

# Preliminary results for the financial year 2013

Analyst and Investor Conference Call  
February 28, 2014

freenet **GROUP**

 mobilcom  
debitel

freenet 

**11 TALKLINE**

**klarmobil.de**

**GRAVIS**

**JETA**  
digital

 MFE Energie

 MOTION TM

# Cautionary statement

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This presentation contains forward-looking statements which involve risks and uncertainties. The actual performance, results and timing of the business of freenet AG could differ materially from the expectations regarding performance, results and timing expressed in this presentation.

All figures are based on preliminary calculations before final consolidation and completion of the audit. There may therefore be discrepancies to the final financial figures to be presented on 26 March 2014.

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freenet AG does not undertake any obligation to publicly update or revise information provided during this presentation.

# Today's speakers

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## Christoph Vilanek, CEO

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Management positions in Direct Marketing and Media 1991 - 2001  
Consultant for telecommunication with McKinsey&Company since 2001  
Management positions at debitel AG since 2005  
CEO of freenet AG since 2009



## Joachim Preisig, CFO

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CFO of O<sub>2</sub> since 1996  
CFO of T-Mobile/Head of Group Controlling at Deutsche Telekom AG since 2002  
CFO of debitel AG since 2006  
CFO of freenet AG since 2010

# Operational performance in 2013

Group revenue  
increase of 3.5% yoy

3,193.3  
m€

731.2  
m€

Slight increase of  
gross profit by 1.6%

Group EBITDA  
on previous year's level,  
above guidance

357.4  
m€

Rise of Group result  
by 38.0% yoy

238.9  
m€

256.2  
m€

Free Cash flow slightly  
decreasing by 1.4% yoy,  
but above guidance

# Key achievements in 2013 and projects in 2014

2013

- Acquisition, full consolidation and integration of GRAVIS and MOTION TM
- Renewal of exclusivity agreement with Media-Saturn Deutschland GmbH
- Implementation of new Allnet Flat tariff world
- Roll-out new customer care call routing logic „Balance“
- Establishment of GRAVIS as ‘Home of Digital Lifestyle’ e.g.: Sony & Samsung shop-in-shop systems
- Test and launch of a number of digital lifestyle products and services (total revenue > 50 million euros)
- Repositioning of freenet as digital lifestyle provider in entire product and corporate communication

2014

- Acquisition, full consolidation and integration of Jesta Digital Group
- Launch of additional digital lifestyle offerings
- Expansion of digital services sales outside customer ownership
- Continuation of search for attractive investment opportunities
- Growth of mobilcom-debitel shop and GRAVIS footprint
- Further exploitation of efficiency gains and synergies across the entire freenet Group

# Development of digital lifestyle portfolio

## Home Automation Services for your home

mobilcom-debitel  
**SmartHome**  
 Heating

mobilcom-debitel  
**SmartHome**  
 Camera

**First half  
year 2014**

mobilcom-debitel  
**SmartHome**  
 Security pack

## Security options Solutions for your security

**Anti virus**  
  
 Norton

**Hardware security**  
  
 European Warranty Partners

**Junior security**

**Bundling of  
Security Option**  
 and/or  
 Entertainment

## Entertainment Music, Gaming, Storage

**Cloud**  
  
 mobilcom-debitel cloud

**Game flat**  
  
 Gemeloft

**Music flat**  
  
 Juke

**Music flat**  
  
 Spotify

# The Jesta Digital acquisition: A further step into digital lifestyle

**JESTA**  
digital

- Signing on 19 December 2013, closing in Q1/2014
- Strategic acquisition in order to complement and leverage existing digital lifestyle activities

**Jamba Jamster**

- Mobile content packages with games, music, videos and ringtones

**bitbop™**

- New download portal for premium content (games and apps)

**iLOVE**

- Mobile dating platform with focus on location based social mobile dating

**mobizzo**

- Quiz platform with prize draws and sweepstakes

**MOTILITY**

- 'Mobile Advertising' and customer acquisition platform

BRANDS

# Customer base: Further rise of customer ownership

[in million]

