

# Preliminary results for the financial year 2014

Analyst and Investor Conference Call  
25 February, 2015

freenet **GROUP**

 mobilcom  
debitel

freenet 

klarmobil.de

**GRAVIS**

**TL TALKLINE**

freenet  
digital

 MFE  
Energie

 MOTION <sup>TM</sup>

# 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 published on 26 March 2015.

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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**

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

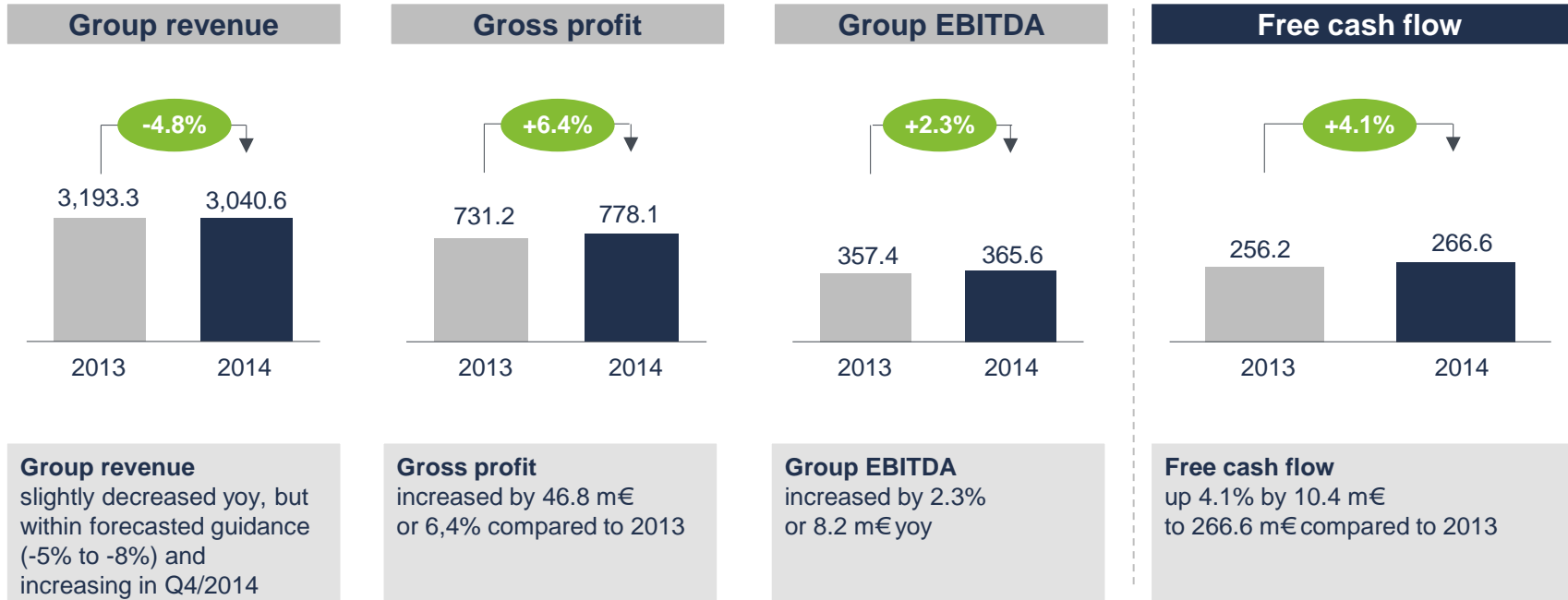


**Joachim Preisig, CFO**

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

# Preliminary key figures 2014 illustrate strong performance

[in EUR million]



# Continuation of our key projects also in 2015

## 2014

- New agreement with Telefónica Deutschland until 2025 including full access to LTE and unlimited volume
- Implementation of new tariff family “Smart”
- Launch of Media Markt and Saturn branded tariffs
- Expansion of digital lifestyle portfolio
- Redesign and digitization of multi-channel customer journey (shop/online)
- Acquisition of reStore and expansion of GRAVIS
- Cooperation with well-known brands such as car2go, shopkick, bild, maxdome
- Roll-out new customer care concept “N@xt”

## 2015

- Pro-active customer migration into high volume data tariffs driven by sophisticated prediction modelling
- Focus on key offline channels and thereby focus on cross- and upselling
- Transformation from multi-channel towards omni-channel to seamlessly manage customer experience
- Going live of new e-commerce platform integrating front and back office
- Change in marketing campaign messaging from tariff driven to digital lifestyle driven “Do what you want. We make it happen.”
- Use of big data e.g. in voice recognition, app services...

