



2016 results for the Euskaltel group

The group announces a total dividend of €0.36 per share

The Euskaltel group posts revenues of €572.9 million and a net profit of €62.1 million

The integration of Euskaltel and R consolidates the group's growth in revenues, customers and results

- *The group's EBITDA stands at €280.6 million, up 68% compared to 2015. Revenue margin amounts to a record 49%.*
- *Operating Cash Flow stands at €184.7 million, up 62.1% compared to a year ago, with the cash flow conversion rate exceeding 65.8%.*
- *Debt ratio has decreased to 4.2 times EBITDA, compared to 5.1 times EBITDA a year ago.*
- *Euskaltel's Board of Directors has proposed paying shareholders a final dividend of €0.36 per share against 2016 results based on the net profit for the year, which should be approved at the General Shareholders' Meeting.*
- *This dividend of €0.36 per share implies a 4.43% return on the average share price for December 2016.*
- *The group's business strategy is based on the bundling of services and an added-value convergent product offering.*
- *Thanks to this strategy, our portfolio of customers with 3 and 4 contracted products amounts to 66% of the total customer base, while the penetration rate for these high added-value customers at the end of 2015 was 63.3%.*
- *Excellent performance in the mobile phone business, with 74,000 new mobile phone lines for the Euskaltel group, up 8.6% compared to 2015.*
- *More than 77% of fixed-line customers have at least one mobile phone line, which shows record penetration levels.*

- ***Contracted Pay TV services have increased by 22,000 new contracts in 2016 –up 8.1% compared to 2015– with the TV penetration rate exceeding 57.6% in fixed-line customers.***

Bilbao, 24 February 2017. The Euskaltel group has today presented its results for 2016, which show the company's first full year since its IPO and following the integration of Galicia's leading operator R, which has created the leading telecommunications group in the north of Spain.

The result of combining the two key convergent operators in the Basque Country and Galicia, Euskaltel and R, -with 542 professionals and over 3,500 indirect jobs being created in the Basque Country and Galicia- reflects a solid performance in revenues, customers and profitability, with turnover of €572.9 million and a net profit of €62.1 million.

As part of his assessment for the year, the chairman of the Euskaltel group, Alberto García Erauzkin, commented: *"we are leaders in our market. And this leadership reaffirms our plan to continue with a consistent strategy, a strategy that has enabled us to meet the expectations of our stakeholders in 2016 and will allow us to continue to do so in the future."*

This growth is based on the consistent execution of Euskaltel and R's business strategy, which focuses on the growth of high net worth customers in the mass market, attracting new customers to high added-value 3P and 4P convergent bundles and maximizing the life cycle value of our customer base.

Thanks to the company's convergent strategy, our portfolio of customers with 3 and 4 contracted products amounts to 66% of the total customer base, while the penetration rate on these high added-value customers at the end of 2015 was 63.3%



Alberto García Erauzkin:

We are strong. We are leaders in our market. And this leadership reaffirms our plan to continue with a consistent strategy, a strategy that has enabled us to meet the expectations of our stakeholders in 2016 and will allow us to continue to do so in the future.



The strategy's success is also reflected in the excellent performance of the mobile phone business, with 74,000 new lines contracted in 2016 -up 8.6%-, 22,000 new TV services contracts -up 8.1%- and growth in broadband products with around 6,000 new services -up 1.4%.

Commenting on the year-end results, Francisco Arteche, the Euskaltel group's CEO noted: *"We are particularly proud of 2016. The financial results reflect strong growth in revenues, customers and profitability for the Euskaltel group. And especially because they reflect that we have fulfilled the commitment made to our shareholders, to our customers and to our market."*

Strong performance and cash generating capacity

This excellent business performance has resulted in strong growth in operating results. EBITDA stood at €280.6 million, up 68% compared to the previous year, which stood at €167 million. Revenue margin amounted to 49%, which reflects the successful management of operating costs and the efficiency measures implemented in previous years.

The Operating Cash Flow, defined as the difference between EBITDA and Investments, amounted to €184.7 million, up 62.1% compared to the previous year, which stood at €113.9 million. The company's high cash flow conversion rate, which exceeds 65.8%, enables the company to hold a leading position compared to similar industry players in Europe. This is mainly a result of having our own state-of-the-art fibre optic network and also thanks to our business strategy, which allows us to focus our investments on retaining and attracting customers.



Francisco Arteche:

We are particularly proud of 2016. The financial results reflect strong growth in revenues, customers and profitability for the Euskaltel group. And especially because they reflect that we have fulfilled the commitment made to our shareholders, to our customers and to our market.



As a result of all this, the Euskaltel group's net profit at the end of 2016 stood at €62.1 million, compared to €7.2 million in 2015 -a result of the extraordinary expenses incurred as part of the company's IPO- and amounts to 10.9% of the group's total revenues, which stood at €572.9 million in 2016, compared to €340.6 million recorded last year.

