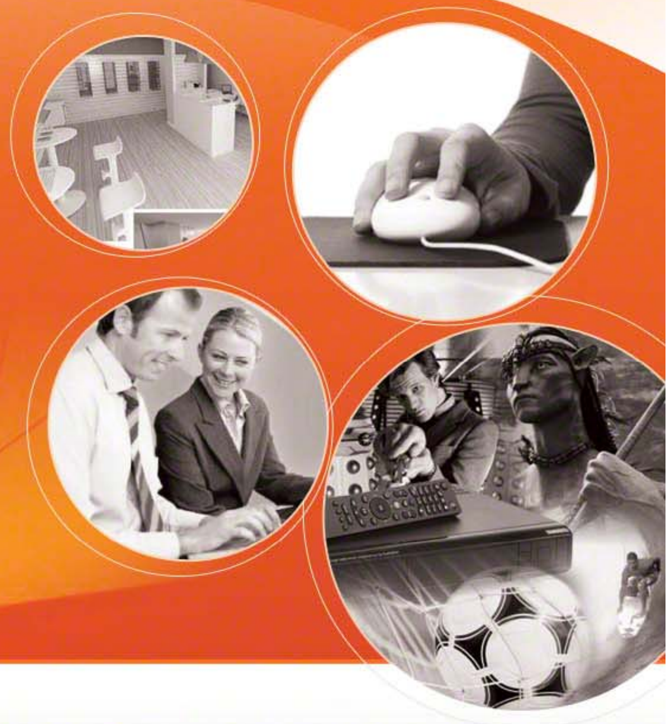
Euskaltel – First Half 2015 Results



31 August 2015

Executive summary (i/iii)

Main figures for the business for the periods ended June 30, 2015 and 2014

	1H15	1H15 Adjusted (**)	1H14	1H15 Adjusted vs 1H14	1H15 Adjusted vs %1H14
Total Revenue	**161.7**	**161.7**	**159.5**	**2.2**	**1.4%**
Residential	99.8	99.8	96.6	3.1	3.3%
Business	46.2	46.2	47.5	(1.3)	-2.7%
Wholesale & Other	11.2	11.2	11.8	(0.7)	-5.6%
Others (*)	4.5	4.5	3.5	1.0	27.9%
Ebitda	**66.7**	**76.0**	**72.9**	**3.2**	**4.3%**
Ebitda Margin	*41.3%*	*47.0%*	*45.7%*	*1.3 pp*	
OpFCF	**48.4**	**57.7**	**54.8**	**2.9**	**5.3%**
conversion rate	*72.6%*	*75.9%*	*75.2%*	*0.7 pp*	
RDI	**(18.4)**	**23.1**	**15.5**	**7.6**	**49.1%**
Net Financial Debt	**417.0**		**289.9**	**127.1**	**43.8%**
Net Debt / Ebitda	2.6x		1.9x	0.8x	

(*) Profit neutral operations

(**) Excluded costs related to the IPO process and debt cancellation.

Executive summary (ii/iii)

Business : Inflexion point in revenues

- Total revenues for the period ended June 30, 2015, has been €161.7mn vs €159.5mn for the period ended June 30,2014 , + € 2.2mn (+1.4% YoY), an increase in revenues for the first time since 2012.
- Residential revenue continues with the positive trend of 2015 and total revenue in June 2015 YTD was €99.8mn, +3.3% YoY. A consequence of lower churn ratio (churn came in at 12.2% vs 14.8% in 2014) and improved GARPU (Global ARPU came in at €55.5, +€2.2 YoY), and considering that mobile customer penetration rate is still rising. In terms of fixed customers, in 2015 both the number of customers (+3,678) and the number of RGUs per customer (from 2.23 to 2.25) has increased. In terms of mobile postpaid customers, in 2015 has increased both the number of customers (+31,264, +20.3%) as the number of RGUs per customer (from 1.78 to 1.80).
- Business segment has shown a total revenue in June 2015 YTD of €46.22mn, -2.7% YoY. This situation is mainly driven by the negative evolution of the Business revenues during 2014, but this gap is being reduced monthly , -7.9 % in January, -4.3% in February, -2.1% in March, -1.8% in April and in May the trend changed into a positive evolution (+0.1%) maintained in June.
- Other Revenue has shown a decrease of -5.6% YoY to June 2015 YTD which was expected. This situation is mainly driven by the negative evolution of the Wholesale revenues due to regulatory changes in the last quarter of 2014.

Executive summary (iii/iii)

