (up to 69%)
- 🔥 **c.€142m OpCF generated in 9M16** (+10.4% vs. 9M15 PF), allowing for a debt reduction to 4.4x EBITDA LTM (including fully-phased synergies)

6

Other corporate milestones in the period

- 🔥 **Refinancing** of the €300m institutional tranche **reducing its cost by 21%**
- 🔥 Alliance with **Telxius** to reinforce Euskaltel's 4G coverage

Consolidated statutory financial results (Profit & Loss items)

	3Q15	3Q16	3Q16 vs. 3Q15		YTD15	YTD16	YTD16 vs. YTD15	
			€m	% change			€m	% change
Revenue (€m)	82.7	144.4	+61.7	+74.6%	244.4	430.4	+186.0	+76.1%
Adj. EBITDA¹ (€m) <i>Margin (%)</i>	40.6 49.2%	70.2 48.6%	+29.6	+72.7%	116.7 47.7%	209.5 48.7%	+92.9	+79.6%
Adj. OpCF¹ (€m) <i>Conversion (%)</i>	30.4 74.7%	48.4 69.0%	+18.0	+59.5%	88.1 75.5%	142.1 67.8%	+54.0	+61.3%
Net income (€m)	15.1	14.7	(0.4)	(2.4%)	(3.3)	44.9	+48.3	n.a.

Note:

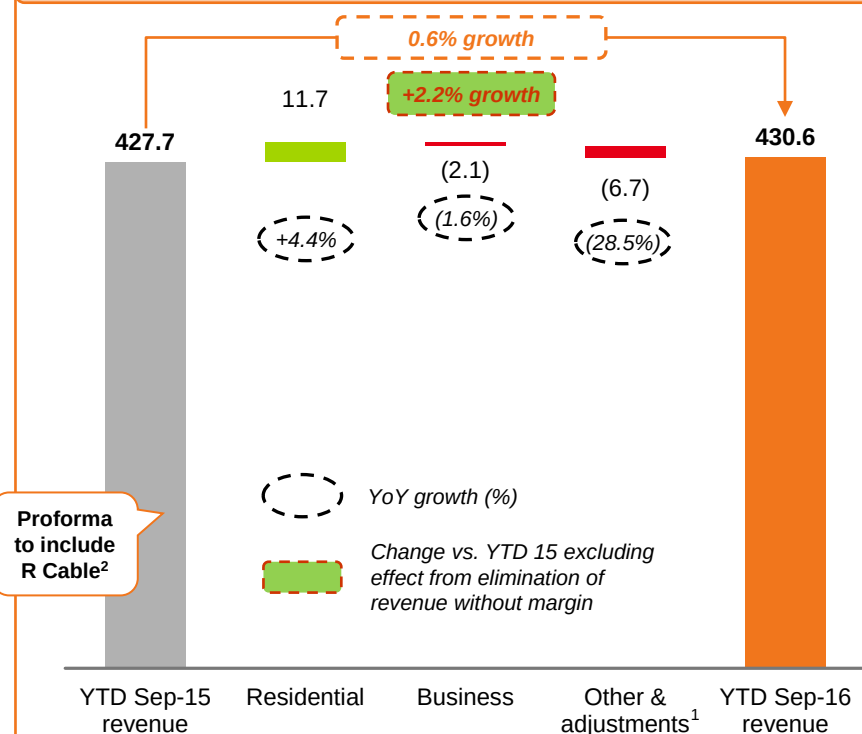
1. EBITDA and OpCF Adjusted for extraordinary items (mainly related to IPO costs and R Cable integration costs); €4.6m in 3Q15, €1.2m in 3Q16, €12.8m YTD 3Q15 and €3.7m YTD 3Q16

On November 27th, 2015, Euskaltel acquired 100% of the shares in R Cable y Telecomunicaciones Galicia, S.A. As a result of this business combination, a new accounting group including both companies was created. Therefore, consolidated financial information included in this document is presented following Euskaltel's accounting principles regarding consolidation requirements. Therefore:

- The 3Q15 financial information included in this presentation reflects only Euskaltel's standalone performance for that period
- The 3Q16 presented financials comprise consolidated financials for Euskaltel and R Cable
- Where appropriate in past period, the pro forma including non-audited contribution of R-Cable is added to that of Euskaltel for comparability purposes

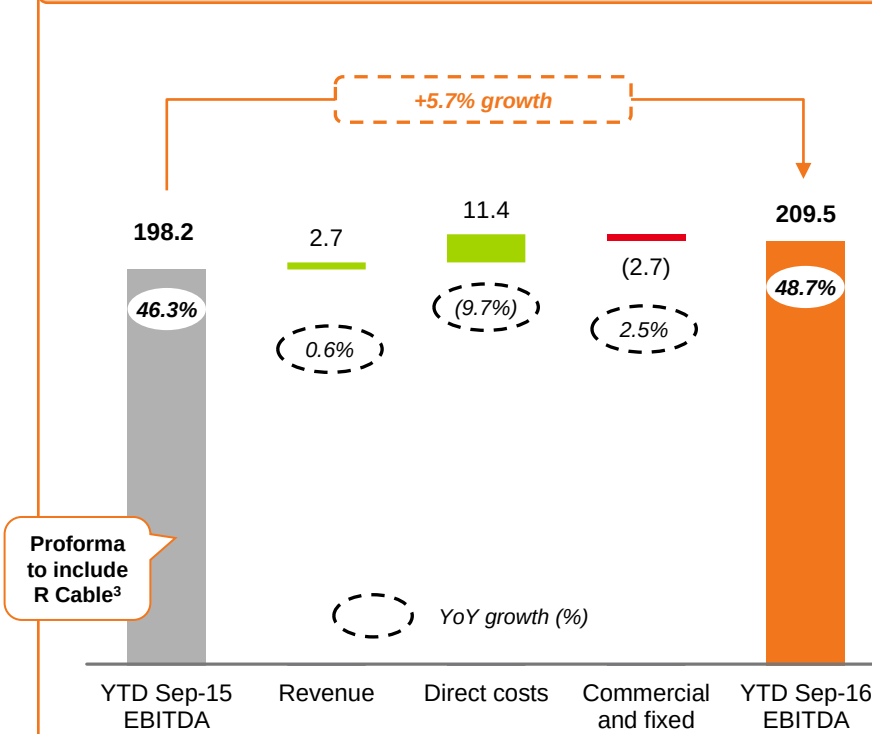
Constituents of revenue and EBITDA YoY growth in YTD Sep-16

Revenue evolution YTD 16 vs YTD 15 (€m)



- Revenue growth mainly driven by the residential segment (+4.4% YoY)
- €6.7m of negative adjustment from other and adjustments (mainly elimination of profit neutral activities)

EBITDA evolution YTD 16 vs. YTD 15 (€m)