+ 3.0%

	2012	2013
<b>Customer ownership</b>	8.50	8.76
Postpaid customers	5.79	5.86
No-frills customers	2.71	2.90
Prepaid customers	5.58	4.53
<b>Total customer base</b>	<b>14.08</b>	<b>13.29</b>

## Continuing positive development of customer ownership (+ 260,000 yoy)

Improvement based on significant rise of no-frills (+180,000 yoy) and

ongoing rise of postpaid customer base (+ around 80,000 yoy)

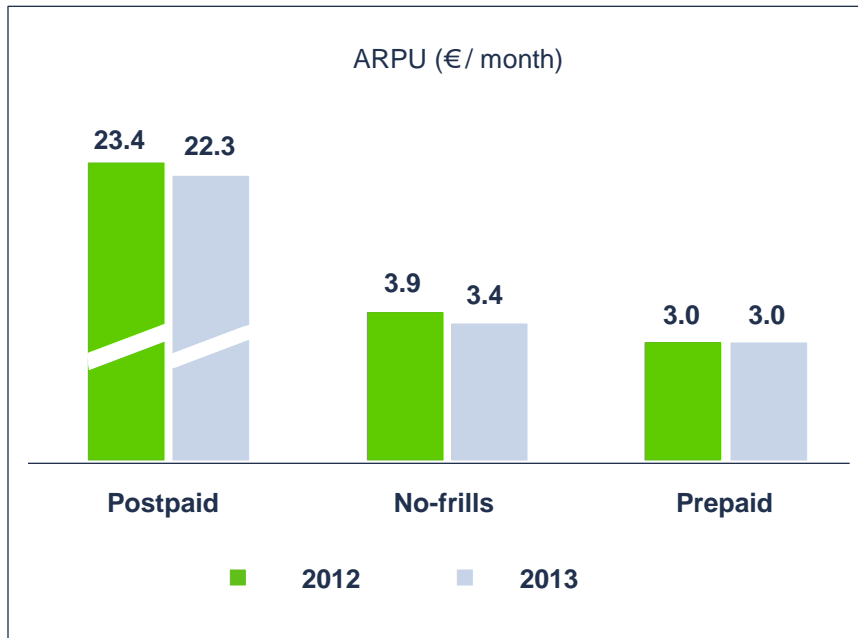
Decline of prepaid customer base following the previous years' trend