Margins and Profitability: strong performance in operating results

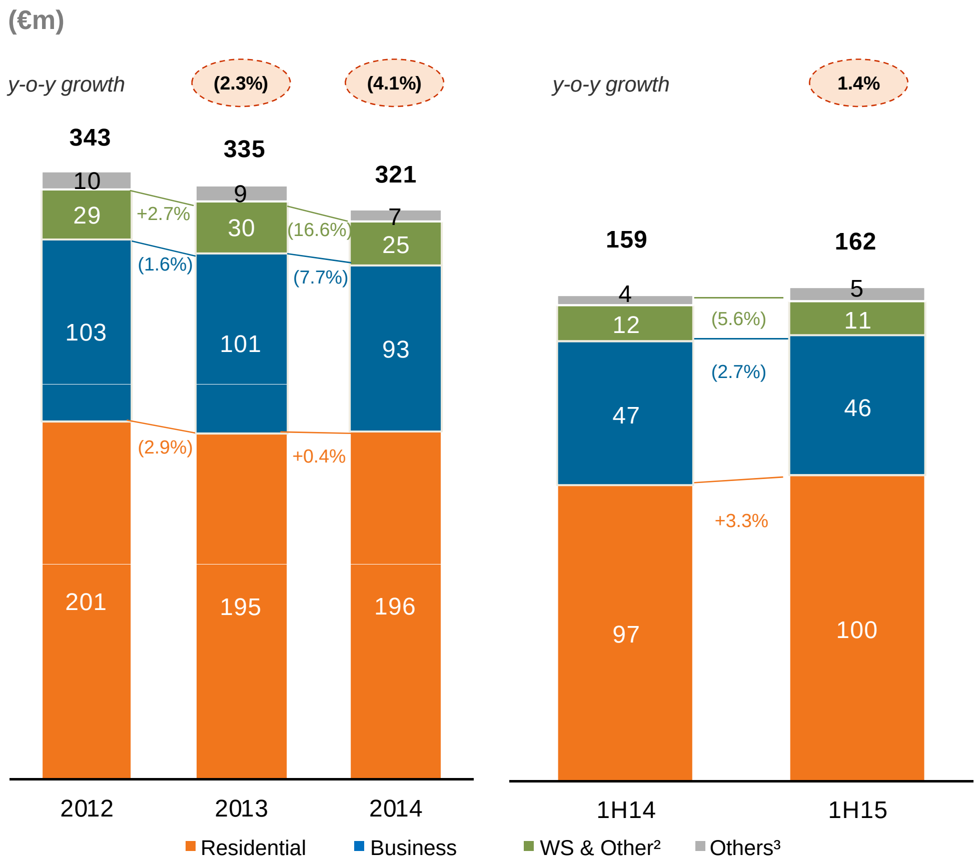
- Adjusted EBITDA in June 2015 YTD was €76.04mn, +4.3% YoY. The EBITDA margin has been 47.0%,+1.3pp YoY .
- Financial results for the period ended June 30, 2015 was a loss amounting to 47.3 million euros, compared to 12.1 million euros for the period ending June 30, 2014. The accumulated costs at June 2015 include the effect of recognising the costs associated with the flotation process and to the refinancing debt.
- Net income for the first six months was a loss of 18.4 million euros, as result of the impact in the period of all the costs associated with the flotation. If we adjust these extraordinary costs for the period, the net income would have been 23.1 million euros, compared with 15.5 million euros that we obtained for the six months ended June 30, 2014.

Net Debt and Cash Flow: Capital structure optimization and strong cash flow conversion

- We generated FCF of €36.7mn during the period.
- June 2015 YTD Capex is €18.29mn, equivalent to 11.3% of revenues, in line with June 2014 YTD.
- The OFCF (EBITDA - Capex) amounted to €57.7mn, equivalent to a conversion rate of 75.9%.
- The net financial debt at the end of the first half amounted to 417.4 million euros, which means a leverage of 2.6 times on the adjusted EBITDA for the past 12 months . This level of debt is 127.1 million higher than that existing a year earlier, as a result primarily of the disbursement of an extraordinary dividend of 207 million euros to existing shareholders prior to the flotation. This ratio is significantly inferior to the average of our European peers.

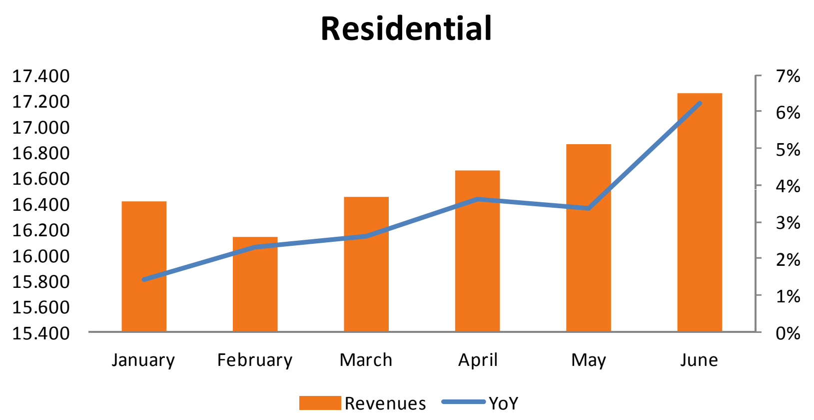
Top-line inflexion point led by Residential

Inflexion point reached in 1Q15



Accelerating growth momentum in Residential

Monthly Residential revenue growth (YoY)[1]



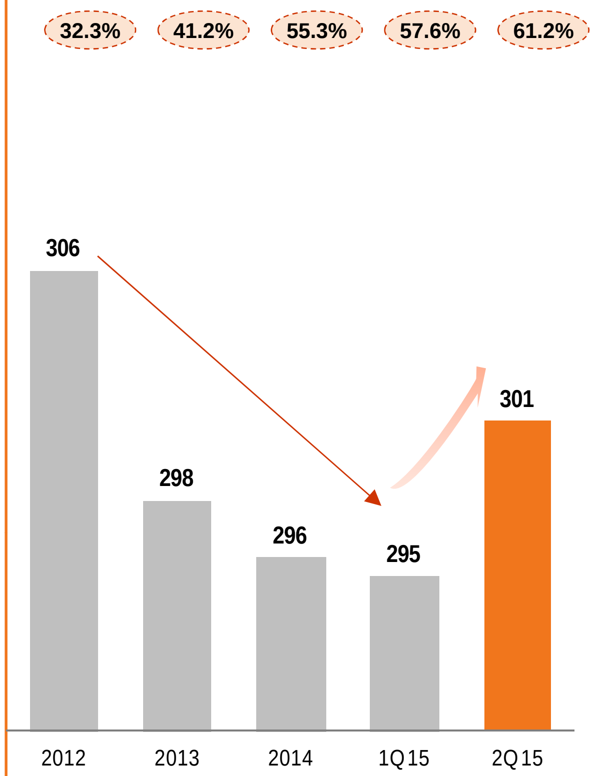
Notes:
1. In accordance with management accounts prepared under Spanish GAAP
2. Mainly includes RACC, services to Telecable, other corporate revenue and Other income and Work performed by the entity and capitalized
3. Profit neutral operations