The company's debt ratio has decreased to 4.2 times EBITDA, compared to 5.1 times EBITDA at the end of 2015. This €135 million reduction in one year means the company's debt ratio now stands at €1,223 million, thereby meeting -and effectively exceeding- the company's commitment thanks to its significant cash generating capacity.

The group's chairman noted: "This successful year is based on the consistent execution of our strategy. This has enabled us to meet the expectations of our shareholders, of our customers, of our human resources, and of the communities in which we carry out our business activities, bringing technological development, creating stable and quality employment, generating wealth and driving progress - the Basque people, through Euskaltel, and the Galician people, through R".



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€0.36 per share in its first year since the IPO

Euskaltel's Board of Directors has proposed the distribution of a final dividend to shareholders of €0.36 per share to be paid against 2016 results based on the year's net profit, which should be approved at the General Shareholders' Meeting.

This €0.36 dividend per share reflects a return per dividend of 4.43% on the average share price for December 2016, and is the result of adding the €0.15 interim dividend per share approved by the Board of Directors on 26 October, settled on 1 February 2017, plus the €0.21 supplementary dividend per share proposed by the Board of Directors for approval at the next General Shareholders' Meeting.

For Alberto García Erauzkin, the Euskaltel group's chairman, *“the approval of the dividend, the first since our IPO, demonstrates our strength as a group, our financial solvency and our proven cash-generating capacity”*.



Francisco Arteche:

In 2017 we intend to maintain our sustainable and growing dividend policy. We hope to accomplish all this, as we have done previously, with the help of the market, of our customers, the support of our shareholders and the hard work of our teams.



The Euskaltel group's CEO, Francisco Arteche, has emphasised that *“our intention in 2017 is to maintain our sustainable and growing dividend policy. And we hope to accomplish all this, as we have done previously, with the help of the market, of our customers, the support of our shareholders and the hard work of our teams”*.

Investments stood at €95.9 million in the period, up €42.8 million on the previous year. This rise is due to the incorporation of R's investments (€46.2 million) and to the continuation in 2016 of relevant projects in the company. This increase was underpinned by the plan to wire 51,000 homes and industrial buildings, the repositioning of broadband speeds, the expansion of access points to the WiFi in the street project and the start of the roll-out of the proprietary 4G network. These projects involve technological, customer-oriented innovations allowing users to enjoy the best services and enabling the Group to increase its commercial offering and revenues in the coming years.



Alberto García Erauzkin

The approval of the dividend, the first since our IPO, demonstrates our strength as a group, our financial solvency and our proven cash-generating capacity.



1.9 million products contracted by households in the Basque Country and Galicia

During the year ended 31 December 2016, the Euskaltel group continued the strategy of offering new and existing customers convergent bundles with the highest added value.

There has been a significant increase in the number of products contracted -82,000 new products reflecting a 4.5% increase-, resulting in around one million, nine hundred thousand products sold to households in the Basque Country and Galicia.

This growth is backed up by the strong performance of mobile phones (6.5% increase in customers and 8.6% increase in lines) and a significant increase in Pay TV (8.1%). Broadband has also seen positive growth (1.4%).

In 2016, the convergent product offering was renewed, resulting in improvements, especially in the mobile phone and TV services. Flexibility is what distinguishes our convergent product, allowing customers to configure their services according to their needs.

74,000 new mobile lines and 22,000 new Pay TV products

2016 ended with growth of 74,000 new mobile phone lines, up 8.6% on the previous year, thus consolidating its leadership in this segment. Particularly noteworthy is the mobile penetration rate record in 2016, as 77.2% of the Euskaltel group's customers have a contract for at least one mobile phone with the operator. The positive mobile phone offering is also reflected in the good performance of customers with mobile services only, which is up 3.4% (76,378 in 2016 compared to 73,838 in 2015). Overall, we have seen an increase in postpaid mobile lines from 702,892 in 2015 to 763,683 in 2016.

Strong growth in the residential segment has also been driven by an increase in the group's Pay TV customer base, which grew by 22,000 new lines, 8.1% up on 2015. It should also be noted that steady growth in TV customers has been recorded among our customer base, accounting for 57.6% of the total, compared to 53% a year ago.

During 2016, the TV offering was improved with new content bundling, improved functionalities of the "Replay" and "Rebobina" services, a better user interface, the consolidation of Everywhere TV and an increase in video library content. Contracted Pay TV products increased from 250,191 in 2015 to 270,333 in 2016.

Broadband products also increased by 5,354, standing at 389,456 in 2015 compared to 394,810 products in 2016 (+1.4%).

As a result, the product/customer ratio rose significantly in 2016 (3.5 in 2016 compared to 3.3 in 2015).

Based on these data, the Euskaltel group's CEO states that *"we have the privilege of having the most valuable customer base in the market. This encourages us to continue in 2017 with the strategy that has given us such good results, through the introduction of new services that will improve customer experience, and also to strengthen our position in the business segment, in order to become a true partner for them by providing customised solutions"*.