Total customer base going down only due to declining prepaid customer number



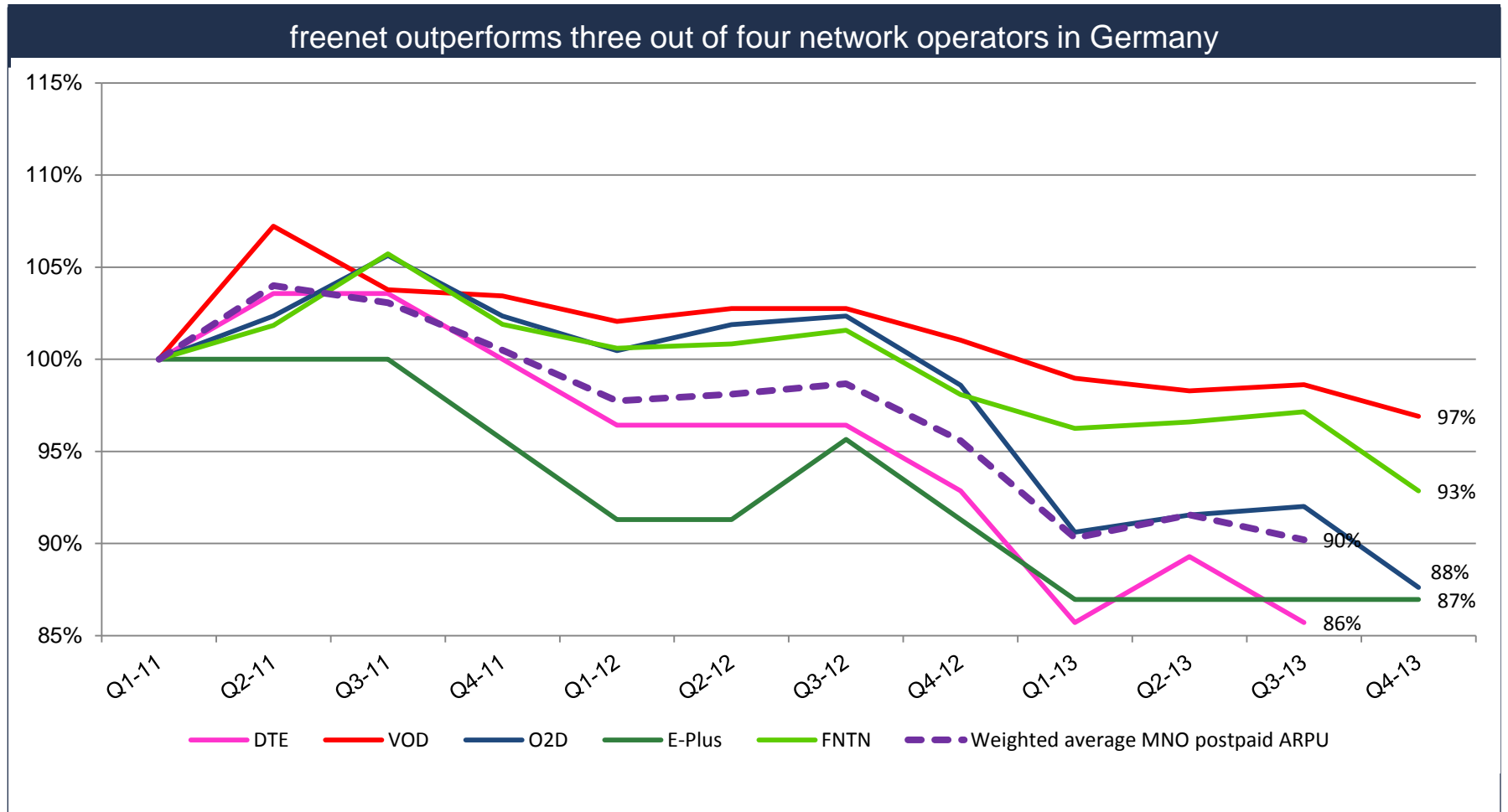
# ARPU development in 2013

Postpaid ARPU declined from previous years' level, but proved relatively resistant in relation to the overall market





- **Postpaid ARPU** down 1.1 € at 22.3 € mainly due to legacy customers' switching into new flat tariffs
- **No-frills ARPU** 0.5 € lower compared to previous year due to ongoing price competition in the discount market
- **Data revenue** share 26.8 % of postpaid ARPU in Q4/2013
- **Prepaid ARPU** on par with the previous year

# Indexed development of postpaid ARPUs (as reported)



# Guidance and preliminary figures 2013

	Guidance 2013 (Feb 2013)	Preliminary results 2013	Comments
Contract customers		+ 80,000	Contract customer base was again increased (+ around 80,000 customers)
Postpaid ARPU	23.0 €	22.3 €	Postpaid ARPU is below expectations but relatively stable compared to our competitors
Group revenue		3,193.3 m€	Forecasted revenue growth achieved (increase of 3.5% yoy)
Group EBITDA	355 m€	357.4 m€	Group EBITDA slightly exceeded guidance
Free cash flow (FCF) <sup>1</sup>	255 m€	256.2 m€	Free cash flow slightly exceeded guidance

1) Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.