Residential: Continuous growth momentum in 1H15

Inflexion point in Residential subs

Residential subs[1] (‘000)

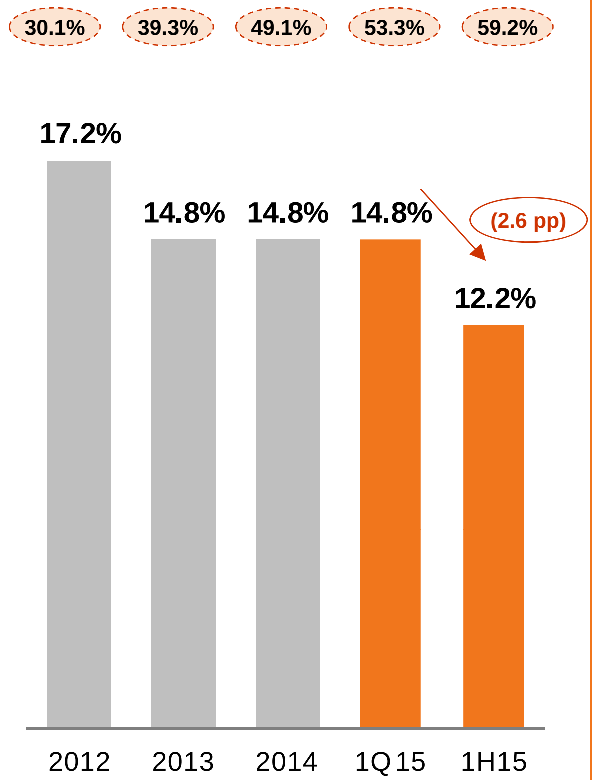
3P & 4P % of total subs



Low and stable churn

Annual churn (%)

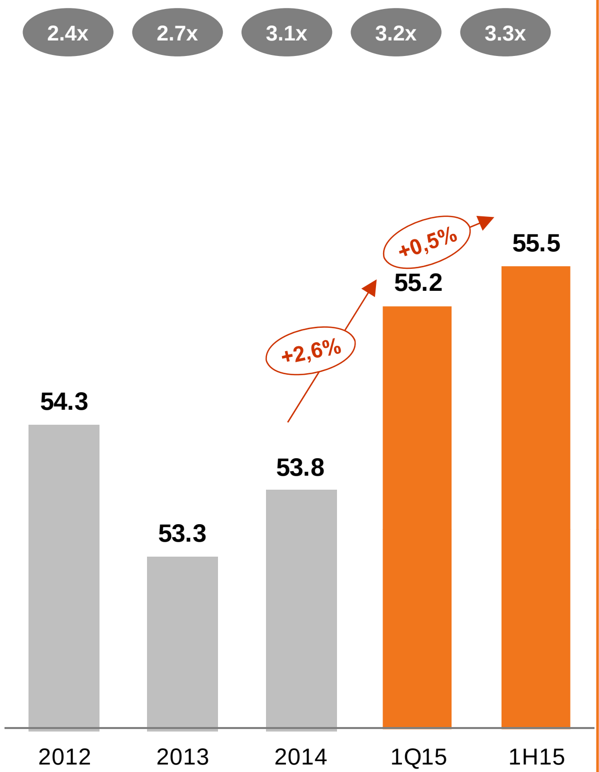
Mobile penetration[2]



Significant ARPU rebound

Residential client ARPU (€/month)

RGU / Sub[3]



Notes:

(1) Includes mobile-only subscribers

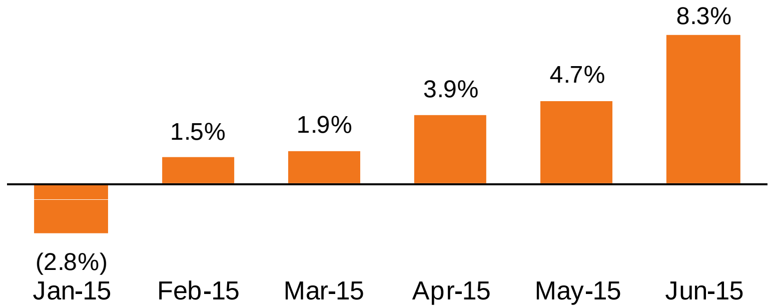
(2) Residential fixed customers with mobile (excl. mobile-only) as percentage of total residential fixed subscriber

