



2017 first half results

The Euskaltel Group has completed its purchase of Telecable this week

## The Euskaltel Group consolidates its growth in high-value Mobile and Pay TV products

- *Despite the highly aggressive, competitive environment, residential segment revenues increase 0.4% compared to the previous year.*
- *Spain's leading telecommunications group in the north hits all-time penetration records in Mobile Phones (79.6%), Broadband customers (84.4%) and Pay TV customers (58.9%).*
- *The Group consolidates its lead in the mobile phone segment with growth of 35,000 new lines last year and 10,000 new Pay TV lines.*
- *Increased contracting of high-value products based on service packaging: 66.7% of customers contract 3 or 4 services, compared to 65.2% in the previous year.*
- *Products contracted per customer increase from 3.4 in the first half of 2016 to 3.5 at 30 June 2017.*
- *EBITDA margin improves from 48.7% in the first half of 2016 to its current 49.4%.*
- *Strong cash conversion with margins that are industry benchmarks. Operating cash flow rises to €92 million, with a high margin on revenues of 32.8%, which is well above the market average.*
- *The Euskaltel Group has this week completed its consolidation of convergent cable operators in the north of Spain, acquiring Telecable, the leading operator in Asturias, thus creating the leading telecommunications group in the north of the country. From August on, the Group's reported data will include the results of the Asturian company.*
- *The Group's CEO, Francisco Arteche, emphasises the company's "strong performance" despite stiff market competition and the extraordinary impacts on results for the first half of the year, and he is "optimistic" in terms of performance in the second half of the year when "we'll see revenues increase as a result of the package of commercial initiatives launched for the residential and business segments".*

- ***Euskaltel continues with its shareholder remuneration policy under the terms previously announced to the market.***

Bilbao, 28 July 2017. The Euskaltel Group, who this week completed its acquisition of Telecable, the leading operator in Asturias, thus concluding its consolidation of convergent cable operators in the north of Spain, has today presented its results for the first half of 2017. These first six months have seen 0.4% growth in residential segment revenues, based on the group's strength in the business' key segments, with a significant rise in the contracting of Pay TV services and, in particular, mobile phones, hitting a record mobile penetration rate of 80% among Euskaltel Group customers, thus consolidating its leading position in this segment.

In the first six months of the year, strong performance in the residential segment has led to record penetration levels in Mobile Phone products (79.6%), Broadband (84.4%) and Pay TV (58.9%).

The Euskaltel Group therefore consolidates growth in the first six months, despite stiff market competition and the extraordinary impacts on results, and expects revenue growth in the second half of the year as a result of the commercial initiatives launched for both the residential and business segments.

### **35,500 new mobile lines and 10,000 new Pay TV products**

The growth trend that started in the previous year has continued in the first half of 2017, with an extraordinary increase in contracted mobile and pay TV products. The first half of the year ended with growth of 35,500 new mobile telephone lines, up 4.8% on the same date in the previous year, thus consolidating the Group's leadership in this segment. Particularly noteworthy is the record mobile penetration rate in these first six months of 2017, as 79.6% of Euskaltel Group customers have at least one mobile phone contracted with the operator compared with 75.5% one year ago.

Strong growth in the residential segment has also been driven by an increase in the group's Pay TV customer base, which grew by 10,000 new lines, 3.5% up on the first half of 2016. It should also be noted that steady growth has been recorded in TV customers from within our customer base, accounting for 58.9% of the total in the first half of 2016, compared to 56.3% a year ago.

These positive television offering results are due to the group's TV strategy, based on a service proposal for high-value, TV functionalities, such as "Replayteka", "Te lo perdiste", nPvR, VoD, Star-over and Premium content, which has increased usage and customer satisfaction.

In addition, the Euskaltel Group has recently launched the country's first Android-based TV decoder, combining top quality TV and the internet in one single product. Euskaltel's state-of-the-art new, interactive TV decoder is the first on the market with cable, fibre and Android-based TV technology, internet

access and 4K resolution, making the latest TV technology available to all customers.

### **Increased contracting of value products**

As a result of the company's convergent strategy, the contracting of high value products based on service bundles has increased considerably: 66.7% of the Euskaltel group's total customers have 3 or 4 contracted services, compared to 65.2% in the first half of 2016.

Consequently, the products contracted per customer have also increased from 3.4 in the first half of 2016 to 3.5 at 30 June 2017.

The total number of residential customer products stood at 1.9 million, which is an increase of over 31,000 new products beyond the 1.86 million products recorded in June 2016.

### **Residential segment up 0.4%**

Against the backdrop of an aggressively strong, competitive environment, the first few months of the year have demanded efficient cost management, allowing for an improved EBITDA margin of 49.4% in 2017 compared to 48.7% in the same period of the previous year.