# freenet attracts customers with new product features ...

## SmartHome Heating

- **Money-back-guarantee** if saving under promise
- Inclusion of digital plugs into the product feature set

## SmartHome Security

- Market launch of a **App-controlled security system** for private homes and small offices

## md cloud

- Relaunch of successful cloud product with a **Smart Organizer** solution to add value and comfort for the user

## GamePack Plus

- A variety of additional "**Freemium Games**" and faster access to paid game services



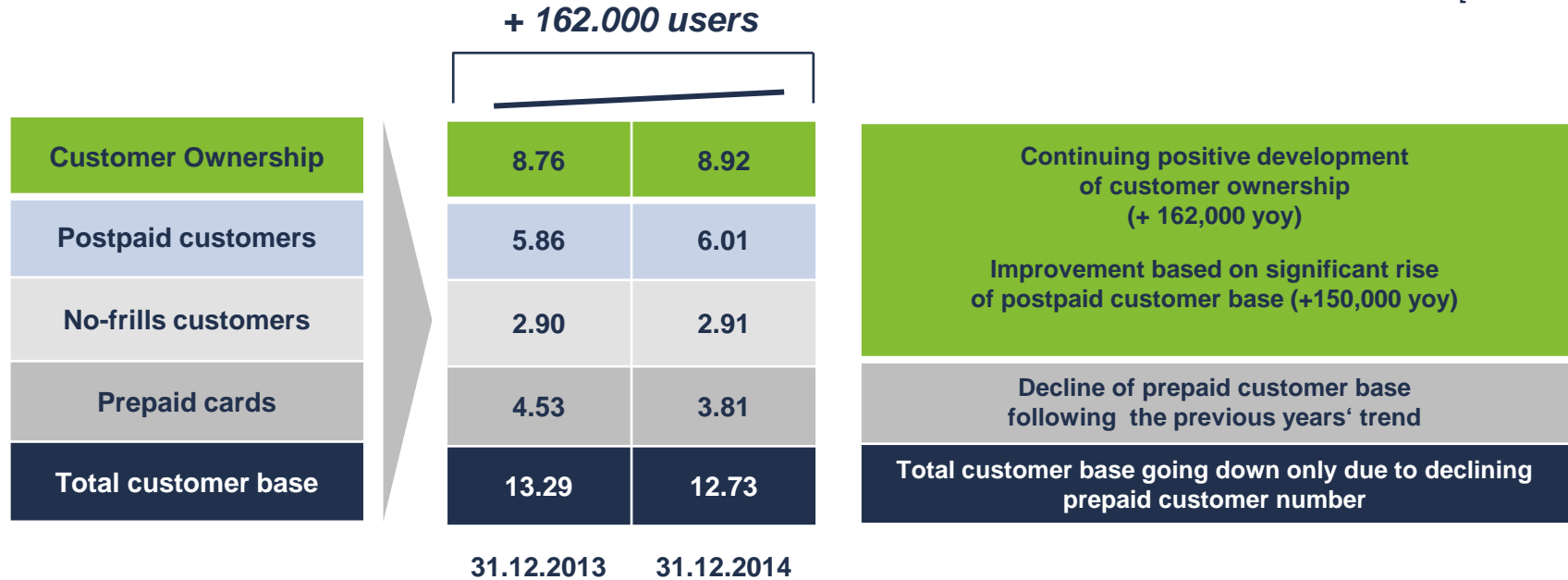
...and grows Digital Lifestyle revenue to approx. 80 m€ in 2014 by more than 40 % yoy

