

Monday 27th June 2016

STRATEGY UPDATE

Adapting to changing market dynamics

Rodolphe Belmer, Chief Executive Officer

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Adapting to changing market dynamics

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Step 1 - GROW CASH FLOW:

Maximize free-cash-flow generation of core businesses

3

Step 2 - GROW TOPLINE:

Build on our core Video business to accelerate growth;
capture longer term potential in Connectivity

4

Revised outlook and financial objectives

Changing dynamics in our core businesses

VIDEO: MODEST DEMAND GROWTH IN NEXT FIVE YEARS

- ▶ **Sustained growth in emerging markets**
 - Robust channel growth
 - Increasing HD penetration
 - MENA and SSA leading growth
 - Prices well-oriented
- ▶ **Broad stability in Europe**
 - Broadly stable channel count
 - HD and UHD ramp-up
 - Improving encoding and compression



Low single digit growth

DATA SERVICES: STRUCTURALLY CHALLENGED

- ▶ **Global demand driven by increasing connectivity needs**
- ▶ **Large HTS systems adding to existing overcapacity**
- ▶ **Ongoing severe pricing pressure**
- ▶ **More stickiness in certain segments**



Low single digit decline

GOVERNMENT SERVICES: POCKETS OF OPPORTUNITY

- ▶ **US DoD demand stabilizing, albeit at lower prices**
- ▶ **Slower migration to HTS than Data Services**
- ▶ **Opportunities in Europe, Asia and MENA and in non-military**



Broad stability

Longer-term potential in Video and Connectivity

VIDEO

- ▶ **Satellite and IPTV set to dominate global video distribution in the longer term**
- ▶ **Opportunity to enhance satellite value proposition by offering IP-like viewer experience**
- ▶ **Outsourcing of services by broadcasters will create additional sources of demand**

FIXED AND MOBILE CONNECTIVITY

- ▶ **Nascent markets with huge potential**
- ▶ **Massive growth in bandwidth usage per consumer**
- ▶ **Medium-term potential in Aero**
- ▶ **Long-term potential in land mobility**
- ▶ **VHTS and VVHTS satellites are pre-requisites in terms of volume and pricing for mass-market adoption**

Adapting strategy to new market conditions

STEP 1

GROW CASH-FLOW

2017-19



**Maximize
free-cash-flow generation
of existing businesses**

STEP 2

GROW TOPLINE

2019-2025+



**Build on our core
video business
to accelerate growth**



**Capture longer
term potential
in Connectivity**

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Step 1: maximize free-cash-flow generation of core businesses

2.1 Financial and operational measures

2.2 Optimizing revenues in each core business

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Capex reduction

- ▶ **Implement ‘design to cost’ approach**
- ▶ **Ground capex under strict control**
- ▶ **Capture hosted payload opportunities**
- ▶ **Focus on partnership and “condosats”**
- ▶ **Capitalize on industry-wide efficiency improvements**

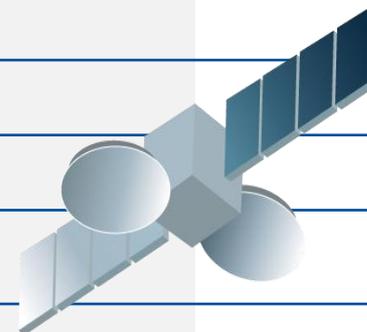


Average annual
cash Capex
for FY 17-19
€420m

- ▶ **Commitment to current deployment plan including replacing satellites at EOL**
- ▶ **Selective in-orbit investments in growth opportunities**

Committed capex represents 60% of cash capex outlook

Programme	FY 16-17	FY 17-18	FY 18-19	TOTAL	%
ETL 172 B	\$\$\$				
ETL Quantum	\$\$\$	\$\$	\$		
ETL 7C	\$\$\$	\$\$\$	\$\$		
African Broadband Sat.		\$\$	\$\$\$		
Financial leases and ECA	\$\$\$	\$\$\$	\$\$\$		
SUB-TOTAL COMMITTED				C. €750M	60%
Uncommitted Satellite 1	\$\$\$	\$\$\$	\$\$		
Uncommitted Satellite 2		\$\$\$	\$\$		
Uncommitted Satellite 3		\$\$\$	\$\$		
On-Ground Capex	\$\$\$	\$\$\$	\$\$\$	C. €200M	15%
SUB-TOTAL UNCOMMITTED				C. €510M	40%
Total Cash Capex				C. €1,260M	