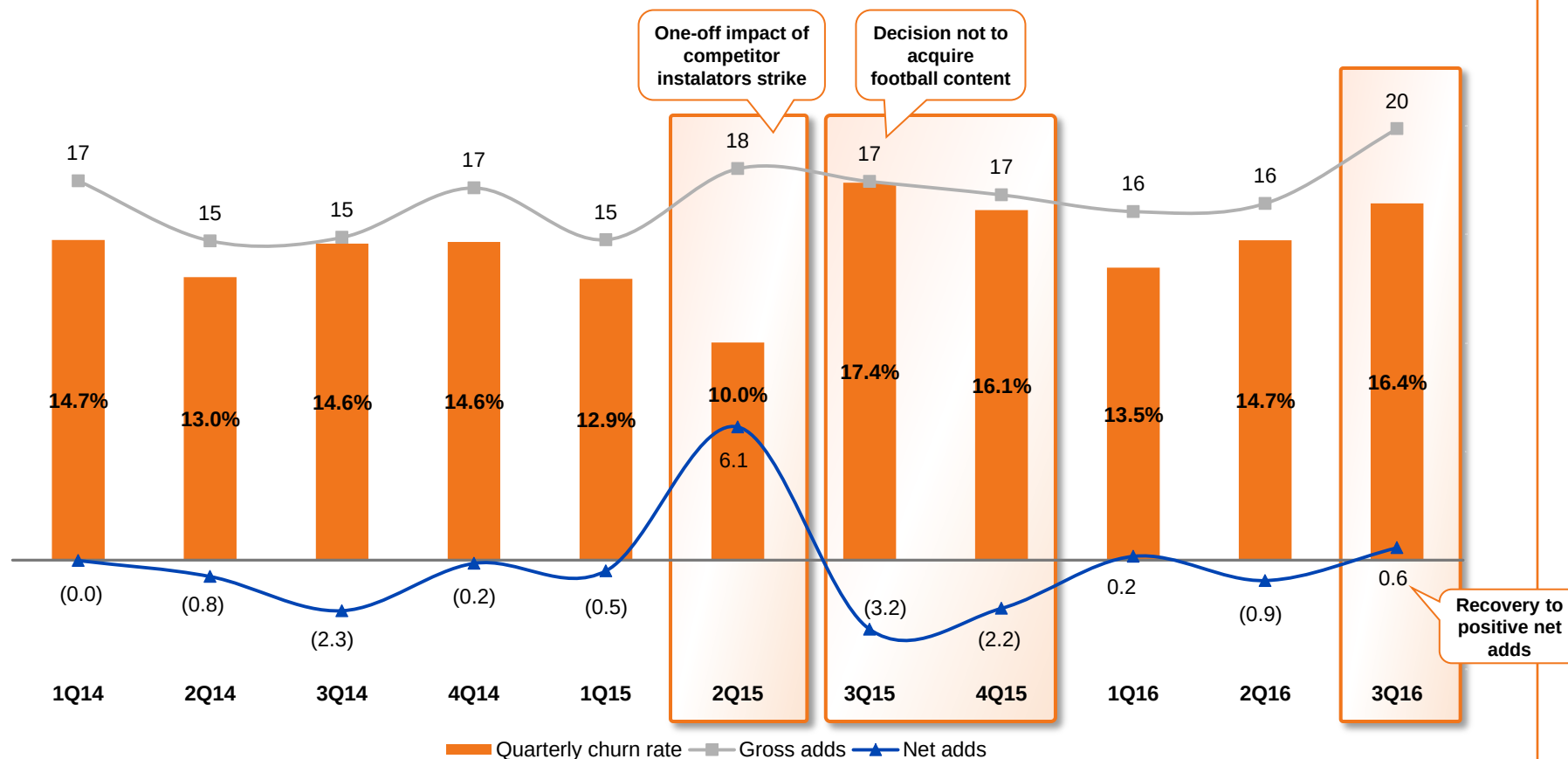
- Revenue growth driving EBITDA up by €2.7m
- Direct cost reduction of 9.7% contributing +€11.4m to EBITDA
- Margin enhancement of 240 bps up to 48.7%

Notes:

- Mainly refer to neutral profit revenues netting also direct costs – no impact on EBITDA
- Includes c.€183m of R Cable revenue as of YTD3Q15
- Includes c.€82m of R Cable EBITDA as of YTD3Q15

Residential fixed customer and churn rate evolution over time

Churn and fixed subs¹ customer base evolution²



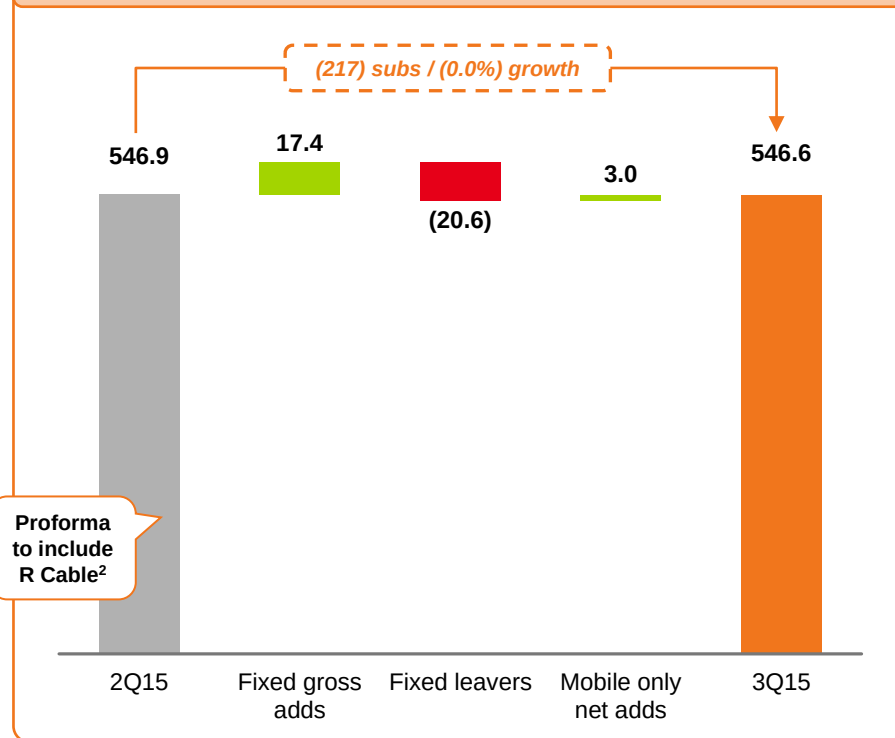
- Positive net adds in 3Q16 (+568 fixed subs) backed by a spike in gross adds (+20k) proving our strong commercial momentum
- Controlled churn with opportunity for further reduction (3Q16 100bps below 3Q15)
- 75% LTM gross adds taking 3P&4P bundles

Note:

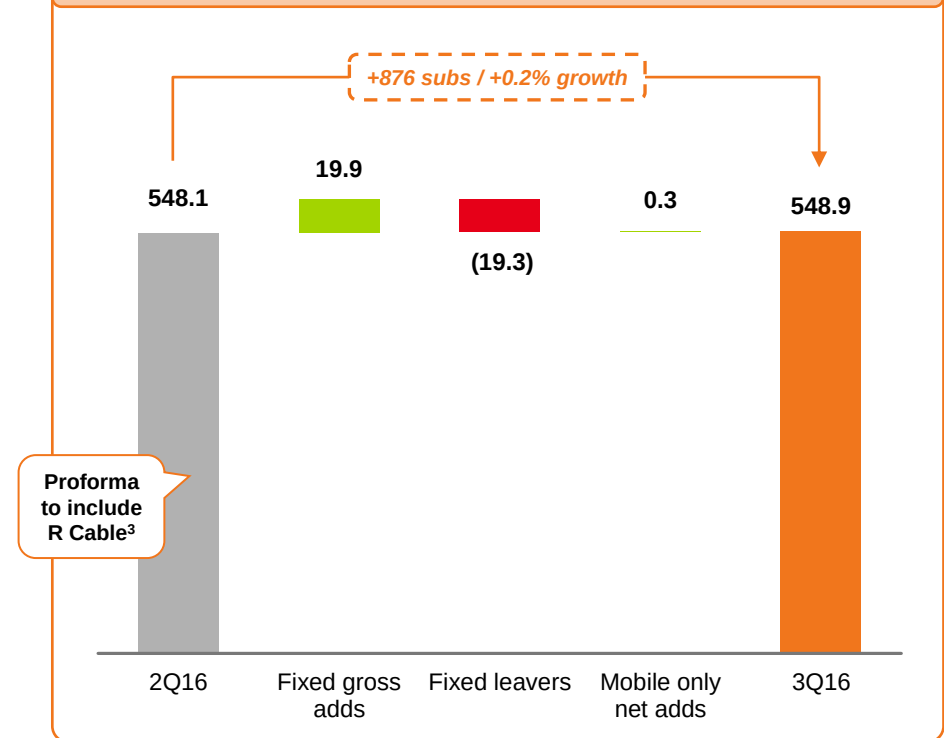
- Fixed subs excluding mobile only subscribers
- Historical figures proforma to include R Cable

Solid performance in a challenging competitive scenario

Total residential subs evolution 3Q15 vs 2Q15 (000')



Total residential subs evolution 3Q16 vs 2Q16 (000')



- 🔊 We suffered the effect of losing football content in 3Q2015 losing 3.2k fixed customers
- 🔊 However, we have been able to **revert this tendency in 3Q16**

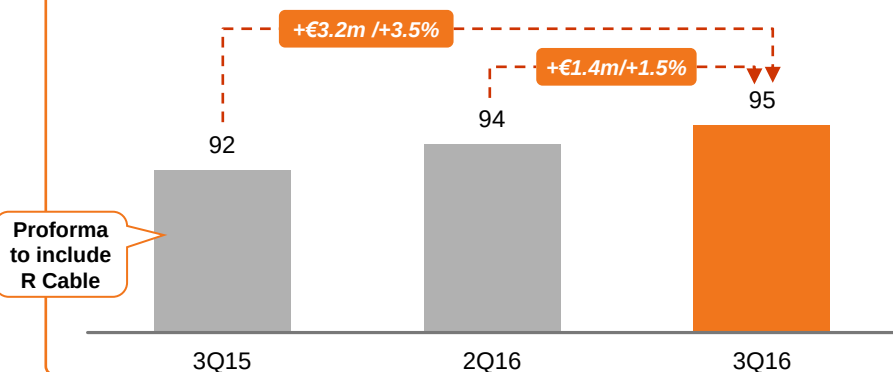
- 🔊 **Positive net adds in fixed customers** (+c.500 subs) reverting last year's performance in the quarter (-c.200 subs)
- 🔊 We continue to acquire **high value customers**

Notes:

1. Mainly refer to neutral profit revenues
2. Includes 246k subs of R Cable as of 2Q15
3. Includes 248k subs of R Cable as of 3Q15

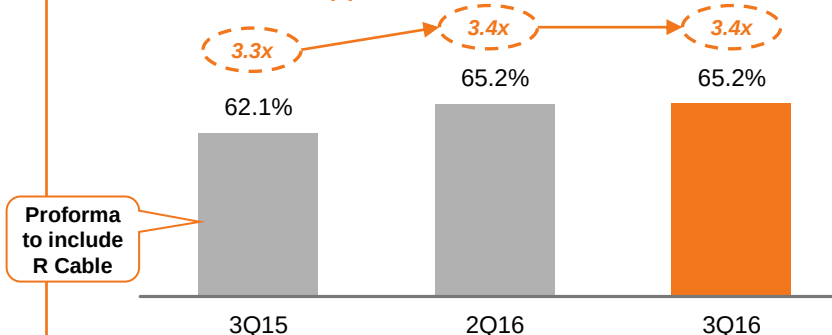
Upselling and mobility strategy driving ARPU growth

Revenue evolution (€m)



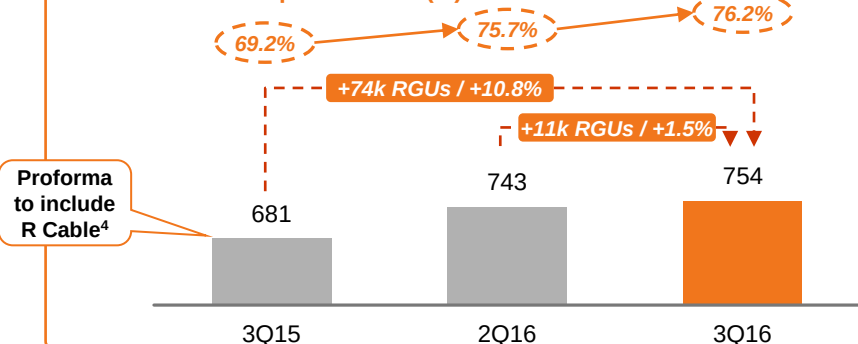
Increased 3P/4P penetration (as % of total subscribers)

Residential RGU/Subs² (x)

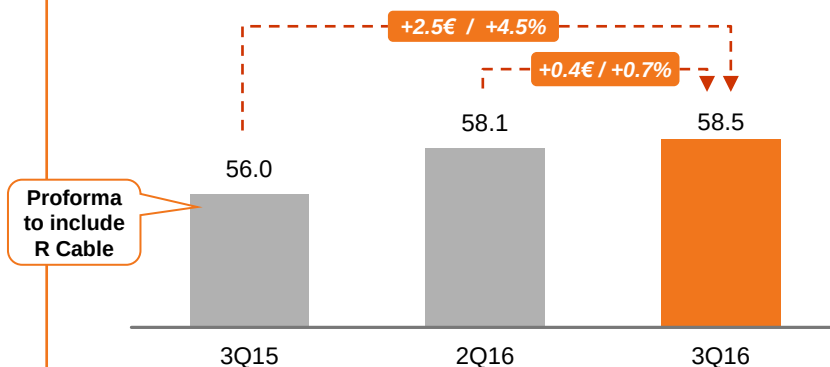


Residential mobile RGUs ('000)

Residential mobile penetration¹ (%)



Consistent ARPU³ improvement (€/month)