SmartSleep	<ul style="list-style-type: none"><li>▪ Innovative products of "<b>Withings Aura</b>" around sleep analysis exclusively launched with GRAVIS</li></ul>
Home Automation	<ul style="list-style-type: none"><li>▪ LED lighting system "<b>Elgato Aavea</b>" to create exceptional lighting scenes in rooms; remotely controlled via smartphone or tablet</li></ul>
Entertainment	<ul style="list-style-type: none"><li>▪ Smartphone Option <b>mload Plus</b> (songs, games...)</li><li>▪ Cooperation with Pro7Sat1 on video service <b>maxdome</b></li><li>▪ Cooperation of GRAVIS with <b>car2go</b></li><li>▪ Test of md-TV-Box with customized program portfolio, apps and music as well as video services</li></ul>
Service online portal	<ul style="list-style-type: none"><li>▪ Launch of numerous content portals around digital lifestyle e.g. <a href="http://www.mydls.de">www.mydls.de</a> in order to promote brand competence</li></ul>



# Strong development in Customer Ownership shows sustainable trend

[in million]





# ARPU within internal projection

[EUR/month]



- **Postpaid ARPU** down 0.9 € yoy at 21.4 € driven by legacy customers' switching into new flat tariffs
- **Data revenue** share 31.3% of postpaid ARPU in 2014
- Dynamics of decline in **postpaid ARPU** decreases

- **No-frills ARPU** 0.6 € lower compared to previous year due to price pressure in the discount market segment
- **Prepaid ARPU** stable compared with the previous year

# Financial statements – income statement

[in EUR million]

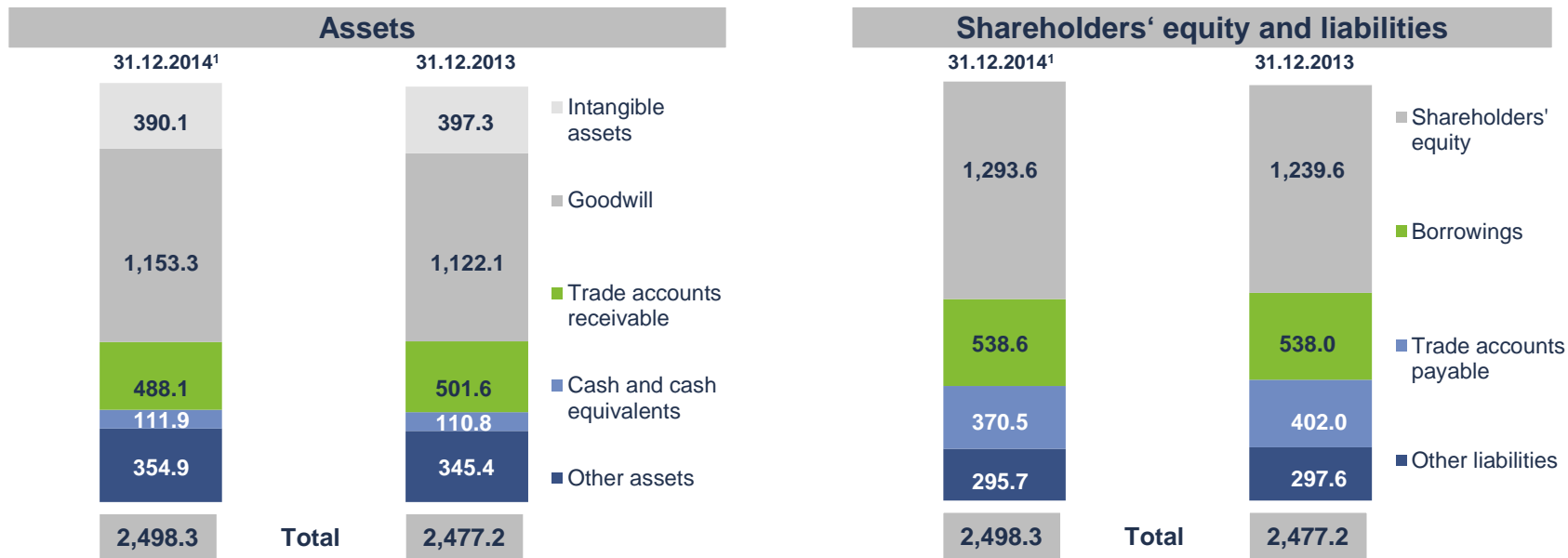
	2014 <sup>1</sup>	2013
Revenue	3,040.6	3,193.3
Gross profit	778.1	731.2
EBITDA	365.6	357.4
Depreciation and amortisation	64.4	56.1
EBIT	301.2	301.3
Interest balance	-40.6	-42.9
EBT	260.6	258.4
Taxes on income	-12.5	-19.5
<b>Group result</b>	<b>248.2</b>	<b>238.9</b>
Earnings per share (€)	1.93	1.87

