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Bouygues press release

Deeply transformed, Bouygues Telecom is drawing on its commercial momentum and new business model in order to return to sustainable growth

⇒ **EBITDA margin target of 25% for 2017 and 35% longer term**

As announced, Bouygues is today holding a Capital Markets Day to present its vision of the telecoms market as well as the mid to long-term outlook of Bouygues Telecom.

Explosion in mobile data consumption

The French telecoms market is experiencing an unprecedented acceleration in mobile data consumption thanks to the very fast adoption of 4G and the continually improved power of smartphones. Mobile data uses, driven mainly by video and social networks, are surging. For example, 50% of internet connections^a are currently via a mobile handset in France and 50% of YouTube videos are viewed on a smartphone^b. 90% of Facebook users log on using a mobile handset^c and 33% of the French population surf the internet at home using the mobile network^d rather than using Wifi. Arcep, the French telecoms regulator, reports that mobile data consumption in France has increased six-fold in three years whereas voice and text usage has stagnated during the same period.

This explosion in mobile internet consumption means that both data and mobile telephony will be central for usages.

(a) Source: Médiamétrie, mobile marketing quarterly survey in France, December 2014

(b) Source: YouTube

(c) Source: BCG, the mobile revolution, 2015

(d) Source: Credoc, November 2014

Bouygues Telecom has the necessary assets to drive its growth from this market trend and aims to make the best of digital technology and services accessible to as many people as possible

- Leadership in 4G and a unique positioning

As the leader in 4G roll-out in France, Bouygues Telecom has a cutting-edge network and a unique portfolio of frequencies enabling it not only to offer excellent quality to its customers but also to cope with the future explosion in uses. This 4G network currently covers 72% of the French population and has been designed to offer the best quality of service inside buildings. Thanks to network sharing in non-dense areas, 4G coverage will reach 99% of the population by 2018 via an extension of the network from 15,000 to 20,000 base stations. The aggregation of 800, 1800 and 2600 MHz frequencies will also provide unrivalled speeds of up to 300 Mbit/s.

Thanks to the quality and strength of its mobile network, Bouygues Telecom is able to target the most "connected" and higher value-added customers, namely the biggest consumers of mobile data. At end-June 2015, 42% of Bouygues Telecom customers are therefore 4G users and consume an average of 2.4GB of

data per month (versus 610MB for the market average). Moreover, 30% of Bouygues Telecom's 4G customers on 3GB plans reach their maximum data limit every month. As a result, more and more of them are buying data top-ups, meaning that value is now beginning to be unlocked from this increased data usage.

Furthermore, Bouygues Telecom adopted a new customer-centric positioning at the end of 2014. Under the slogan "our customers first" (*nos clients d'abord*) Bouygues Telecom has striven to simplify offers, develop its services (e.g. allowing customers to pay for handsets in instalments), strengthen the quality of its customer relations and reward the loyalty of existing customers by offering them the best, exclusive promotional offers.

This new differentiated positioning and the quality of the 4G network has significantly reduced the churn rate in Bouygues Telecom's customer base, cutting it to 15% lower than the 2011 level in the first half of 2015. In this context, the plan subscriber base excluding MtoM^a has thus increased by more than 350,000 between end-September 2014 and end-June 2015.

(a) Machine to Machine

– Rapid growth in fixed broadband

A player on the fixed broadband market since 2009, Bouygues Telecom now sells its Bbox offers to all French households eligible for ADSL and is stepping up the roll-out of its directly-owned network. As a result, Bouygues Telecom will cover 16 million households directly by the end of 2015, versus 12.3 million a year earlier. As in the mobile segment, this state-of-the-art network ensures excellent quality, as recognised by Arcep in its latest survey of French fixed broadband networks in May 2015.