# Financial statements – income statement

In € million	2013 <sup>1</sup>	2012 <sup>2</sup>
Revenue	3,193.3	3,084.8
Gross profit	731.2	719.8
EBITDA	357.4	357.4
Depreciation and amortisation	56.1	148.6
EBIT	301.3	208.8
Interest receivable and similar income	1.8	2.7
Interest payable and similar expenses	-44.6	-44.8
EBT	258.4	166.7
Taxes on income	-19.5	6.5
Group result	238.9	173.2
Earnings per share (€)	1.87	1.35

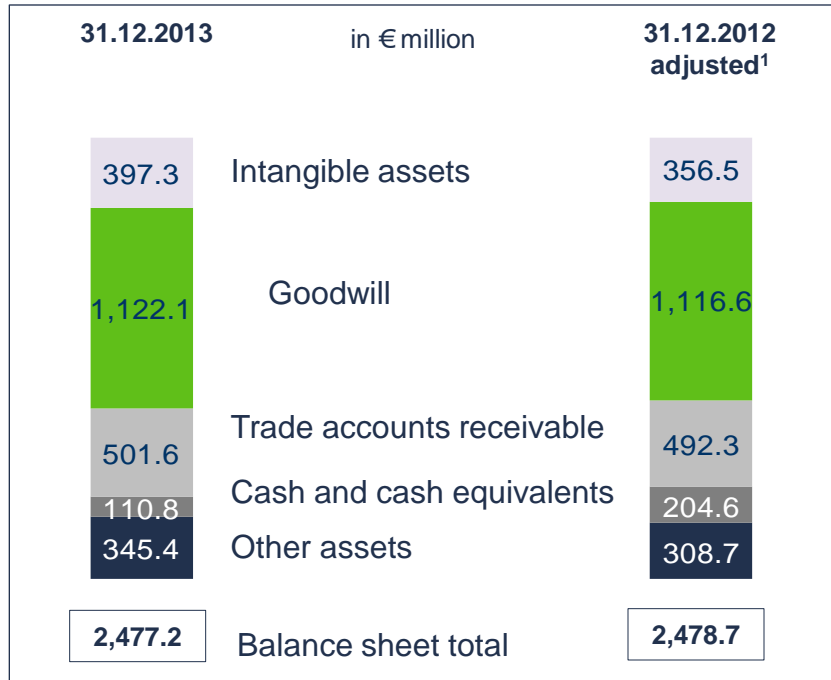
- Increase of Group revenue due to initial consolidation of GRAVIS and MOTION TM and increased digital lifestyle revenue
- Decrease of gross margin to 22.9% (2012: 23.3%) due to relatively lower gross margins of GRAVIS and MOTION TM
- Decline of depreciation and amortisation by 92.5 m€ mainly due to lower depreciation on assets from the debitel purchase price allocation
- Tax expenses of 19.5 m€ mainly due to decreased income from deferred taxes arising from temporary differences from the debitel purchase price allocation and increased current tax expenses

1) Preliminary figures.

2) Adjusted due to the change of accounting methods

# Financial statements – balance sheet

## Assets



## Shareholders' equity and liabilities



- Equity ratio at 50.0% (2012: 47.5%)
- Net debt of 427.2 m€ compared to 451.9 m€ as of 31 December 2012

1) Adjusted due to the change of accounting methods

# Financial statements – cash flow statement

In € million	2013 <sup>1</sup>	2012 <sup>2</sup>
Cash flow from operating activities	278.4	280.1
Cash flow from investing activities thereof net capex	-35.4 -22.2	-9.0 -20.4
Cash flow from financing activities	-339.6	-149.1
<b>Change in cash and cash equivalents</b>	<b>-96.6</b>	<b>122.0</b>
<b>Free cash flow<sup>3</sup></b>	<b>256.2</b>	<b>259.7</b>