1) Preliminary figures

- **Group revenue** impacted by *low/no-margin hardware revenues*
- Increasing of **gross margin** to 25.6% (2013: 22.9%) due to significant reduction of low/no-margin hardware revenues
- Increase of **depreciation and amortisation** by 8.3 m€ mainly due to depreciation on the freenet digital purchase price allocation
- **Tax expenses** decreased by 7.0 m€ to 12.5 million euros
- Increase of **Group result** by 9.2 m€ (3.9 % yoy)

# Financial statements – balance sheet

[in EUR million]



- Equity ratio at 51.8% (2013: 50.0%)
- Net debt of 426.6 m€ compared to 427.2 m€ as of 31 December 2013

1) Preliminary figures

# Financial statements – cash flow statement

[in EUR million]

	2014 <sup>1</sup>	2013
Cash flow from operating activities	294.5	278.4
Cash flow from investing activities	-70.4	-35.4
thereof net capex	-27.9	-22.2
Cash flow from financing activities	-222.9	-339.6
<b>Change in cash and cash equivalents</b>	1.2	-96.6
<b>Free cash flow</b>	<b>266.6</b>	<b>256.2</b>

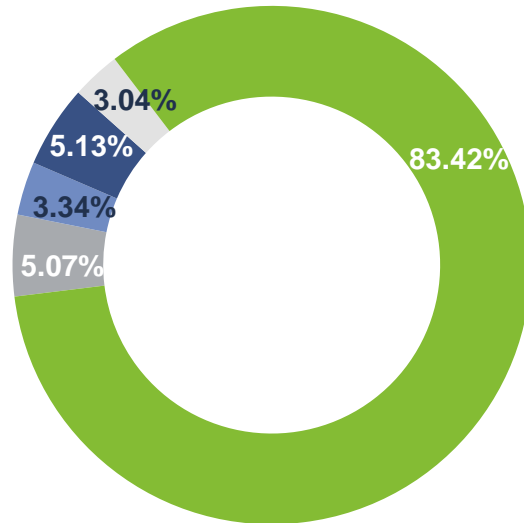
- **Cash flow from operating activities** increased by 16.1 m€ compared to 2013
- **Cash outflow from investing activities** primarily due to the acquisition of freenet digital group
- **Cash outflow from financing activities** due to dividend payment of 1.45 € per share for financial year 2013 and repayments on financial debt
- Free cash flow increased by 10.4 m€yoy

1) Preliminary figures

# Shareholder structure

## Major shareholders of freenet AG

As of end of December 2014



■ Allianz Global Investors GmbH\*

■ BlackRock, Inc.\*

■ Deutsche Asset & Wealth Management Investment GmbH\*

■ Flossbach von Storch AG\*

■ Other shareholders/freefloat\*\*

\* Including attributions according to German Securities Trading Act

\*\* The free float according to Deutsche Börse AG amounts to 89.80%

# Key indicators of financial management and dividend policy remain unchanged

	Preliminary figures 2014	Target 2014	Target 2015/16
Debt factor	1.2	1.0 - 2.5	1.0 - 2.5
Interest cover	9.0	> 5	> 5
Equity ratio	51.8%	> 50%	> 50%
	Pay-out 2013	Target 2014	Target 2015/16
Dividend pay-out ratio	72.5%	72.1%	50 - 75%
Dividend payment	1.45 €/share	1.50 €/share <sup>2</sup>	n/a
Dividend yield <sup>1</sup>	6.5%	n/a	n/a