In March 2014, Bouygues Telecom launched a highly attractive triple-play^a offer at €19.99 per month in order to pursue growth in the fixed broadband market and accelerate its market share gain. The strategy is a success, since the company is No. 1 in terms of net growth over the last seven quarters and has added close to 600,000 new customers since the end of 2013. As a result, Bouygues Telecom's market share increased from 8% to 10% between end-2013 and mid-2015.

At the same time, Bouygues Telecom regards the development of very-high-speed^b as an opportunity to shake up the fixed market. Bouygues Telecom entered into partnerships with the other operators as early as 2010, which means it is now able to offer very-high-speed services to a potential 7 million households, including 1.5 million with FTTH^c.

As in the mobile segment, Bouygues Telecom is enhancing its fixed broadband offering by proposing additional services such as SVoD and premium packages with the Bbox Miami.

(a) Telephone, internet, television

(b) Arcep definition: peak download speed of 30 Mbit/s or more. Encompasses FTTH, FTTLA and VDSL2 subscriptions

(c) Fibre-to-the-Home: roll-out of optical fibre from the optical distribution frame (place where the operator's transmission equipment is installed) to homes or business premises (Arcep definition)

– New virtuous business model

Bouygues Telecom embarked on a far-reaching transformation as early as 2012 in order to adapt the company to its new competitive environment and make it more agile and competitive.

Two successive savings plans have been rolled out and their initial targets have been revised upwards without affecting customer service quality:

- savings of €600 million were achieved in the mobile business alone between 2011 and 2013, double the initial target amount;
- savings of €400 million on both the mobile and fixed businesses will be made between end-2013 and 2016, €100 million more than initially planned.

Overall, savings of €800 million^a will have been made across all businesses between 2011 and 2016/17.

In order to achieve these targets, Bouygues Telecom has radically simplified its business. The number of offers and the brand portfolio, distribution networks and the organisation of support functions have been simplified and optimised, resulting in a significant reduction in structure costs, with notably the departure of over 2,000 employees.

Bouygues Telecom will thus have cut its operating costs^b per customer by over 40% between 2011 and 2016/17, resulting in a more agile and virtuous business model. Beyond 2017, Bouygues Telecom will be able to capitalise on this new model while benefiting from economies of scale. Productivity gains will continue to accrue, helping to stabilise operating costs despite the rise in the number of fixed and mobile customers.

At the same time, Bouygues Telecom is showing its agility in managing network costs to its best advantage. In the mobile activity, the size of infrastructure and the current portfolio of frequencies mean that the company can look forward to the forthcoming explosion in data usage with confidence. In addition, the mobile base station sharing agreement with Numericable-SFR in non-dense areas will significantly enhance network quality while generating savings of around €100 million per year on operating costs and capital expenditure from 2018.

In the fixed segment, an expanding customer base will generate economies of scale, while the roll-out of the directly-owned DSL network combined with rationalisation of partnerships will benefit service quality and hence customer loyalty. The regulatory framework also enables Bouygues Telecom to invest gradually and flexibly in its FTTH fibre network in line with its ambitions for growing its customer base.

(a) Savings on operating costs excluding interconnection costs, tax and levies

(b) Excluding interconnection costs, tax and levies

Target of a return to sustainable growth in sales and profits

Drawing on these assets and the resulting momentum, Bouygues Telecom sets the following financial targets:

- ⇒ Sales from network growth of more than 10% in 2017 versus 2014, taking into account a target of one million more mobile customers and one million additional fixed broadband customers in 2017 versus 2014;
- ⇒ An EBITDA^a margin of 25% for 2017 and 35% longer term;
- ⇒ Average annual capital expenditure of around €750 million for the coming years.

(a) EBITDA = current operating profit + net depreciation and amortisation expense + net provisions and impairment losses - reversals of unutilised provisions and impairment losses. The EBITDA margin is calculated on the basis of sales from network.

Financial calendar

13 November 2015: Nine-month 2015 sales and earnings (7.30am CET)

The Capital Markets Day presentations will be available on www.bouygues.com from 6pm CET.

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