Optimization of cost of debt

- ▶ **June 2016: €500m bond issue at 1.125% coupon**
 - Refinancing of €850m March 2017 Bond (4.125% coupon)
 - c.€30m p.a. reduction in interest costs
- ▶ **Swap-lock ahead of 2019 €800m bond (5.0% coupon)**
 - Locked at c. 145 bps, (-90 bps)
- ▶ **ETL Communication term loan extended for 12 months to 2021**



Annual savings
of c. **€50m**
from 2019,

(c.€30m from
March 2017)

Other measures

PROTECTING EBITDA

- ▶ **OPEX under review**
 - Optimization of procurement
 - SG&A savings
- ▶ **Objective: maintain EBITDA margin above 75%**

STRICT FOCUS ON WCR

- ▶ **Reinforcing cash collection procedures to reduce DSO**
- ▶ **Prepayments when possible**

OPTIMIZING THE ASSET PORTFOLIO

- ▶ **Seeking partnerships for broadband projects**
 - ViaSat in Europe
 - Inframed in Africa
- ▶ **Divesting non-core assets**
 - Alterna'TV in April 2016
 - Other assets under consideration

STREAMLING THE ORGANIZATION

- ▶ **Organization realigned along 5 business lines**
 - Core businesses: Video, Data and Government Services
 - Connectivity: Fixed Broadband and Mobile Connectivity
- ▶ **Metrics for key personnel aligned with cash-flow generation**

Step 1: maximize free-cash-flow generation of core businesses to optimize shareholder returns

2.1 Financial and operational measures

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2.2 **Optimizing revenues in each core business**

Optimizing revenues in each core business



Video



Data Services



Government Services

Enhancing the commercial model

MATURE MARKETS

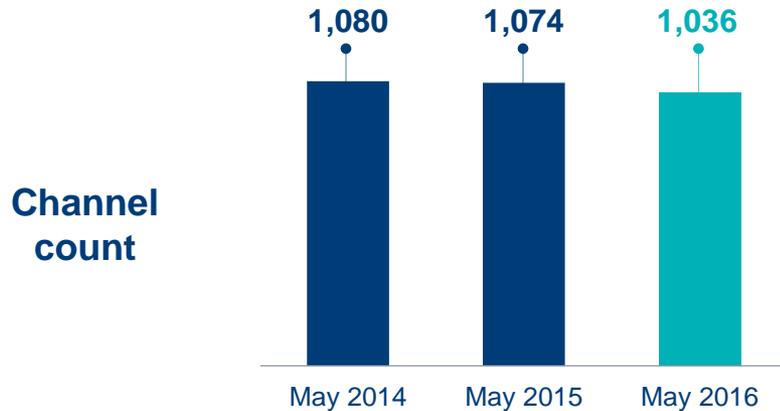
- ▶ **Increase direct customer access by integrating distribution**
 - Starting with the HOTBIRD position
- ▶ **Stimulate HD and UHD take-up**
- ▶ **Develop segmented pricing strategy to extract more value from key hotspots**

EMERGING MARKETS

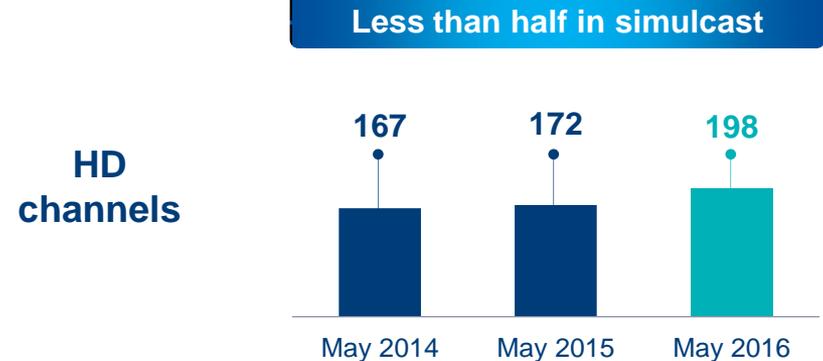
- ▶ **Reap benefits of recent investments**
 - EUTELSAT 8 WB in MENA
 - EUTELSAT 36C in SSA
- ▶ **Invest selectively to capture growth**
 - EUTELSAT 7C to add capacity in SSA
- ▶ **Favour pricing flexibility over contract length**