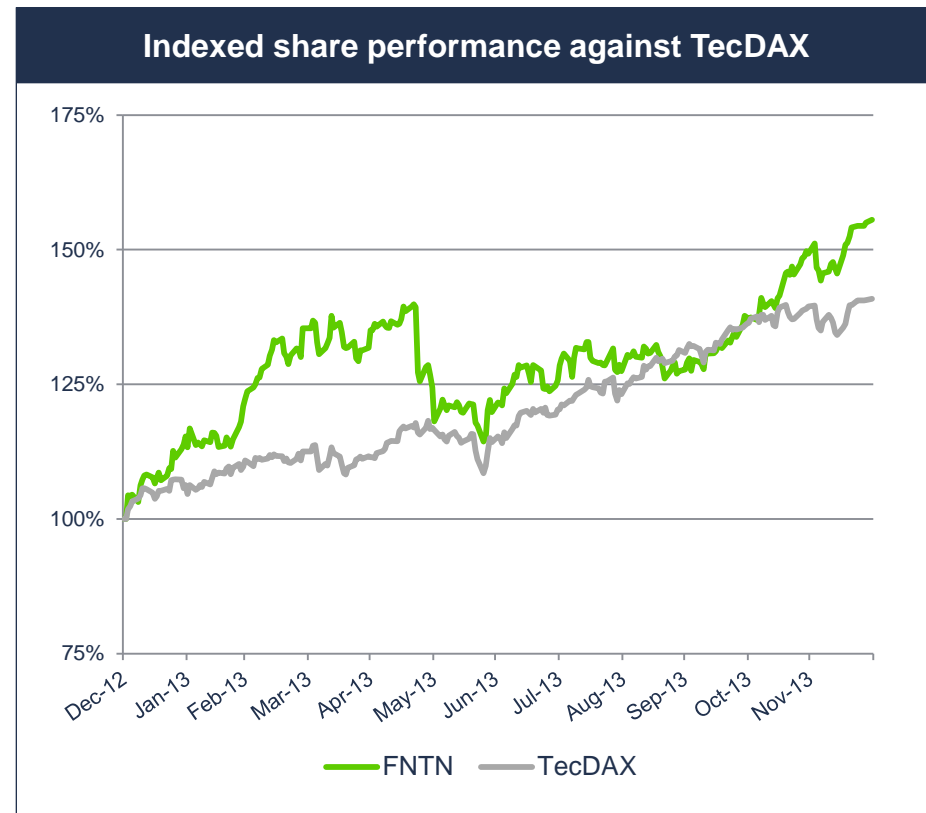
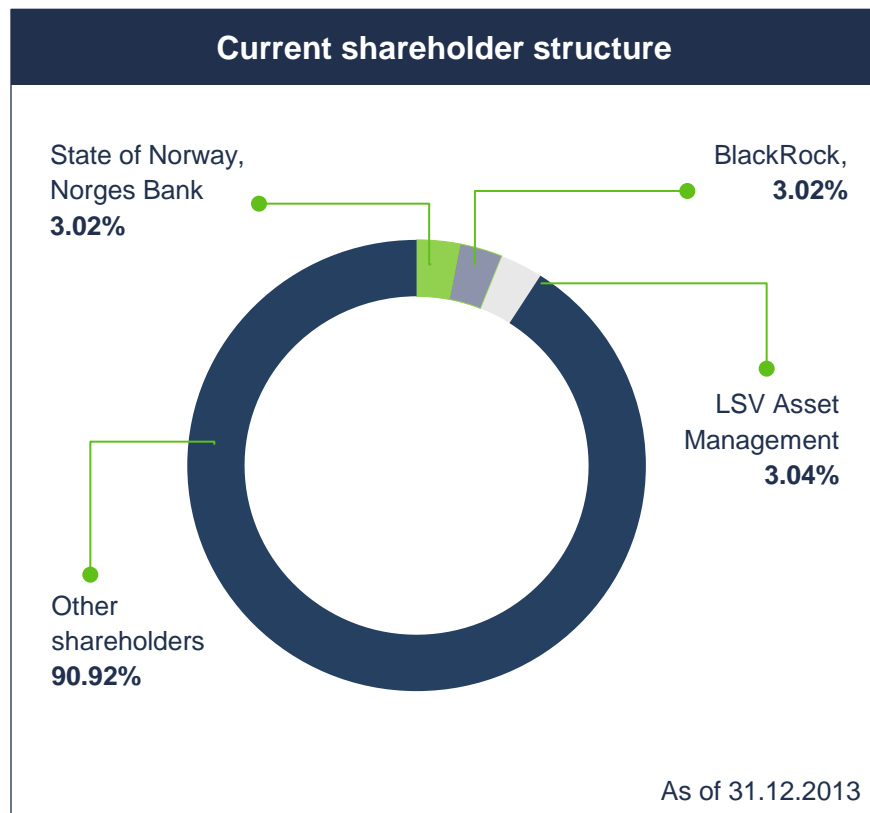
- Cash flow from operating activities remains stable compared to 2012
- Cash outflow from investing activities increased primarily due to the acquisition of GRAVIS and MOTION TM
- Cash outflow from financing activities due to dividend payment of 1.35 € per share for financial year 2012 and higher repayments on financial debt