(3) RGU/sub calculated excluding mobile-only customers

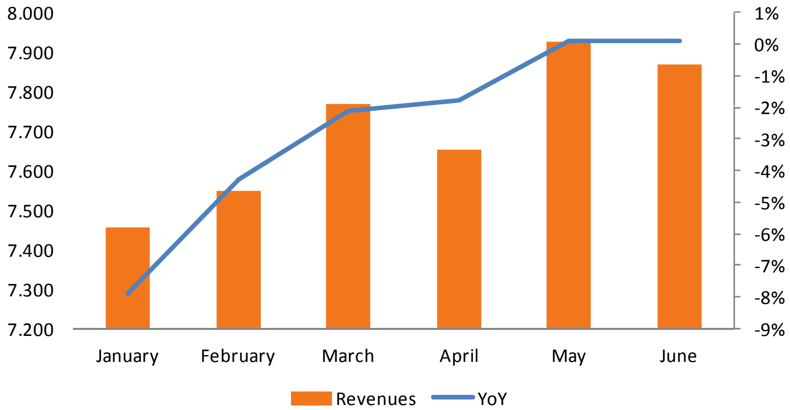
Top-line stabilization point on Business segment

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

Monthly SoHo revenue growth (YoY)

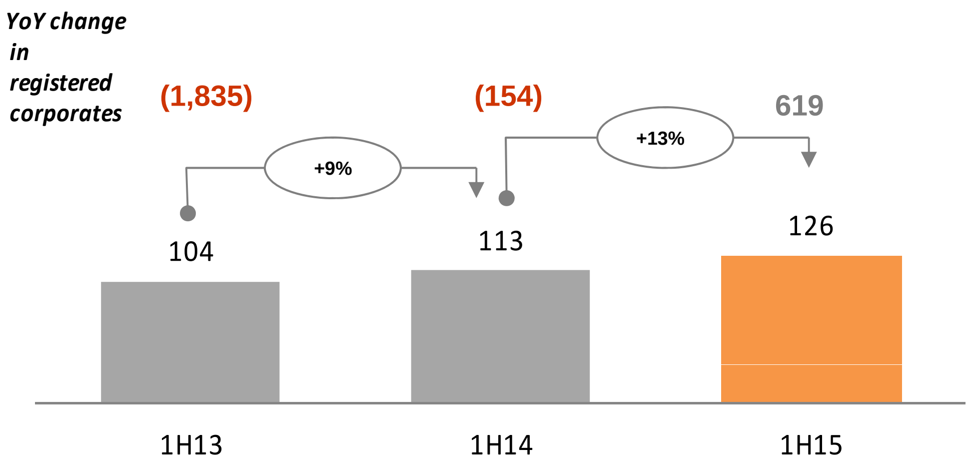


Monthly Total Business revenue recovery (YoY)

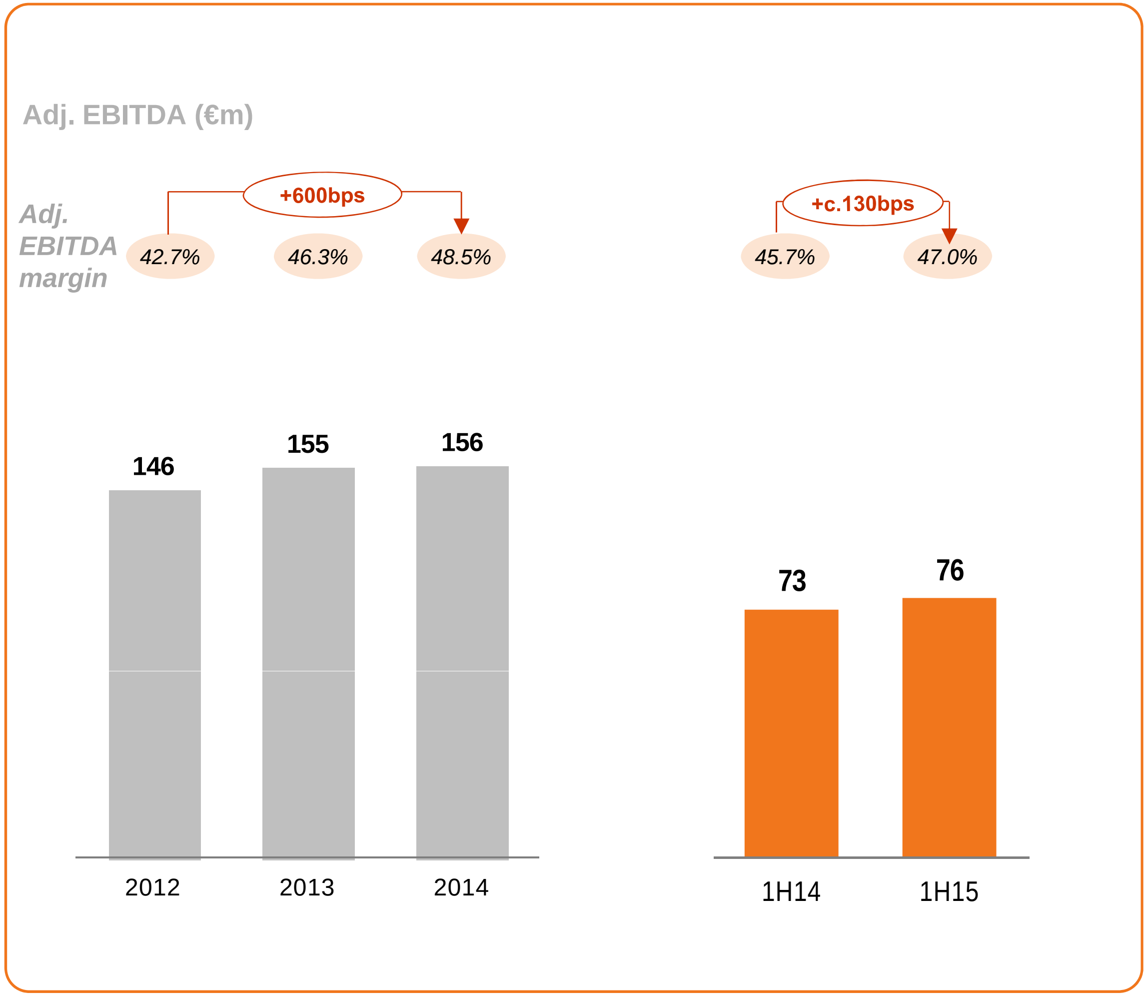


Improving Basque business outlook…

Business Confidence Index (Base 100: 1st Q13)