Sound fundamentals at HOTBIRD

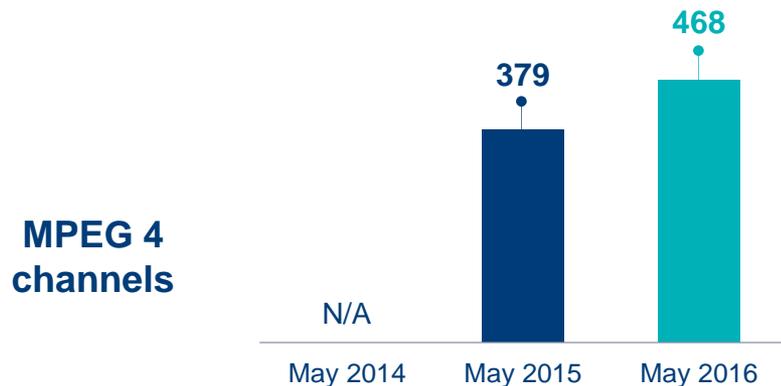
LIMITED DECLINE IN CHANNEL COUNT



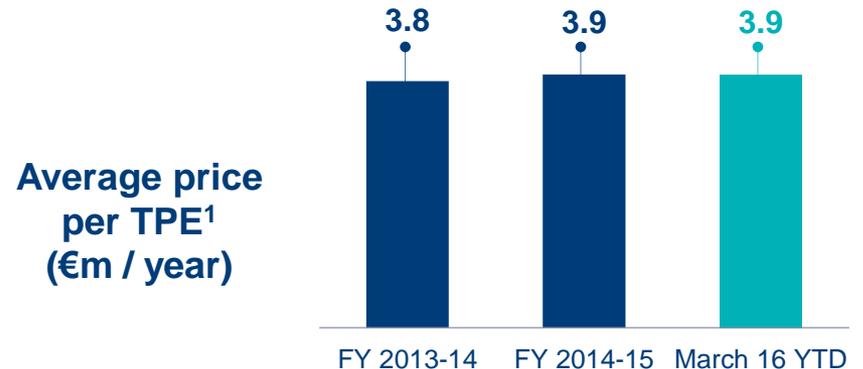
HD PENETRATION: 20%



MPEG4 PENETRATION: 45%



STABLE PRICING



HOTBIRD: Extend control over network by taking back empty capacity from distributors

C30% OF HB TRANSPONDERS LEASED TO DISTRIBUTORS

- ▶ Selling predominantly to FTA channels with low (c.5%) HD penetration

SOME HAVE UNSOLD CAPACITY ON THEIR HANDS

- ▶ Equivalent to 4/5 transponders

TWO DRAWBACKS

- ▶ Potential pricing disruption on the market
- ▶ Limits scope to promote HD ramp-up for their end-customers

We have opted to manage this situation by offering early termination of certain contracts in order to:

- ▶ Preserving the premium value of the HB hotspot
- ▶ Stimulate HD and UHD take-up
- ▶ Ability to streamline distribution by using fewer and more specialized distributors

HOTBIRD Action Plan

▶ Enhance distribution model

- Extend control over network by taking back empty capacity from distributors
- Increase share of direct sales, especially to Free-to-Air channels
- Develop segmented pricing strategy

▶ Improve value proposition

- Stimulate transition to HD and ultra-HD:
 - Objective of circa 50% HD penetration in 5 years
 - > 20 UHD channels expected in 5 years
- Attract premium channels in different language pools
- Develop services (Smart LNB, IP Multiscreen)



▶ Address new geographies

FY 2019

Stable revenues at HOTBIRD

Emerging markets

- ▶ **CAGR in demand within Eutelsat footprint¹ at c.4% over next 5 years**
- ▶ **Ability to raise prices by leveraging Hotspot value**
- ▶ **Favoring pricing flexibility over contract length**

EXAMPLE

Anchor MENA Customer renewing 5-TPE¹ Video contract in 2014 with c.30% average price increase