In line with market trends and our own marketing efforts, focusing on cross-selling across the existing customer base, there has been an increase in sales of triple play and quadruple play bundles with significant customer base growth and new subscribers in these segments. As a result, 78.3% of residential customers subscribed to one of the following bundles at 31 December 2016: 12.5% to 2P (14.8% in 2015), 26.4% to 3P (29.6% in 2015) and 39.4% to 4P (33.7% in 2015).



Francisco Arteche:

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Household leader based on convergent bundling

- **Broadband:** The Euskaltel group is the leading high-speed broadband service provider with Euskaltel in the Basque Country and R in Galicia. The fully invested, state-of-the-art fibre optic network enables the company to offer different products at ultra high-speeds of up to 350 Mbps, which cannot be matched by its DSL rivals. At 31 December 2016, Euskaltel and R offer broadband services to 394,810 residential customers, of which over 90% have high-speed broadband (speeds of 30 Mbps or more).
- **Pay TV:** Euskaltel and R are the leading Pay TV service providers in the Basque Country and Galicia. The group offers a wide selection of digital TV programming, including basic and premium bundles, and also Everywhere TV (sold under the "Edonon" brand and "TV comigo"), VoD and PVR functionalities, as well as access to premium content with the most popular local offering. At 31 December 2016, the group offers Pay TV services to 270,333 residential customers (up 8.1% on 2015).
- **Mobile phones:** The Euskaltel group is the fastest-growing and leading mobile phone service provider in the Basque Country and Galicia. At 31 December 2016, the company offers mobile phone services to 438,953 residential customers (up 6.5% on 2015).
- **Fixed-line phones:** The Euskaltel group is the leading fixed-line service provider in the Basque Country and Galicia (with the second highest market share). The company offers fixed-line services with unlimited national calls to fixed-lines and a wide range of price plans for fixed-line to mobile calls and fixed-line to international numbers.

Forecast for the 2017-2019 period

The Euskaltel group expects to see sustained revenue growth over the next three years, in line with GDP growth at around 2 or 3%.

With regards EBITDA, the group made up of Euskaltel and R expects growth of 100 basis points, improving the revenues margin to 50%.

The group also forecasts continued cash flow growth and, as a result, expects the debt ratio to be between 3 and 4 times EBITDA.

Lastly, the Euskaltel group's objective is for sound, sustainable dividend growth.

About the Euskaltel group

Euskaltel is the leading telecommunications group in convergent offerings in northern Spain. The company has strong territorial ties and a well-founded commitment to the Basque Country and Galicia, where it operates via Euskaltel and R.

The telecommunications group offers its services to a market of 5 million people, serving over 800,000 residential customers and companies. Euskaltel and R are leaders in fibre optic (broadband, phones and Pay TV and convergent telecommunications services) in the Basque Country and Galicia, respectively, with a solid customer base and complementary business models. As a mobile phone operator with its own 4G licence in the Basque Country and Galicia, it has the largest proprietary fibre optic network in place on the market.

Since their creation, Euskaltel and R have sourced over €3 billion from local suppliers in the Basque Country and Galicia and have contributed over €1.3 billion in taxes, which has a direct, positive impact on the Basque and Galician communities, reflected in social services, education, health, infrastructures and sporting and cultural activities. Furthermore, in the last ten years, the group has invested over €140 million in R&D&i.

The Euskaltel group employs 542 professionals, with an average age of around 43, indirectly providing 3,500 jobs in the Basque Country and Galicia.

The group is the leader in the mobile phone business, offering 350 Mbps. to its customers who all have a minimum internet access speed of 50 Mbps. The group has the largest WiFi network in the Basque Country and Galicia with 300,000 hotspots, has launched a 4G service and is rolling out a proprietary network thanks to the LTE licence.

As a telecommunications operator, its business sustainability is based on its human resources and its commitment to society. The group's customer and supplier-oriented focus, its Good Governance policy, responsible environmental management, social activity, customer service in the language they choose and, generally speaking, management excellence, are the foundations upon which its business is built. It is also important to note that Euskaltel is among the top 10 companies in Corporate Reputation in the Basque Country.

The Euskaltel group undertakes a large number of social and institutional projects by forming partnerships that are aligned with its strategy in order to continue being a caring, committed company with a clear vocation, and to be part of the technological progress being made in its markets, the Basque Country and Galicia.

For this reason the group takes part in innovative public-private programmes as a solution and communication service provider and works in different fields focusing on creating a cross-cutting ecosystem that includes educating young people in new digital skills and taking part in digital entrepreneurship programmes organised by the government. All of this enriches its value proposition in the market by providing solutions for companies and individuals in fields such as digital households, cybersecurity, health-related telemonitoring, Big Data, IoT and smartcities, etc.

Euskaltel – Communication Department

94-4011229

comunicacion@euskaltel.com