The Group's results have however been influenced by regulatory changes approved in June, which oblige Euskaltel Group companies to contribute to the funding of Spain's public television service (via the CRTVE charge) with an amount representing 0.9% of yearly telecommunications revenue, in addition to the 1.5% of yearly TV revenues, with the resulting impact on both net profit/loss and EBITDA.

The Euskaltel Group's EBITDA stands at €137.9 million in the first six months of 2017, compared to €139.3 million in the same period in 2016, although adjusted EBITDA for the first half of 2016 (as a result of the impact of the €2.2 million CRTVE charge) would have been €137.1 million, with comparable yearly EBITDA growth of 0.6%.

The net result for the first six months of the year was €21.1 million, due to the impact of €8.5 million, which relate to the aforementioned funding charge by Spain's public television service (€4.6 million) and also to organisational structure optimization expenses (€3.9 million).

The net result adjusted to reflect the aforementioned impacts would therefore be €29.6 million at 30 June 2017, compared to €30.2 million in June 2016.

In the first half of the year, Euskaltel Group revenue stood at €279.3 million, compared to 286 million in the first half of the previous year, which means a decrease of 2.3%. Despite 0.4% growth recorded in the residential segment, achieved in a strongly competitive environment thanks to new customers of 3 and 4 high-value product packages and maximising the lifecycle value of existing customers, the Group's revenues have been dragged down by results in the

business segment, which are still reflecting the impact of the lost Basque Country regional government contract.

### **Strong cash generation and reduced debt**

Adjusted operating cash flow stands at €92 million. The Euskaltel Group continues to stand out for profitability margins that are industry benchmarks, holding on to its leading position in Europe in terms of the cash conversion ratio (66.5%), whereas the best industry examples in the European market stand at around 60%, and with a high margin on revenues of 32.8%, which is way above the market average. This better cash flow conversion is mainly due to the result of its own next generation fibre optic network and to the business strategy of the operator which allows it to concentrate its capital investments on maintenance and in customer acquisition.

The Euskaltel Group's significant cash generating capacity has meant that net financial debt at the end of the first six months of 2017 has continued to decrease to €1,185 million, representing leverage of 4.2 times EBITDA, compared to 4.7 in the first half of 2016, when debt stood at €1,307 million. This solid cash flow conversion has enabled the Euskaltel Group to pay out a dividend of €54.6 million to shareholders (€0.36 per share) against 2016 results.

### **Assessment by the Euskaltel Group's CEO**

The Euskaltel Group's CEO, Francisco Arteche, has highlighted the "strong performance" recorded in the first half of the year, despite strong competition and the extraordinary impacts on results, and he is "optimistic" that the company's results in the second six months of the year will hold true to the forecast announced to the market at the start of the year.

He stated that in the second half of 2017, "we will see the results of the initiatives put in place during the first six months of the year, and also of the new products and services that will be launched in the coming months, both in the residential and business segments, continuing our convergent product and service strategy of maximum added value, which is the foundation of the company's sustained growth".

Among the initiatives launched by the Group to consolidate and strengthen its leading position in the residential segment, Arteche mentioned the launch of the first Android-based TV decoder on the market with 4K resolution so that customers can improve their TV experience, the modernisation of network quality and capacity with the deployment of DOCSIS 3.1, which stands at 42% of the network in the Basque Country half way through the year, in line with the market announcement, and the selling of connected household services, etc.

In terms of the business segment, the Euskaltel Group's CEO indicated that by the end of the year "we will begin to see the start of revenue increases in the business segment and the first positive results of the new initiatives put in place in this segment", such as the launch of packaged solutions for small and medium sized companies, with the office bundle including switchboard, firewall, cloud,

security services and a data centre, as well as other added-value services. In this section he also mentioned that the company has been awarded the autonomous government of Galicia bid until 2020, which is the operator's largest account in this region. The impact of the loss of the Basque regional government bid on the Group's accounts will also be gradually reduced during the second half of the year. The main impact of this event was felt during the first two quarters of 2017.

Lastly, Arteche reiterated that the Euskaltel Group has this week completed its consolidation of convergent cable operators in the north of Spain, closing the transaction to acquire Telecable, the leading operator in Asturias, thus creating the leading telecommunications group in the north of the country. The Group's CEO announced that the Group's strategic plan and objectives will shortly be presented to the market, and this will be done under terms adapted to the market's new circumstances and the scale of the company, which now provides services to a market of 6 million people covering the Basque Country, Galicia and Asturias.

**Euskaltel – Communication Department**

**94-4011229**

**[comunicacion@euskaltel.com](mailto:comunicacion@euskaltel.com)**