¹ 36 Mhz equivalent transponders

EXAMPLE: SUB SAHARAN AFRICA DYNAMICS

- ▶ **2015-20 market drivers:**
 - 6% CAGR in channel count
 - HD penetration from 5% to 11%
- ▶ **Selective investment at key hotspots:**
 - 36° East: carry-forward effect of capacity sold to MCA on ETL 36C
 - 7° East: EUTELSAT 7C in 2019 to increase resources in SSA
 - 16° East: additional capacity under consideration

Optimizing revenues in each core business



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Government Services

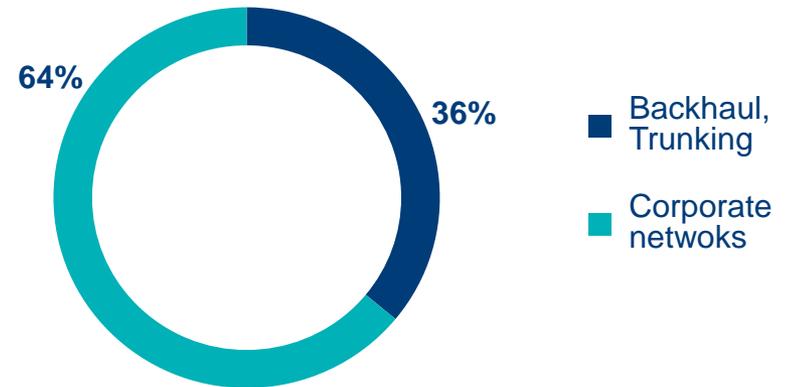
Data Services: significant pressure on pricing

- ▶ **Historic price pressure due to overcapacity in certain geographies**
- ▶ **Compounded by arrival of significant additional capacity in the form of HTS systems**
- ▶ **All data applications potentially affected**
 - Corporate Networks more sticky than point-to-point

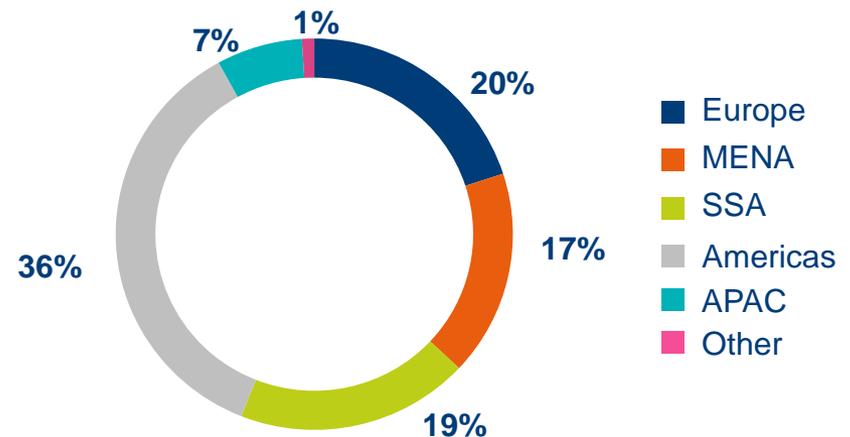
Prices expected to decline by up to 50% in 5 years

BREAKDOWN OF EUTELSAT FIXED DATA REVENUES¹

BY VERTICAL



BY GEOGRAPHY



Impact of lower pricing mitigated by higher volumes and resistance measures

EVOLUTION OF EUTELSAT DATA* REVENUES AS % OF TOTAL REVENUES



Resist:

- ▶ High share of revenues already in the Backlog
 - >60% of FY 17 revs and >40% of FY 18
- ▶ Focus on less price-sensitive customers, untapped verticals and differentiated offer

Compensate with higher volume:

- ▶ Favouring fill rate over price
 - ▶ Significant available capacity
-
- ▶ Decline in Data revenues contained to c. 3% cagr in 5 years (15-20% decline)
 - ▶ Offset by growing revenues in other applications
 - ▶ Data to shrink to 10% of total revenues medium-term

No further investments in regular data capacity

Americas focus

- ▶ **Significant new available capacity (ETL 115 WB, ETL 65 WA, ETL 117WB)**
 - Favour fill-rate and contract length over pricing
- ▶ **Focus on markets with lower competitive intensity**
 - North America
 - Alaska
 - Mexico
- ▶ **Focus commercial effort on less price-sensitive customers**
 - Complex ground networks
 - Untapped verticals: Infrastructure, Agriculture, IOT
 - PPP opportunities
- ▶ **Grow contribution from Video Applications**
 - Still some new DTH platforms opportunities
 - Grow existing business (Tigo Star, Star TV)