Strong Adjusted EBITDA performance



Note:
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

Capex largely linked to commercial success

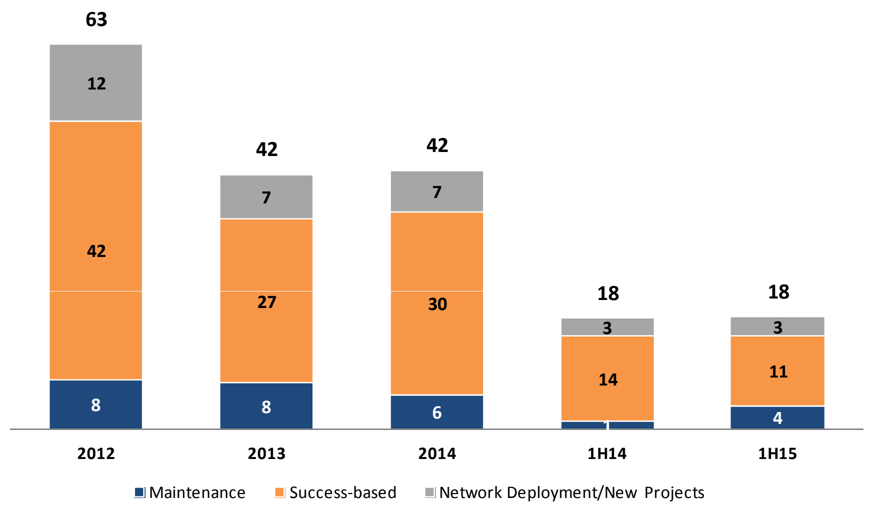
As % of revenue

18%	*12%*	*13%*	*11%*	*11%*

OpFCF conversion[1](%)

57%	*73%*	*73%*	*75%*	*76%*

Capex[2] (€m)



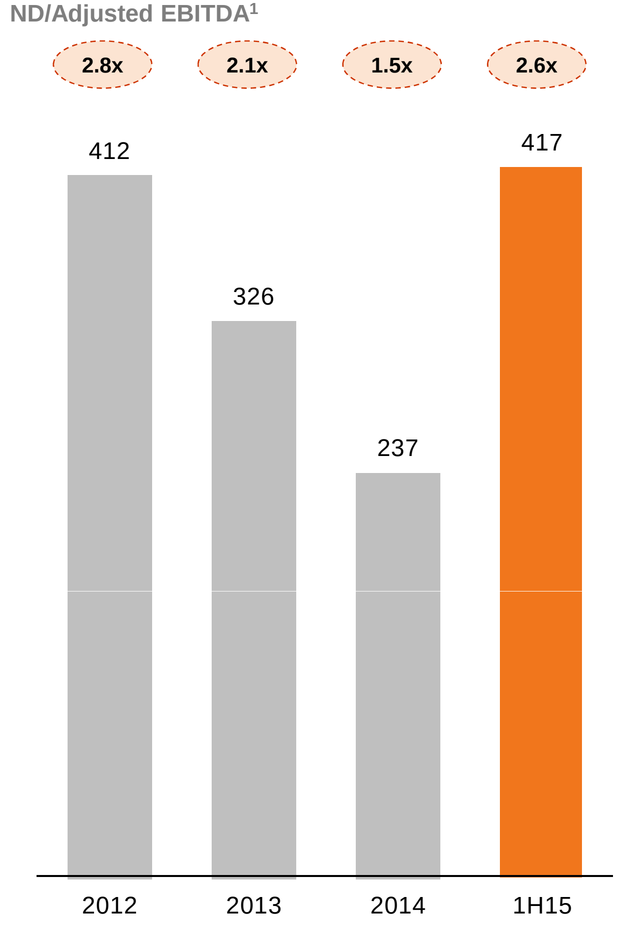
Notes:

1. OpFCF defined as Adjusted EBITDA–Capex and OpFCF conversion defined as (Adjusted EBITDA-Capex)/Adjusted EBITDA

2 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

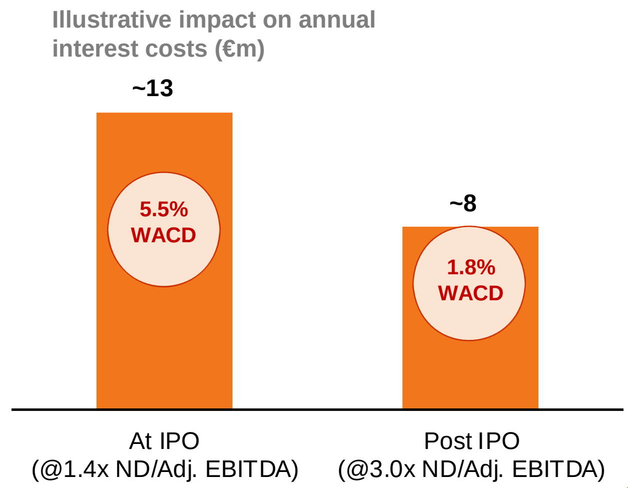
Capital structure optimization before IPO