1) Preliminary figures.

2) Adjusted due to the change of accounting methods.

3) Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.

# Shareholder structure and share performance; 100% free float according to Deutsche Börse AG



# Development into investment grade territory aided by high FCF generation used to diversify debt structure

## Diversification of financing structure

### Revolving credit line

Volume: 300 m€  
 Coupon: variable (latest tranche: 1.17%)  
 Maturity: December 2018  
 Utilisation (as per 31.12.2013): 0€

### Promissory notes

Total volume: 120 m€

	Tranche 1 (fix)	Tranche 2 (variable)	Tranche 3 (fix)
Volume	44.5 m€	56.0 m€	19.5 m€
Coupon (p.a.)	3.27%	2.82% (first 6 months)	4.14%
Maturity	5 years	5 years	7 years

### Unrated bond

Volume: 400 m€    Coupon: 7.125%    Maturity: April 2016





# Key indicators of financial management and dividend policy remain unchanged

	Preliminary figures 2013	Target 2013	Target 2014/15
Debt factor	1.2	1.0 - 2.5	1.0 - 2.5
Interest cover	8.3	> 5	> 5
Equity ratio	50.0%	> 50%	> 50%

	Pay-out 2012	Pay-out 2013	Target 2014/15
Dividend pay-out ratio	66%	72.5%	50 - 75%
Dividend payment	1.35 €/share	1.45 €/share <sup>2</sup>	n/a
Dividend yield <sup>1</sup>	7.7%	n/a	n/a

freenet continues to consider around 50 million EUR as a sufficient liquidity reserve.



## Definition of financial key indicators

- Debt factor: ratio of economic net debt to EBITDA
- Interest cover: ratio of EBITDA to net interest income
- Equity ratio: ratio of equity to total assets

1) At the date of payment

2) Proposal by the Executive Board to the Supervisory Board

# Key elements of guidance for 2014/2015

	Preliminary results 2013	Guidance 2014	Guidance 2015	Comments
Customer Ownership	+260,000 customers			Slight increase in customer ownership expected for 2014/15
Postpaid ARPU	22.3 €	slightly declining	stable at 2014 level	Postpaid ARPU expected to slightly decline in 2014 and stabilise in 2015
Group revenue	3,193 m€	slight increase	slight increase	Revenue increase anticipated for 2014/15
Group EBITDA	357 m€	365 m€	370 m€	Further increase of Group EBITDA in 2014/15
Free cash flow (FCF) <sup>1</sup>	256 m€	265 m€	280 m€	Further rise of free cash flow anticipated for 2014/15
Dividend pay-out	1.45 €/share <sup>2</sup> (= 72.5% of FCF)	50 – 75% of FCF	50 - 75% of FCF	Corridor for dividend pay-out ratio remains unchanged