Slight growth in FY 2016-19

Optimizing revenues in each core business



Video



Data Services



Government Services

Adjusting strategy in Government Services

US GOVERNMENT BOTTOMING OUT

- ▶ **US DoD demand stabilizing at lower pricing levels**
- ▶ **Latest 5-year task order cycle completed in Fall 2016**
- ▶ **Enhance our distribution model**
 - Develop new sub-segments of customers
 - Develop differentiated value proposition, with a focus on Quantum

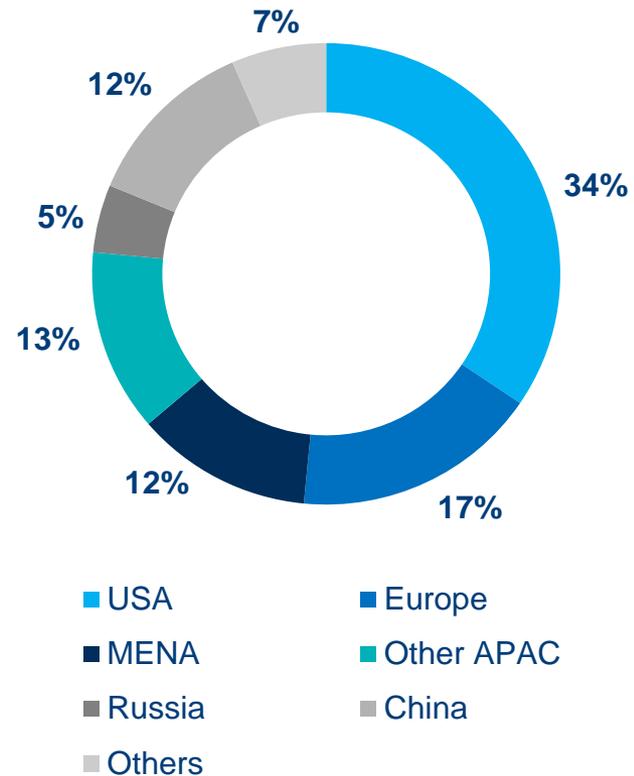
ALTERNATIVE GROWTH OPPORTUNITIES

- ▶ **In other geographies**
 - Europe
 - Middle East North Africa
 - Asia-Pacific
- ▶ **In non-military**
 - Programs aiming at reducing the digital divide: schools, administrations
 - PPP opportunities

Opportunity in Non-US Governments

- ▶ **Priority areas (Europe, MENA, APAC) represent c70% of non-US military spending**
- ▶ **Key non-US COMSATCOM markets to grow at mid-single digit CAGR to 2019**
- ▶ **Eutelsat competitive advantages**
 - 'Best in-class' operator
 - Flexibility (Quantum) and coverage (global fleet)
 - Long-term relationships with key distributors

BREAKDOWN OF MILITARY SPENDING BY REGION IN 2014



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Build on our core Video business to accelerate growth; capture longer term potential in Connectivity

MEDIUM TERM (FROM FY 2019)

LONG TERM (FROM FY 2021)



VIDEO

Build on our core business to accelerate growth

- ▶ Growth potential of Video
- ▶ Opportunity for further value creation
- ▶ Harnessing technology



FIXED BROADBAND

Prepare for scalability

- ▶ Optimize existing assets within a limited current addressable market
- ▶ Progress on prerequisites for scalability
- ▶ Decide on scale and location of investments from 2018/19



MOBILE CONNECTIVITY

From niche to mass market

- ▶ Use existing assets to anchor foothold in the market
- ▶ Selectively invest in capacity to improve coverage
- ▶ Pave the way for Mass market

Video: Build on our core business to accelerate growth



GROWTH POTENTIAL OF VIDEO

- ▶ **Video via satellite will continue to grow**
- ▶ **Distribution will be split between satellite and IPTV longer term**
- ▶ **Outsourcing of services by broadcasters will create additional sources of demand**

OPPORTUNITY FOR FURTHER VALUE CREATION

- ▶ **Greater integration within the IP ecosystem**
- ▶ **Enhance viewer experience**
- ▶ **Add new services for broadcasters, advertisers and consumers**
- ▶ **Develop connected terminals**