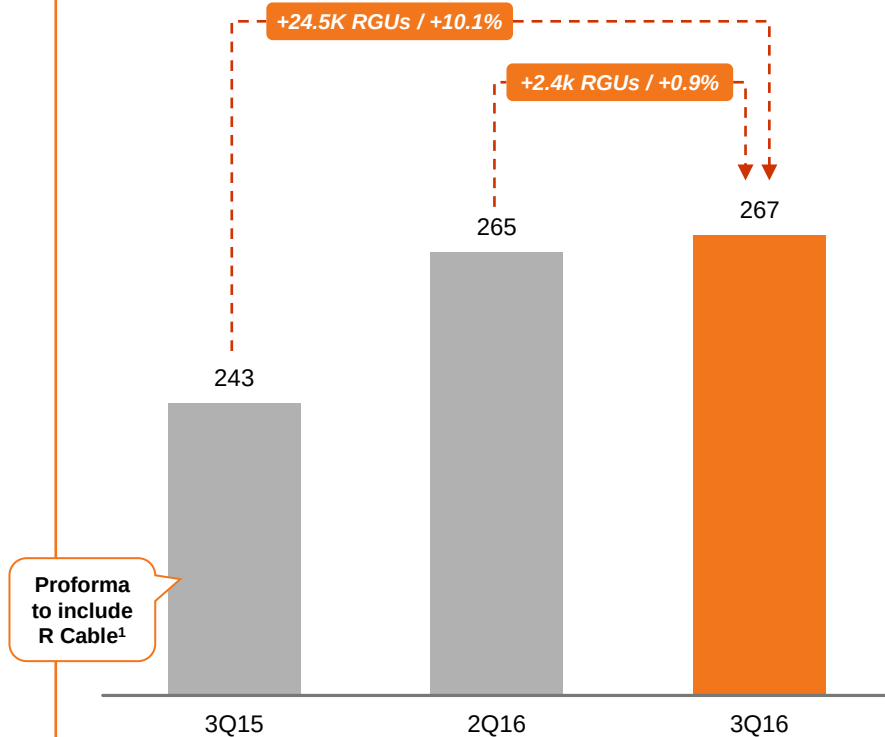
- Continued growth in residential revenue (+3.5% YoY)
- Mobility strategy leading to +74k new mobile lines (+10.8% YoY) resulting in record high residential penetration of 76%
- Customer upselling maintaining RGU/subs and 3P/4P penetration level (65.2%)
- ARPU growth of €2.5 in the year (+€0.4 in the quarter) driven by upselling and favoured by market conditions

Notes:

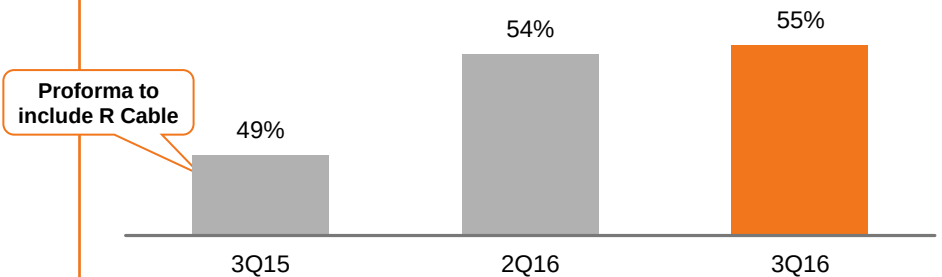
- Residential subscribers with mobile (excluding mobile-only subscribers) as percentage of total fixed subscribers
- Total RGUs (including mobile-only) / total subs (including mobile only)
- Global ARPU based on fixed customers
- Includes c.328k residential mobile RGUs from R Cable as of 3Q15

Our TV offering continues its strong intake momentum

Evolution of residential TV RGUs ('000)



TV Subs as % of total subscriber base



Focused on continued innovation



- Strong performance of our TV offering with 10.1% growth in TV RGUs in the year and +1% in the quarter
- Continued penetration onto our subscriber base, reaching 55% of total subscribers in 3Q16 (vs. 49% in 3Q15)
- Strategy going forward will continue to be smart, disciplined and sustainable to continue to deliver attractive content to our customers

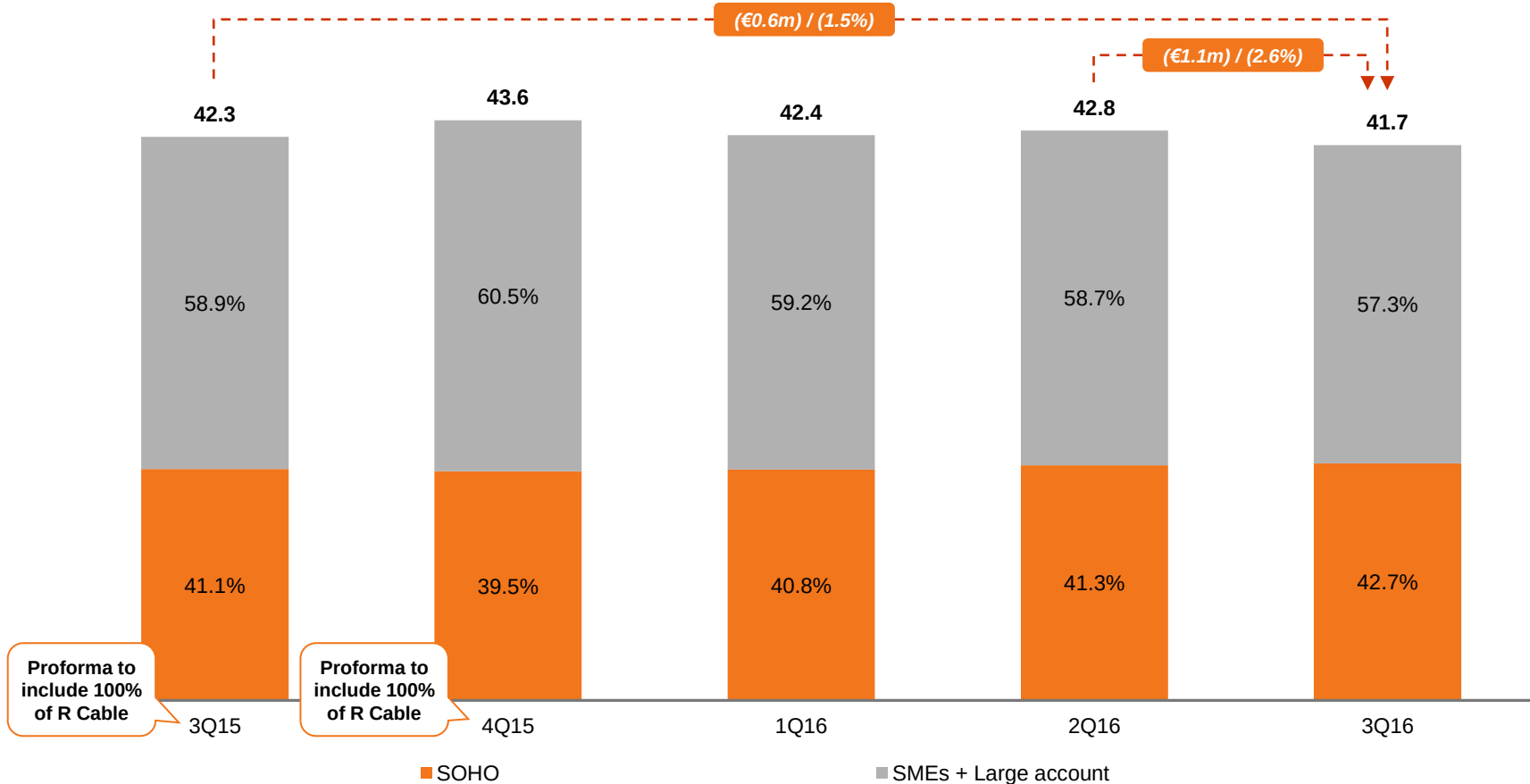
Note:

- Includes c.115k residential Pay-TV RGUs from R Cable as of 3Q15

Historical performance of the business segment (SOHO+ SME/Large Accounts)

Business segment revenue evolution¹

Business revenue (€m)



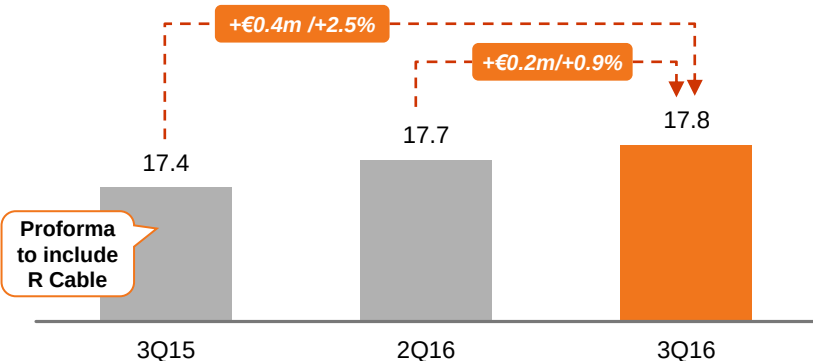
- Overall flattish performance of the business segment over the past quarters, representing an area of focus and opportunity
- SOHO consistently gaining weight (c.43%) within the segment and mirroring the positive trends seen in residential

Note:

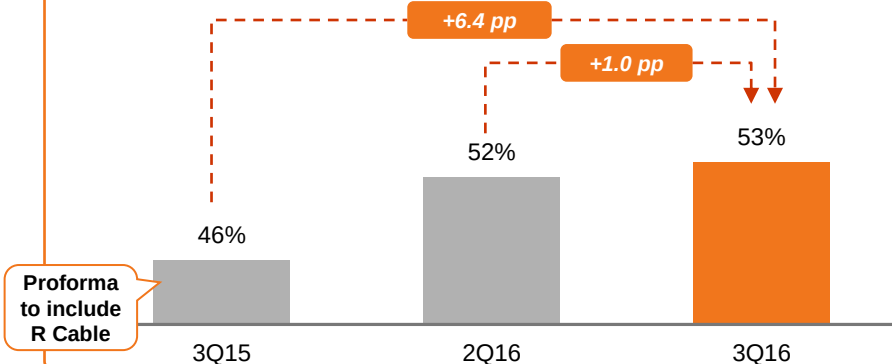
1. Includes SOHO, SMEs and Large Accounts

SOHO continues to deliver a strong performance

Revenue evolution (€m)

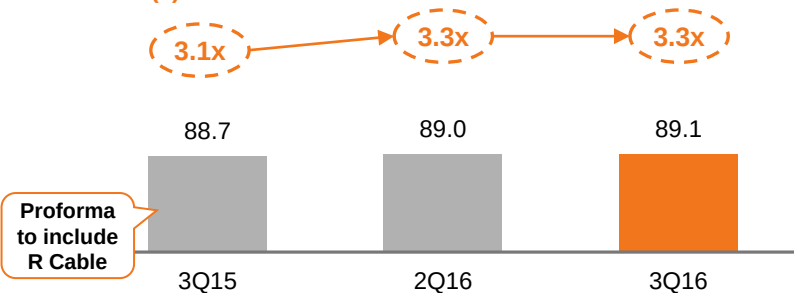


3P&4P as % of total customers

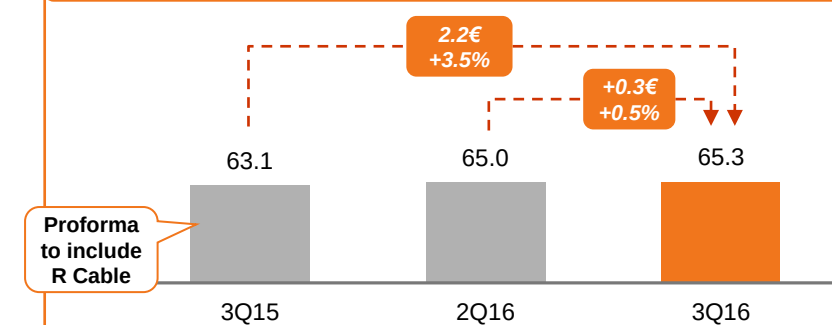


Subs (000') and RGUs/Subs evolution

RGUs/Subs (x)



Consistent ARPU¹ sustainability (€/month)



- Sustained growth of SOHO revenue (+2.5% YoY) driven by both increase in customers and ARPU
- Increased number of subscribers and 3P/4P penetration (53% in 3Q16) resulting in ARPU increase (+2.2€) vs. the previous year (€63.1)

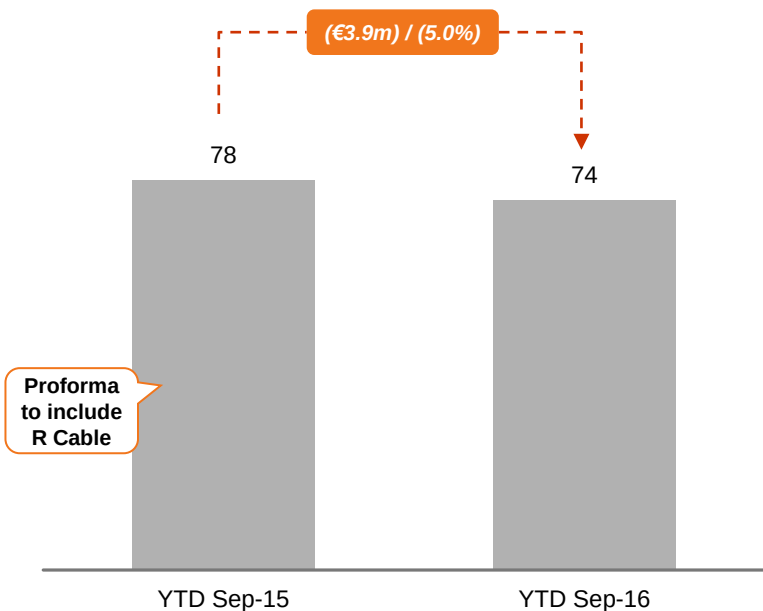
Notes:

1. Global ARPU based on fixed customers

SMEs + Large Accounts represents an area of focus and a potential opportunity

Revenue evolution

SME and large account revenue (€m)



Comments

🔥 SMEs and large accounts is the key segment where we are focusing our efforts to turn-around performance