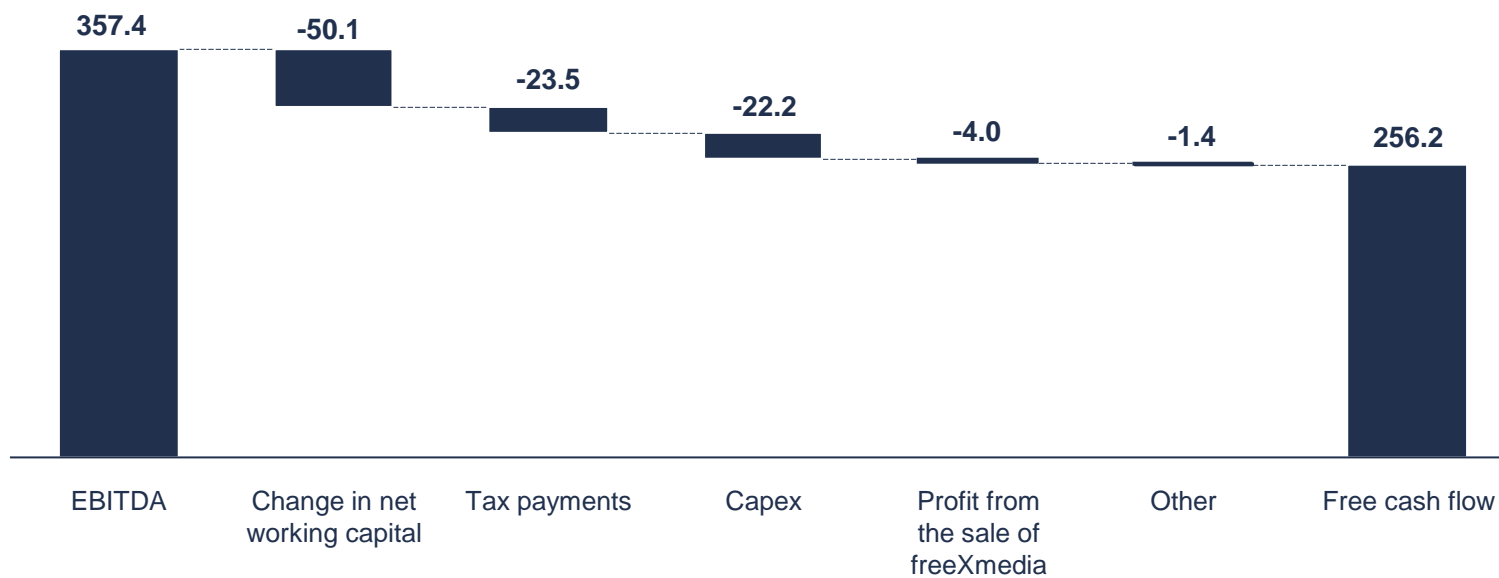
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2) Proposal by the Executive Board to the Supervisory Board

# Detailed bridge from EBITDA to free cash flow

## 2013: From EBITDA to Free cash flow

in € million



Financial year	EBITDA	Change in net working capital	Tax payments	Capex	Profit from the sale of freeXmedia	Other	Free cash flow
Financial year 2013e	355	~ -45	~ -31	~ -20	- 4	~ 0	255
Financial year 2014e	365	- 35	- 45	- 20	~ 0	~ 0	265
Financial year 2015e	370	- 35	- 35	- 20	~ 0	~ 0	280

# In financial year 2013 all major targets were achieved

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- KPIs in line with management expectation and above guidance
- Further focus on extension and optimisation of digital lifestyle products and services
- Price deterioration effect overcompensated by high-margin customer relationships including digital lifestyle value-added products and services
- Sustainable two-year guidance for 2014/15 includes further increase of revenue, EBITDA and free cash flow; furthermore consolidation of the acquired businesses
- Dividend proposal of 1.45 € per share by the Executive Board to the Supervisory Board

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