HARNESSING EXISTING TECHNOLOGY

- ▶ **Improve efficiency**
 - Compression
 - Encryption
 - Security
- ▶ **Increase revenue**
 - Metadata management
 - Targeted advertising
 - Payment
- ▶ **Enhance loyalty**
 - Multiscreen
 - Smart EPG
 - TV everywhere

Enhance end-viewer experience to reinforce customer loyalty and generate additional revenue opportunities



BRIDGE DIGITAL DIVIDE



IN-MARKET PROPOSITION

- ▶ Deliver fiber-like capacity (30 Mbps)
- ▶ Reach fiber-like pricing (€40 / month)
- ▶ Lower barriers to adoption
- ▶ Assess adressable market
- ▶ Develop appropriate distribution



INDUSTRIAL TRANSLATION

- ▶ VHTS satellites
€1m / Gbps
- ▶ Terminals < \$200
- ▶ Refine assessment of fiber deployment
- ▶ Test and validate business models



TIMING

- ▶ 2020-21
- ▶ C.2019
- ▶ 2018 onwards
- ▶ 2016/18

Use the time to VHTS to prepare for mass market: optimize existing or committed assets (KA-SAT, Russian and African Broaband) and validate go-to-market models

Mobile Connectivity: market foothold with existing assets

BRING FIBER-LIKE CONNECTIVITY IN MOBILITY



IN-MARKET PROPOSITION

- ▶ Deliver streaming-like experience for IFEC
- ▶ 1 Mbps / passenger for 50% of passengers

- ▶ Deliver on-the-move fiber-like Connectivity for ground transportation



INDUSTRIAL TRANSLATION

- ▶ VHTS satellites
1 Terabyte satellite

- ▶ VVHTS
- ▶ Flat terminals



TIMING

- ▶ 2020-21

- ▶ 2025-2035+

Pave the way by leveraging our existing assets in Aero (172° East, 10° East, 117° East, KA-SAT), selectively invest to improve coverage, and seek partnership deals with stakeholders for each vertical

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Five verticals: 5 action plans

Core businesses

Video

- ▶ Targeting growth in emerging markets
- ▶ Enhancing hotspot value generation
- ▶ Developing satellite value proposition vs. IPTV

Data Services

- ▶ Mounting competitive pressure in coming years
- ▶ Managing the impact of lower pricing on revenues
- ▶ No further investment in regular data capacity

Government Services

- ▶ Stabilizing DoD
- ▶ Opportunities in other geographies and non-military
- ▶ Leverage EUTELSAT QUANTUM

Connectivity

Broadband

- ▶ ViaSat joint-venture for European Broadband
- ▶ Ramp-up of Broadband projects in Africa and Russia
- ▶ Leverage existing assets to prepare for scalability

Mobility

- ▶ From niche to potential mass-market in the next decade
- ▶ Market foothold with existing assets in Aero
- ▶ Preparing the ground for 'Big Mobility' verticals

Financial outlook

REVENUES

(At constant currency, and perimeter excl. non recurring revenues)

- ▶ FY 2015-16: Broadly flat
- ▶ **FY 2016-17: Between -3% and -1%**
- ▶ **FY 2017-18: Broadly stable**
- ▶ **FY 2018-19: Slight growth**

EBITDA MARGIN

- ▶ FY 2015-16: Around 76%
- ▶ **FY 2016-17 to FY 2018-19: above 75%**

CAPEX

- ▶ **FY 2016-17 to FY 2018-19: Average of €420m¹ per year'**

FREE CASH FLOW

- ▶ **FY 2015-16 to FY 2018-19: Discretionary free cash flow² CAGR >10%**

LEVERAGE

- ▶ **Investment grade rating**
- ▶ **Target net debt / EBITDA: below 3.3x**

DISTRIBUTION

- ▶ **From FY 2015-16: Stable to progressing dividend**

To Sum Up:

-  **Stabilization of revenues in FY18, with return to growth in FY19**
-  **EBITDA margin maintained above 75%**
-  **Steadily growing cash flow thanks to Capex reduction, Opex containment and balance sheet optimization**
-  **...to fund ongoing deleveraging in line with commitment to Investment Grade rating and targeted investments in future growth...**
-  **...and deliver stable to progressing dividend**

QUESTIONS & ANSWERS

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