🔥 SMEs and large accounts revenues down by 5.0% YTD Sep-16

🔥 Mid-term strategy to create a fully integrated value added offering moving beyond connectivity (cloud, security, tools) through own developments and win-win partnerships

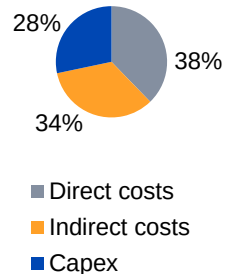
Integration on track and synergies target revised upwards by 15%

Synergies grade of completion (2016)

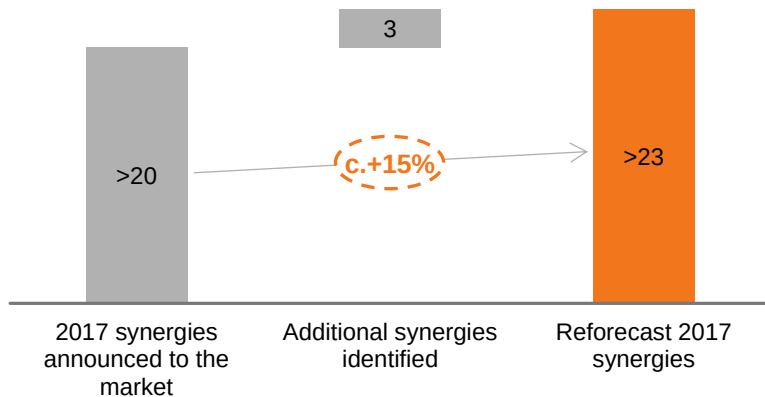
Total synergies

c.€10m

Synergy distribution



Update on run rate synergies (2017 onwards)



Direct costs

- Migration of R cable mobile customers into new host (2/3 achieved)
- Negotiation of key content agreement already executed
- Elimination of handset subsidies in R Cable

Indirect costs

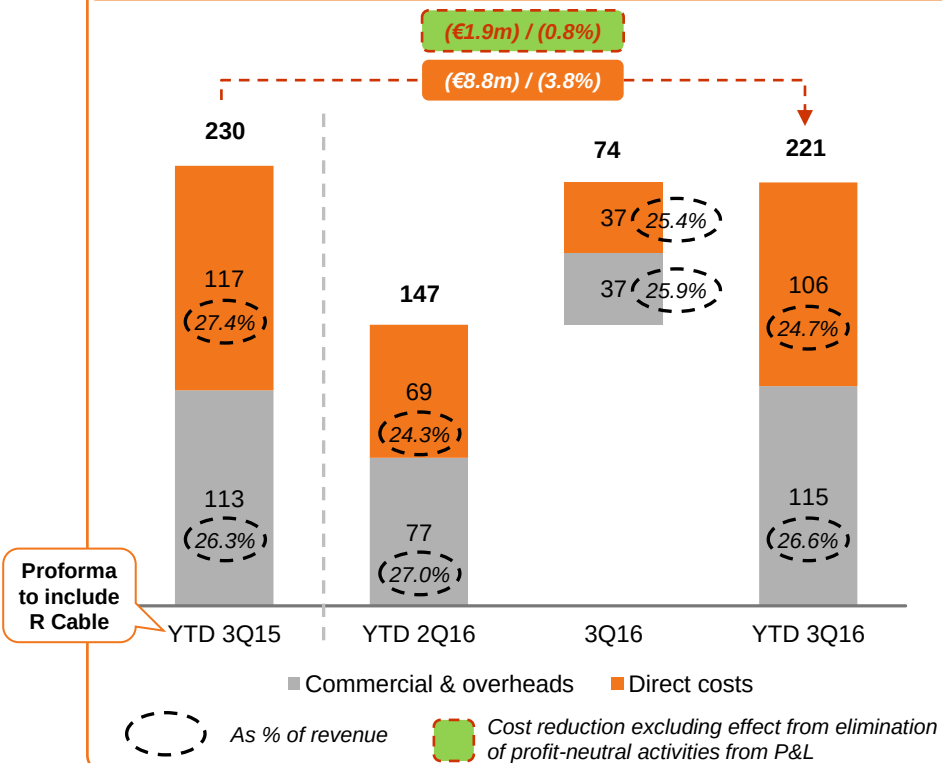
- Further upsides identified on commercial and structure costs

Capex

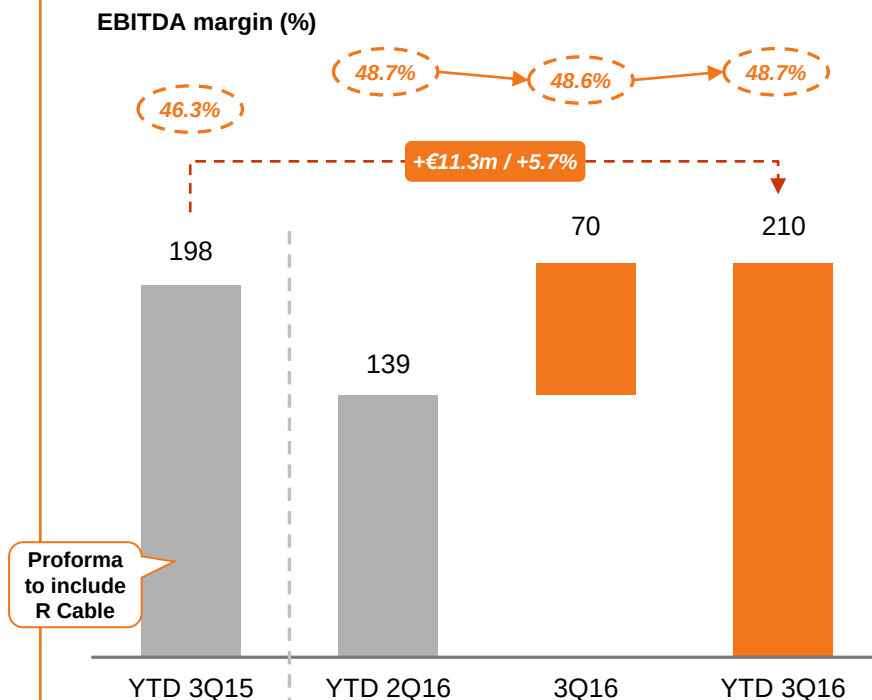
- TV platforms
- Core mobile network
- Renegotiation with suppliers

Efficient cost management driving EBITDA growth and margin expansion

Cost structure (€m)



EBITDA evolution (€m)



