

NEW FRONTIERS

Letter from the President and CEO – Karim Michel Sabbagh

2017 was a year of transformation, and that theme runs through this letter and the broader report. I hope you will find this briefing as insightful and exciting as the work we've completed over the past 12 months.

SES has begun a comprehensive transformation to enhance its strategy, execution, and evolve its differentiated capabilities. In doing so, SES has put itself in the best position to serve its customers with distinctive communications solutions now and in the future. In turn we have set SES on a unique path for growth and value creation.

Transformations are essential when market opportunities and challenges outgrow the proven playbook of an organisation and the industry at large. They are also demanding in that they must overcome the significant aversion to change that all people, organisations, and industries suffer from. Yet transformations can be extremely rewarding because, when properly executed, they deliver a more solid business foundation.

Let me clarify that SES's transformational journey is underpinned by our three-pronged strategy, as presented each year in my letter to the shareholders.

First, SES wants to scale and globalise its core activities. SES's space infrastructure covers 99% of the world's population and it needs to fully realise the potential of this and add value to the societies and economies it serves.

Second, the business seeks to build differentiated capabilities in four distinct markets, namely Video, Fixed Data, Mobility and Government. Serving customers with optimised communication solutions is the key to success, and it is with this single-minded focus to grow SES's leadership and underlying capabilities in these core markets that we developed two distinct business units. SES Video and SES Networks allow SES to deploy its capabilities in a focused manner, which I will detail further into this letter.

Third, SES aims to develop a future-proof business and technology model using an iterative approach to adaptation and innovation. All levels of the SES community are challenging the status quo and developing new insights in order to enable and grow the business of their customers.

These strategic pillars in fact led us to the conclusion that we needed to accelerate the transformation in 2017. Notwithstanding SES's leading position in the industry, we

elected to shift gears and press ahead in our pursuit of the three growth markets SES serves in networks, while maintaining SES's leading position in the resilient video market.

We therefore evolved our thinking on the scope and scale of the opportunities before us, how to organise and deploy capabilities from space to ground operations, and finally how to define and measure economic success.

Let me be very clear that our execution in 2017 didn't meet all our objectives. The implications of building out the new business model in SES Networks were not fully anticipated, and satellite health caused some adjustments that had short-term impacts. SES is committed to improve on its execution though and now that the required business structures are in place, SES is winning contracts and the team has built up experience in the new business units to operate more successfully. SES has come a long way in its transformation and this enabled the team to close 2017 on a number of strong notes. These results, which came later in the year, augur well for 2018 and beyond.

The markets the company serves are in constant evolution, and this presents a number of new opportunities and challenges.

In Video, the increase in total viewership time and number of access modes continues. This shift from a uniform video distribution model to one that is multifaceted is driving customer requirements for the comprehensive distribution solutions, which SES and MX1 can provide.

The SES global satellite infrastructure remains at the centre of SES's broadcasting activities. Paired with MX1, it offers a strong matrix of digital video services that build on its satellite services. We acquired RR Media in 2016, which gave us the bench strength needed in the digital video service area to create MX1. Considerable work was done then to set up MX1 in 2017, and I am confident that 2018 will fully demonstrate SES's ability to optimise its unique combination of video broadcast and digital services.

In Fixed Data, the market was largely focused on undifferentiated trunking services, but is rapidly shifting to a new model defined by universal access (regardless of how remote), bandwidth-hungry applications, core integration of communication networks, and an adaptive level of service supported by data analytics.

At SES, the group is transitioning from the old business model, which was focused on leasing capacity, to a new business model where it provides customers with highly flexible and adaptive communication solutions.

The new business model is founded on the significant investments made in 2016 to acquire both RR Media for video services, and O3b for data services. SES's space assets in Geostationary Earth Orbit (GEO) combined with those of O3b in Medium Earth Orbit (MEO) created a truly unique system. We leveraged the resulting architecture, along with our extensive ground infrastructure, to develop a differentiated competitive advantage. Importantly, these investments enable SES to deliver networking products and solutions which are optimised to serve specific market segments.

In Mobility, the category of users served, whether in the maritime or aeronautical segment, has experienced a material increase in actual internet speeds, bringing the quality of their experience closer to what they are used to at home. With an industry-leading latency of less than 150 milliseconds from MEO, SES Networks enables a number of new applications. This means that SES is meeting the expectations of travellers who increasingly see connectivity in transit as a necessity, not a luxury.

The unique multi-orbit network and industry-leading software intelligence of SES is allowing customers to optimise solutions and control costs. In all its activities, the SES community welcomes improved economics for its clients as this in turn contributes to developing a stronger business model and results in a larger scope and scale for SES's services.