Net debt evolution (€m)



Capital structure at IPO

- Releverage at **2.6x Net Debt/Adj. EBITDA (extraordinary dividend amount €207mn payed at 30th june)**
- Total **new financial facilities: €470m**
- 50/50 split TLA and TLB
- **WACD: 1.8%** (vs. 5.5% till june)[2]
- Flexibility provided through **€30m RCF**
- **Financial covenant**: 4.5x Net Debt/Adj. EBITDA with flexibility to increase to 5.5x if M&A



Sources: 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

Key performance indicators – KPIs (i/iii)

Residential						
KPI	**Unit**	**2012**	**2013**	**2014**	**1H 2014**	**1H 2015**
Homes passed	#	863,461	866,716	869,900	868,217	873,254
Household coverage	*%*	*84%*	*84%*	*85%*	*85%*	*85%*
Residential subs	#	305,761	298,495	296,023	299,375	300,751
o/w fixed services	#	287,457	284,105	279,212	283,812	282,890
as % of homes passed	%	33.3%	32.8%	32.1%	32.7%	32.4%
o/w mobile only subs	#	18,304	14,390	16,811	*15,563*	*17,861*
o/w 1P (%)	%	26.5%	23.1%	17.8%	*17.8%*	*17.3%*
o/w 2P (%)	%	41.2%	35.8%	26.9%	*29.6%*	*21.5%*
o/w 3P (%)	%	26.4%	31.8%	35.0%	*33.9%*	*36.6%*
o/w 4P (%)	%	6.0%	9.4%	20.3%	18.7%	24.6%
Total RGUs	#	719,033	769,036	896,077	870,852	968,023
RGUs / sub	#	*2.4*	*2.6*	*3.0*	*2.9*	*3.2*
Residential churn fixed customers	%	17.2%	14.8%	14.8%	*14.5%*	*12.2%*
Global ARPU fixed customers	€/m	54.3	53.3	53.8	*53.3*	*55.5*

Other operating data						
KPI	**Unit**	**2012**	**2013**	**2014**	**1H 2014**	**1H 2015**
Fixed voice RGUs	#	287,042	284,311	279,691	284,163	283,341
as % of fixed services subs		*99.9*	*100.1*	*100.2*	*100.1*	*100.2*
Broadband RGUs	#	209,092	215,520	217,726	219,480	224,361
as % of fixed services subs	*%*	*72.7%*	*75.9%*	*78.0%*	*77.3%*	*79.3%*
Pay-TV RGUs	#	50,177	56,992	124,754	129,876	127,660
as % of fixed services subs	*%*	*17.5%*	*20.1%*	*44.7%*	*45.8%*	*45.1%*
Postpaid Mobile RGUs	#	172,722	212,213	273,906	237,333	332,661
Postpaid Mobile subs	#	104,801	126,016	153,939	139,833	185,203
as % of fixed services subs (excl. Mobile only)	*%*	*30.1%*	*39.3%*	*49.1%*	*43.8%*	*59.2%*
Mobile lines per sub	#	*1.6*	*1.7*	*1.8*	*1.7*	*1.8*

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Key performance indicators – KPIs (ii/iii)

SoHo						
KPI	**Unit**	**2012**	**2013**	**2014**	**1H 2014**	**1H 2015**
Subs	#	45,637	46,317	47,038	46,993	47,932
o/w 1P (%)	%	37.8%	35.0%	32.7%	33.7%	30.3%
o/w 2P (%)	%	31.0%	29.9%	26.1%	26.7%	21.9%
o/w 3P (%)	%	27.2%	30.0%	31.1%	29.6%	35.2%
o/w 4P (%)	%	3.9%	5.1%	10.2%	10.0%	12.6%
Total RGUs	#	125,772	133,079	143,472	140,601	155,846
RGUs / sub	#	2.8	2.9	3.1	3.0	3.3
Global ARPU Fixed customers	€/m	72.0	68.2	64.8	65.7	65.1

SMEs and Large Accounts						
KPI	**Unit**	**2012**	**2013**	**2014**	**1H 2014**	**1H 2015**
Customers	#	5,291	5,251	5,094	5,162	5,072

Key performance indicators – KPIs (iii/iii)

Selected financial data	Unit	2012	2013	2014	1H 2014	1H 2015
Total revenues	**€m**	**342.8**	**334.9**	**321.2**	**159.5**	**161.7**
Y-o-y change	%		*-2.3%*	*-4.1%*		1.4%
o/w residential	€m	201.3	195.4	196.2	96.6	99.8
Y-o-y change	%		*-2.9%*	*0.4%*		3.3%
o/w Business	€m	102.8	101.2	93.4	47.5	46.2
Y-o-y change	%		*-1.6%*	*-7.7%*		-2.7%
o/w Wholesale and Other	€m	28.9	29.7	24.7	11.8	11.2
Y-o-y change	%		*2.8%*	*-1.7%*		*-5.6%*
o/w Other Profit Neutral Revenues	€m	9.8	8.6	6.9	3.5	4.5
Y-o-y change	%		*-12.3%*	*-20.1%*		*27.9%*
Adjusted EBITDA	**€m**	**134.7**	**155.1**	**155.9**	**72.9**	**76.0**
Y-o-y change	%		*15.2%*	*0.5%*		4.3%
Margin	%	*39.3%*	*46.3%*	*48.5%*	*45.7%*	*47.0%*
Capital expenditures	**€m**	**(119.2)**	**(41.5)**	**(42.2)**	**(18.0)**	**(18.3)**
Y-o-y change	%		*-65.2%*	*1.7%*		1.4%
% total revenues	%	*-34.8%*	*-12.4%*	*-13.1%*	*-11.3%*	*-11.3%*
Operational Free Cash Flow	**€m**	**15.5**	**113.6**	**113.7**	**54.8**	**57.7**
Y-o-y change	%		*632.9%*	*0.1%*		5.3%
% EBITDA	%	*11.5%*	*73.2%*	*72.9%*	*75.2%*	*75.9%*