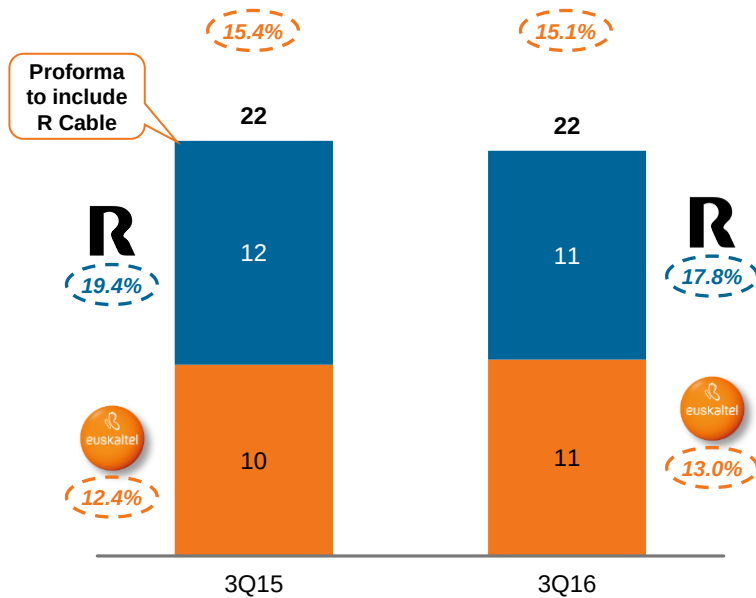
- 🔧 Gross margin of 75.3% YTD3Q16 - Growth in data traffic and mobile lines compensated by savings in interconnection prices, handset subsidies and improved purchase management
- 🔧 Positive EBITDA evolution consolidating a margin of 48.7% YTD3Q16

Efficient capex management and superior cash flow conversion rates

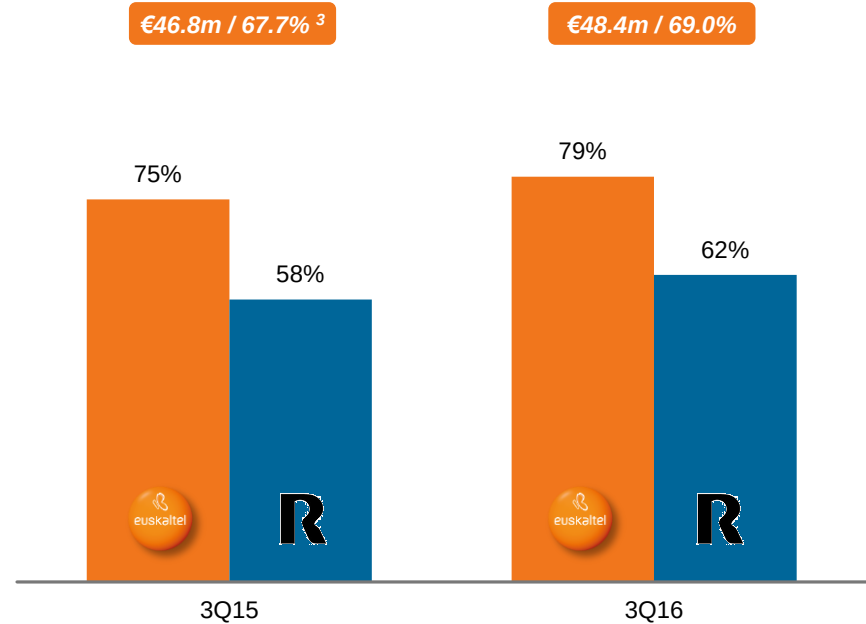
Capex and OpCF¹ evolution

Consolidated capex (€m)

Capex as % of revenue (%)



Consolidated OpCF (€m) and OpCF conversion² (%)



- Consolidated capex progressively converging to mid-term target levels
- Improved cash-conversion rate close to 70% target conveyed to the market

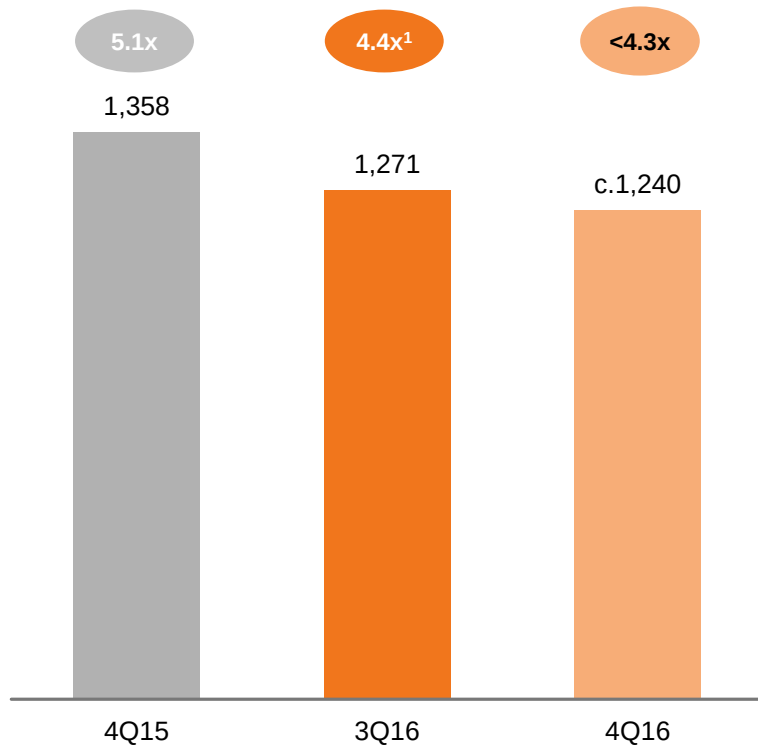
Note:

- OpCF defined as EBITDA – capex
- OpCF conversion defined as (EBITDA – capex) / EBITDA
- Proforma to include R Cable 3Q15 contribution

Leverage evolving according to plan and allowing for dividend distribution

Net debt (€m)

Leverage evolution (ND / LTM EBITDA including fully phased synergies)



Key cash flow items

YTD OpCF generation of €142m (67.8% conversion)

YTD net interest payments of €30m

Dividend distribution

Distribution of interim dividend of 0.15€ per share on account of 2016 results approved by the Board of Directors on 26 October and to be paid in February 1st, 2017

Total dividend (also against 2016 results), to be communicated upon approval by the AGM of the 2016 accounts (in 1H 2017), and in accordance to the dividend policy announced to the market

Note:

1. Based on LTM EBITDA of €278m plus fully-phased synergies

Concluding remarks

1

New CEO completely aligned with Euskaltel's strategy conveyed to the market

2

3Q16 results on track to deliver our mid-term objectives announced at IPO

3

Identified areas of focus to drive future growth and value creation

4

Distributions to shareholders to begin in 2017 on the back of 2016 net results



Appendix I - Euskaltel 3Q16 consolidated results and KPIs

Euskaltel consolidated - KPIs (i/ii)