While the company is still in the early stages of developing this market, SES is already serving the major cruise ship operators as well as the inflight connectivity service providers. In fact, we estimate that our communication solutions are enabling the connectivity experience of more than 50% of satellite-connected planes in flight.

In Government, institutional and defence-related requirements for secure and resilient communication solutions are evolving rapidly. Whether supporting the digitisation of government services or the modernisation of civil and defence applications such as surveillance and reconnaissance, the role of satellite-enabled networks has gained scope and scale.

In fact, government applications take full advantage of SES's differentiated capabilities. Its infrastructure efficiency, world-class service delivery and implementation, high-performance culture, and global reach are all vital for government services. Whether supporting the US Government in demanding missions across the world, or shaping national digitisation programmes, SES has again raised the bar in 2017.

Notwithstanding these different market potentials and SES's evolving differentiated positioning, the underlying business models are advancing too. Simply put, clients are increasingly demanding integrated communication solutions that bring together multiple space and terrestrial assets, tiered service levels, dynamic allocation of resources, distributed operations, and other features that define high-performing systems. Importantly, our actions in 2017 put the company in a good position to scale up such capabilities, while sustaining its profitability.

A big part of sustaining the company's economic model has to do with the technology choices it is making. In short, SES's firm belief is that future-proof space-based networks will leverage complementary orbits in order to best combine their distinct features.

In fact, SES is the only satellite operator with a proven track record of operating constellations in GEO and MEO. Differentiated networks like these must be distributed in order to deliver services wherever required, scalable so that the augmentation of services can happen as needed, and flexible so that the service itself can be tiered in order to match the end application.

The company is already doing a great deal of this through its existing systems, with more to come from the 17 satellites that will be launched between 2018 and the end of 2021. Importantly, the O3b mPOWER system we announced in September 2017 is the most capable constellation to date in terms of multi-terabits of throughput, continuous global coverage and productivity, and flexibility in serving thousands of customers with tailored solutions.

SES is very proud of its technological prowess. At the same time, the organisation recognises that technology can only take it so far. What matters equally is its global talent pool, and how teams are organised to best serve clients. Recognising the increasingly differentiated video and data-centric markets, we restructured SES in May 2017 around SES Video and SES Networks.

These two groups are referred to as natural business units because they were naturally formed to align with the markets SES serves. SES Video and SES Networks are therefore fully integrated units, each bringing together between 500 and 800 colleagues, in addition to a core team of around 700 colleagues providing business support. The resulting teams are single-mindedly focused on delivering services to existing clients, developing new services for existing and new clients, and providing the broader organisation with unique insights to build the business further. This has already resulted in new sales roles, specific prices for additional services, and a focus on developing services relating to customer segments.

We are already starting to see positive indications of future success from this transformation. To illustrate, SES Networks achieved a record level of new business during the fourth quarter of 2017. In fact, SES is entering 2018 with the highest level of pre-committed in-year revenues in recent times. To further strengthen the operating model and optimise the allocation of resources, we rolled out in the first months of 2018 a company-wide Fit-for-Growth programme. Through this initiative SES will be able to take a zero-based approach to assigning resources, reducing costs in a number of non-market facing and legacy areas, and dedicate the optimal level of operational investments in the newly created business units.

Importantly, the principles defining the Fit-for-Growth programme shaped our budgeting process for 2018, along with the medium-term business plan. As mentioned earlier, SES wants to scale up its capabilities for the future while sustaining a sound economic model and profitability. Cost consciousness is therefore a central tenet of the transformation.

As I noted in my letter last year, SES is playing the long game. The foundation described herein best enables the business of customers, creates optimal development and innovation opportunities with industrial partners, and brings out the best in all members of the SES community.

With these transformational elements in place, I am confident that SES can firmly engage on a path of delivering sustained growth. The video business will continue to be resilient and provide a strong basis of cash generation that will allow the company to fund growth in its networks business. We are in a dynamic time, and market transitions wait for no one. This starts with SES's commitment to improve on the execution in 2018, solidifying SES Video while accelerating SES Networks

It is with complete confidence in the future of SES that I will be stepping down from my role as President and CEO with effect from the next Annual General Meeting of SES on 5 April 2018. Equally important in this transition is the SES Board decision to appoint Steve Collar as President and CEO effective the same date. This is a fantastic organisation with outstanding talents, and the journey ahead is an exciting one. It is with this in mind that I thank you for your engagement over the past four years, and on behalf of the SES management thank you for your trust and support.



Karim Michel Sabbagh