## 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
- Liquidity reserve: 100 million euros

1) At the date of payment

2) Dividend of 1.50 euros per dividend-bearing share to be proposed by the Executive Board

# New two-year guidance

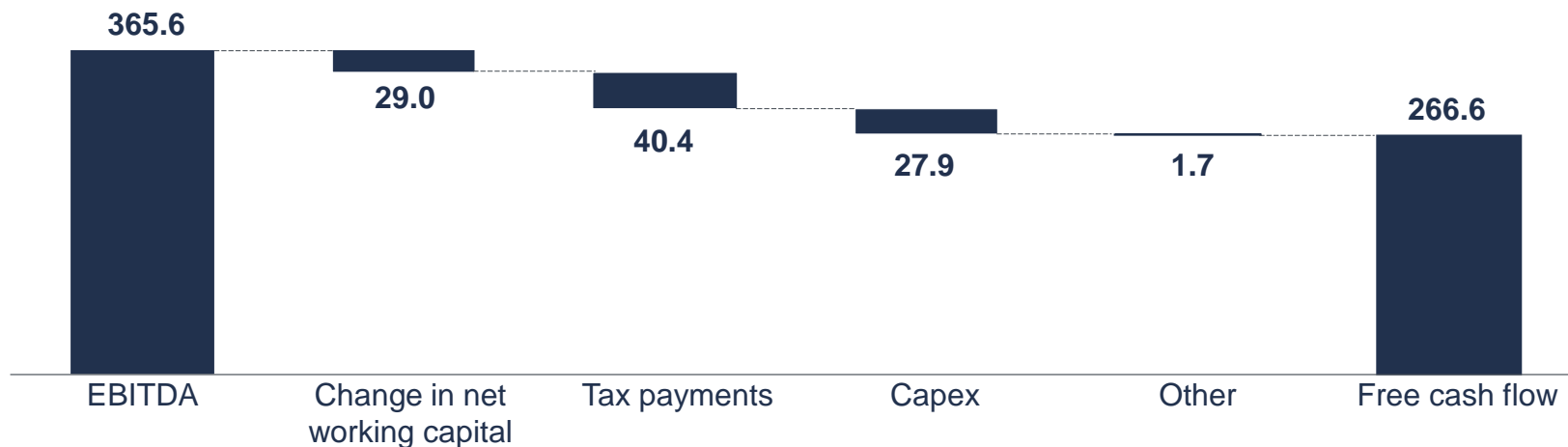
	Customer ownership	Postpaid ARPU	Group revenue	Group EBITDA	Free cash flow (FCF) <sup>1</sup>	Dividend pay-out
<b>Guidance 2016</b>				375 m€	285 m€	50-75% of FCF
<b>Guidance 2015</b>				370 m€	280 m€	50-75% of FCF
<b>Prelims 2014</b>	+ 162,000	21.4 €	3,040.6 m€	365.6 m€	266.6 m€	1.50 €/share <sup>2</sup>
	Contract customer base again increased (+1.9% yoy)	Postpaid ARPU largely stabilized	Revenue growth of -4.8% yoy within forecasted guidance (-5% to -8%)	Group EBITDA slightly exceeded guidance of 365 m€	Free cash flow exactly within the target corridor (2014: 265 m€)	Corridor for dividend pay-out ratio remains unchanged

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.