Residential		Annual		Quarterly						YTD		
KPIs	Units	2014	2015	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	2015	2016
Homes passed	#	869,900	1,699,073	872,053	873,254	876,937	1,699,073	1,700,847	1,703,361	1,703,941	876,937	1,703,941
Household coverage	%	85%	65%	85%	85%	85%	65%	65%	65%	65%	85%	65%
Residential subs	#	296,023	545,502	295,360	300,751	298,419	545,502	547,009	548,069	548,945	298,419	548,945
o/w fixed services	#	279,212	471,664	278,051	282,890	279,353	471,664	471,837	470,895	471,463	279,353	471,463
as % of homes passed	%	32.1%	27.8%	31.9%	32.4%	31.9%	27.8%	27.7%	27.6%	27.7%	31.9%	27.7%
o/w mobile only subs	#	16,811	73,838	17,309	17,861	19,066	73,838	75,172	77,174	77,482	19,066	77,482
o/w 1P (%)	%	17.8%	21.9%	17.6%	17.3%	17.5%	21.9%	21.7%	21.6%	21.9%	17.5%	21.9%
o/w 2P (%)	%	26.9%	14.8%	24.8%	21.5%	19.3%	14.8%	14.0%	13.3%	12.9%	19.3%	12.9%
o/w 3P (%)	%	35.0%	29.6%	35.5%	36.6%	36.6%	29.6%	29.0%	27.8%	27.0%	36.6%	27.0%
o/w 4P (%)	%	20.3%	33.7%	22.1%	24.6%	26.5%	33.7%	35.3%	37.3%	38.2%	26.5%	38.2%
Total RGUs	#	896,077	1,809,720	918,120	968,023	982,290	1,809,720	1,836,291	1,868,347	1,881,701	982,290	1,881,701
RGUs / sub	#	3.0	3.3	3.1	3.2	3.3	3.3	3.4	3.4	3.4	3.3	3.4
Residential churn fixed customers	%	14.8%	14.8%	14.8%	12.2%	13.9%	14.8%	13.5%	14.1%	14.9%	13.9%	14.9%
Global ARPU fixed customers	€/month	53.78	55.97	55.15	55.50	55.75	55.97	57.59	58.10	58.52	55.75	58.52
Fixed Voice RGUs	#	279,691	467,181	278,516	283,341	279,792	467,181	467,280	467,292	465,362	279,792	465,362
as% fixed customers	%	100.2%	99.0%	100.2%	100.2%	100.2%	99.0%	99.0%	99.2%	98.7%	100.2%	98.7%
BB RGU's	#	217,726	389,456	218,391	224,361	222,288	389,456	391,733	392,722	394,738	222,288	394,738
as% fixed customers	%	78.0%	82.6%	78.5%	79.3%	79.6%	82.6%	83.0%	83.4%	83.7%	79.6%	83.7%
TV RGU's	#	124,754	250,191	124,729	127,660	127,802	250,191	256,783	264,899	267,325	127,802	267,325
as% fixed customers	%	44.7%	53.0%	44.9%	45.1%	45.7%	53.0%	54.4%	56.3%	56.7%	45.7%	56.7%
Postpaid lines	#	273,906	702,892	296,484	332,661	352,408	702,892	720,495	743,434	754,276	352,408	754,276
Postpaid customers	#	153,939	412,247	165,411	185,203	194,926	412,247	422,737	433,513	436,737	194,926	436,737
as% fixed customers (only mobile excluded)	%	49.1%	71.7%	53.3%	59.2%	63.0%	71.7%	73.7%	75.7%	76.2%	63.0%	76.2%
Mobile lines / customer	#	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.8	1.7

SOHO		Annual		Quarterly						YTD		
KPIs	Units	2014	2015	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	2015	2016
Subs	#	47,038	88,163	47,136	47,932	47,775	88,163	88,301	89,014	89,076	47,775	89,076
o/w 1P (%)	%	32.7%	28.5%	32.1%	30.3%	29.7%	28.5%	31.7%	30.8%	30.4%	29.7%	30.4%
o/w 2P (%)	%	26.1%	27.0%	23.9%	21.9%	20.4%	27.0%	18.4%	17.5%	16.9%	20.4%	16.9%
o/w 3P (%)	%	31.1%	33.9%	32.9%	35.2%	36.9%	33.9%	38.1%	38.9%	39.3%	36.9%	39.3%
o/w 4P (%)	%	10.2%	10.6%	11.1%	12.6%	13.0%	10.6%	11.8%	12.8%	13.3%	13.0%	13.3%
Total RGUs	#	143,472	278,314	147,585	155,881	158,589	278,314	285,111	292,888	296,335	158,589	296,335
RGUs / sub	#	3.1	3.2	3.1	3.3	3.3	3.2	3.2	3.3	3.3	3.3	3.3
Churn fixed clients	%	20.3%	21.3%	19.3%	17.6%	17.8%	21.3%	22.3%	21.4%	20.5%	17.8%	20.5%
Global ARPU Fixed customers	€/month	65.0	65.3	64.4	65.1	65.4	65.3	64.9	65.0	65.3	65.4	65.3

SMEs and Large Accounts		Annual		Quarterly						YTD		
KPIs	Units	2014	2015	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	2015	2016
Customers	#	5,094	11,518	5,041	5,072	5,053	11,518	11,486	11,254	11,224	5,053	11,224

Euskaltel consolidated - KPIs (ii/ii)

Selected financial information		Annual		Quarterly						YTD		
	Units	2014	2015	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	2015	2016
Total revenue	€m	321.2	349.4	79.6	82.1	82.7	105.0	141.8	144.2	144.4	244.4	430.4
Y-o-y change	%	-4.1%	8.8%				1.4%	78.2%	75.7%	75%		123.2%
o/w residential	€m	196.2	215.7	49.0	50.8	51.7	64.2	91.3	93.7	95.0	151.5	280.0
Y-o-y change	%	0.4%	10.2%				2.6%	86.3%	84.5%	83.7%		129.8%
o/w Business	€m	93.4	99.3	22.8	23.4	22.8	30.3	42.4	42.8	41.7	69.0	126.9
Y-o-y change	%	-7.7%	6.3%				0.9%	86.3%	82.5%	83.1%		127.8%
o/w Wholesale and Other	€m	24.7	25.4	5.6	5.6	6.2	8.1	8.0	7.8	7.7	17.3	23.5
Y-o-y change	%	-1.7%	0.8%				-11.6%	44.3%	39.1%	24.8%		92.5%
o/w Other Profit Neutral Revenues	€m	6.9	8.9	2.2	2.3	2.0	2.4	-	-	-	6.6	-
Y-o-y change	%	-20.1%	29.5%				36.3%	-	-	-		0.0%
Adjusted EBITDA	€m	155.9	167.0	37.7	38.3	40.6	50.4	69.1	70.3	70.2	116.7	209.5
Y-o-y change	%	0.5%	7.1%				0.0%	83.2%	83.4%	72.7%		125.5%
Margin	%	48.5%	47.8%	47.4%	46.7%	49.2%	48.0%	48.7%	48.7%	48.6%	49.2%	48.7%
Capital expenditures	€m	(42.2)	(53.1)	(9.1)	(9.2)	(10.3)	(24.6)	(21.6)	(24.1)	(21.8)	(28.6)	(67.4)
Y-o-y change	%	1.7%	25.9%				0.0%	137.8%	161.6%	111.8%		126.9%
% total revenues	%	-13.1%	-15.2%	-11.4%	-11.2%	-12.4%	-23.4%	-15.2%	-16.7%	-15.1%	-12.4%	-15.7%
Operating Free Cash Flow	€m	113.7	113.9	28.6	29.1	30.4	25.8	47.5	46.2	48.4	88.1	142.1
Y-o-y change	%	0.1%	0.2%				0.0%	65.9%	58.6%	59.5%		61.3%
% EBITDA	%	72.9%	68.2%	75.9%	76.0%	74.7%	51.2%	68.7%	65.7%	69.0%	75.5%	67.8%

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