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Directors´ report (i/viii)

Main figures for the business for the periods ended June 30, 2015 and 2014

	1H15	1H15 Adjusted (**)	1H14	1H15 Adjusted vs 1H14	%1H14
Total Revenue	**161.7**	**161.7**	**159.5**	**2.2**	**1.4%**
Residential	99.8	99.8	96.6	3.1	3.3%
Business	46.2	46.2	47.5	(1.3)	-2.7%
Wholesale & Other	11.2	11.2	11.8	(0.7)	-5.6%
Others (*)	4.5	4.5	3.5	1.0	27.9%
Ebitda	**66.7**	**76.0**	**72.9**	**3.2**	**4.3%**
Ebitda Margin	*41.3%*	*47.0%*	*45.7%*	*1.3 pp*	
OpFCF	**48.4**	**57.7**	**54.8**	**2.9**	**5.3%**
conversion rate	*72.6%*	*75.9%*	*75.2%*	*0.7 pp*	
RDI	**(18.4)**	**23.1**	**15.5**	**7.6**	**49.1%**
Net Financial Debt	**417.0**		**289.9**	**127.1**	**43.8%**
Net Debt / Ebitda	2.6x		1.9x	0.8x	

(*) Profit neutral operations

(**) Excluded costs related to the IPO process and debt cancellation.

Directors´ report (ii/viii)

(i) Income

Income for the period ended June 30, 2015 amounted to 161.7 million euros, compared to 159.5 million euros for the period ended June 30, 2014, which represents, for the first time since 2012, an increase of 2.2 million euros (+ 1.4% over the same period in the previous year).

(i.i) Residential

Income from the residential segment evolved positively in the first half of 2015, with a growth of 3.3% compared to the same period in the previous year. This is the result of a lower churn rate (12.2% in the period vs 14.8% in 2014) and an improvement in the Global ARPU (€55.5 in the period, €2.21 higher than for the same period in the previous year), as well as an increase in mobile phone penetration on the customer base (59.2% vs 43.8% a year ago). There was a net increase in new fixed network customers in the period of 3,678, with the RGUs per customer also increasing (from 2.23 to 2.25). With regard to mobile customers, there was an increase in subscribers of 31,264, with a ratio of 1.80 lines per customer.
This increase is supported by our bundling strategy, which has enabled an increase in ARPU for customers, as well as in products contracted by them.

(i.ii) Business

Income from the Business segment was 46.2 million euros, with a fall of -2.7% compared to the same period in the previous year. This situation is mainly due to the negative evolution of income in this sector during 2014, especially in SMEs and Large Accounts due to austerity measures implemented by businesses and pricing pressure by the competition. But this difference has been reducing every month: -7.9% in January, -4.3% in February, -2.1% in March, -1.8% in April, with the trend having changed upwards in May (+0.1%), which was maintained in June.

(i.iii) Wholesales and others

The remaining income showed a downward turn of -5.6%, mainly due to the impact of regulatory changes at the end of 2014 on the income of Wholesales.

(ii) Staff costs

Staff costs for the period ended June 30, 2015 amounted to 15.2 million euros, compared to 16.0 million euros for the year ended June 30, 2014.
The accumulated costs at June 2015 include the effect of the cost for the purchase of shares that are going to be handed out to the company workforce. Discounting this effect, staff costs are less than those for the same period in the previous year, due to the transfer of the workforce related to outsourcing activities, which took place in July and December 2014 respectively.

(iii) Other operating costs

Other operating costs for the period ended June 30, 2015 amounted to 43.0 million euros, compared to 33.2 million euros for the year ended June 30, 2014.
The accumulated costs at June 2015 include the effect of recognising costs associated to the flotation process. Discounting this effect, other operating costs would be in line with those for the same period in the previous year.

(iv) Impairment and gains / losses on the disposal of fixed assets

The provision made in 2012 for impairment, corresponding to administrative concessions for two blocks of frequencies in the 2.6GHz band to be able to provide broadband services in state-of-the-art mobility (LTE) with our own network, has been reversed, as the process of deploying our own LTE network was started in 2015 producing a positive impact in 1H15. The amount of this provision was 2.7 million euros.

(v) EBITDA and operating profit / loss

EBITDA is the result of adding the depreciation of fixed assets, impairment and gains / losses on the disposal of fixed assets and other results to the operating profit / loss.
The accumulated EBITDA at June 2015 (adjusted by the costs associated with the flotation process of the company referred to in paragraphs (ii) and (iii) above) amounted to 76.0 million euros, +4.3% higher than for the same period in the previous year, with the margin over income being 47.0%, +1.3 pp compared to the accumulated margin at June 2014.

(vi) Financial profit / (loss)

The result for the financial period ended June 30, 2015 was a loss amounting to 47.3 million euros, compared to 12.1 million euros for the period ending June 30, 2014.
The accumulated costs at June 2015 include the effect of recognising the costs associated to the flotation process and the cancellation costs of the previous debt, as result of refinancing it which occurred in June 2015.

(vii) Net profit / loss

The net result for the first six months was a loss of 18.4 million euros, as a result of the impact in the period of all the costs associated with the flotation. If we adjust these extraordinary costs for the period, the profit after tax would have been 23.1 million euros, compared with 15.5 million euros that we obtained for the six months ended June 30, 2014.

(viii) Operating Free Cash Flow

The operating free cash flow is determined as EBITDA less investments. The conversion of operating free cash flow is represented as a percentage of the total EBITDA.

In the period ending June 30, 2015 an adjusted operating free cash flow of 57.7 million euros was generated (conversion of operating free cash flow of 75.9%), compared to 54.8 million euros (conversion of operating free cash flow of 75.2 %) for the period ending June 30, 2014. The increase in operating free cash flow during the period under review was the result of the increase in EBITDA as described above in the EBITDA analysis, by keeping the level of investment constant in both time periods (18.3 million euros accumulated at June 2015 compared to 18.0 million euros accumulated at June 2014).

(ix) Net Financial Debt

The net financial debt at the end of the first half amounted to 417 million euros, which means a leverage of 2.6 times on the adjusted EBITDA for the past 12 months . This level of debt is 127.1 million higher than that existing a year earlier, as a result primarily of the disbursement of an extraordinary dividend of 207 million euros to existing shareholders prior to the flotation. Furthermore, this leverage ratio is significantly inferior to the average of our European peers.

Financial Risks

Our activities are exposed to various financial risks: credit risk, liquidity risk and market risk. Our global risk management programme is focused on the uncertainty of the financial markets and aims to minimise potential adverse effects on our performance.

Credit risk

Credit risk is the risk of financial losses that we have to face if a customer or counterpart of a financial instrument does not meet their contractual obligations and it occurs mainly in our accounts receivable.
We consider that the credit risk from customers is mitigated by the application of various specific policies and practices for that purpose, as well as by the high level of dispersal of the accounts receivable. The various policies and specific practices will include the scoring policy for accepting customers, the long-term monitoring of customer credit, which reduces the possibility of default on significant accounts receivable, and the management of the debt collection.
We do not have any significant concentrations of credit risk. Cash and cash equivalents are held in high credit rating banks and financial institutions.

Liquidity risk

Liquidity risk is the risk that we have had difficulties in fulfilling our obligations with respect to financial liabilities that are settled by the delivery of cash or other financial assets. Our approach to the management of liquidity is to ensure, to the greatest possible extent, that we always have sufficient liquidity to meet our obligations at the time of their maturity, under normal conditions and stress, without incurring unacceptable losses or jeopardising our reputation.
We adjust the maturity of our debts with respect to our ability to generate cash. To do this we implement five year financing plans, which are reviewed every year, and every week we carry out an analysis of our financial situation, which includes long-term projections. We also monitor balances and bank transactions on a daily basis.
Thus, although our working capital, defined as the difference between current assets and current liabilities, is negative, this is due to our normal business activity, in which the average collection period is less than the average payment period, which is normal in the sector in which we operate.

Market risk, currency risk and interest rate risk

Market risk is the risk that the changes in market prices affect our income or the value of financial instruments held. The objective of market risk management is to manage and control exposures to risk within acceptable parameters, while optimising profitability.

The company's ambit of operations barely exposes it to currency or price risks, which may arise from occasional purchases in foreign currency of insignificant amounts.

The company has also implemented different purchasing and contracting policies to encourage sales in its ambit of operations, as well as different policies aimed at mitigating, insofar as possible, the concentration of balances and transactions, and reducing the possibility of concentrating transactions in a limited number agents.

The company regularly revises its interest rate hedging policy. Under this policy, the need to contract interest rate hedges is evaluated.

The company settles interest on a monthly basis, which allows it to closely monitor the performance of interest rates in the financial market.

Events after the period end

Admission to trading of shares of the company on the Spanish stock exchanges

Euskaltel began trading on the Spanish stock exchanges on July 1, 2015, with a starting price of €9.50/share, equivalent to a market capitalisation of 1,202 million euros.
The initial sale offer corresponded to 80,408,930 ordinary shares, equivalent to 63.54% of the share capital of the company.
On July 7, the exercise of the full purchase option (over-allotment option) was announced, for an additional 6.354% of the share capital, which meant a total placement of 69.9% of the securities of the company.

Announcement of the agreement of intent to acqure the company R Cable Telecomunicaciones de Galicia, S.A (“R Cable”)

On July 23, Euskaltel and R Cable announced an agreement in principle for the integration of both companies.
R Cable was initially valued at 1,155 million euros (Enterprise Value), representing a multiple of approximately 10.9 times its EBITDA, in parameters similar to those of the flotation of Euskaltel.
With this operation, the new Euskaltel Group would have pro forma revenue of about 570 million euros and an EBITDA of 265 million euros.
Euskaltel has offered the shareholders of R Cable mixed compensation, which consists mostly of payment in cash (approximately 600 million euros) and the rest in newly issued Euskaltel shares (approximately 255 million euros), assuming, in addition, approximately 300 million of debt .
The agreement has been approved by the Board of Directors of both companies and is subject to the successful implementation of the due diligence process and approval of the competition authorities and the Shareholders' Meetings of both companies.