2) Dividend of 1.50 euros per dividend-bearing share to be proposed by the Executive Board

# Detailed bridge from EBITDA to free cash flow for 2014<sup>1</sup>

[in EUR million]



	EBITDA	Change in net working capital	Tax payments	Capex	Other	Free cash flow
FY 2014e	365	- 35	- 45	- 20	~ 0	265
FY 2015e	370	- 25	- 40	- 25	~ 0	280
FY 2016e	375	- 30	- 35	- 25	~ 0	285

1) Preliminary figures



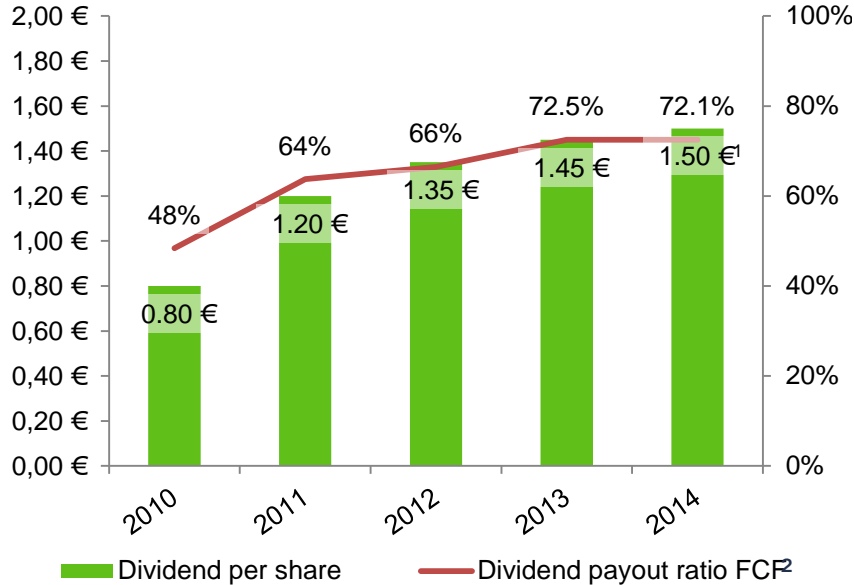
# Optimistic outlook by freenet management for 2015 and 2016

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- Strong 2014 full year performance with all relevant KPIs up YOY
- Improved market position for coming years with renewed Telefónica contract
- Postpaid customer base growing 10 quarters in a row
- ARPU in line with management expectation; decrease slowing down significantly
- Strategic growth of Digital Lifestyle services from 50 m€ in 2013 to 80 m€ in 2014 and expected to exceed 100 m€ in 2015; representing a contract customer ARPU equivalent of 1.30 € not included in this ARPU
- Strong guidance renewed for next two years including commitment to high dividend yield

# Back-up: freenet AG share

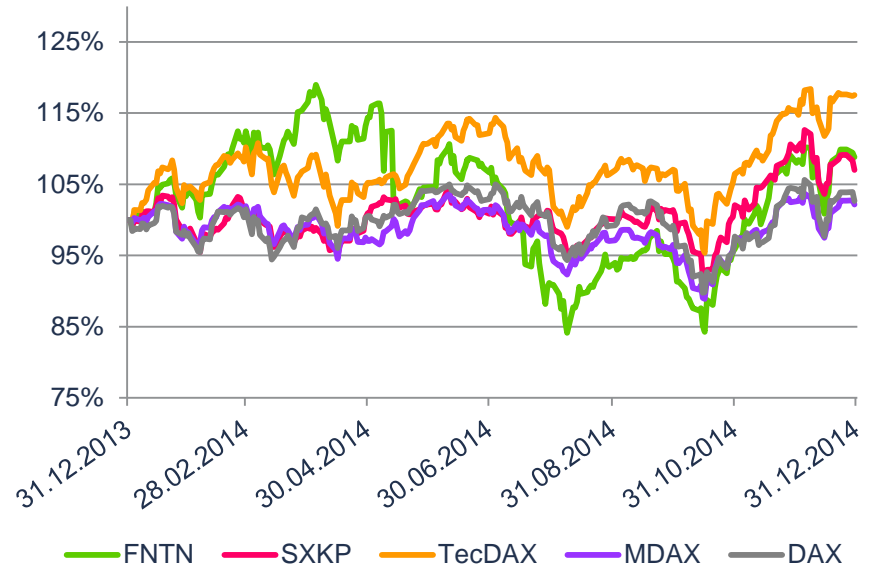
## Dividend performance



1) Dividend of 1.50 euros per dividend-bearing share to be proposed by the Executive Board

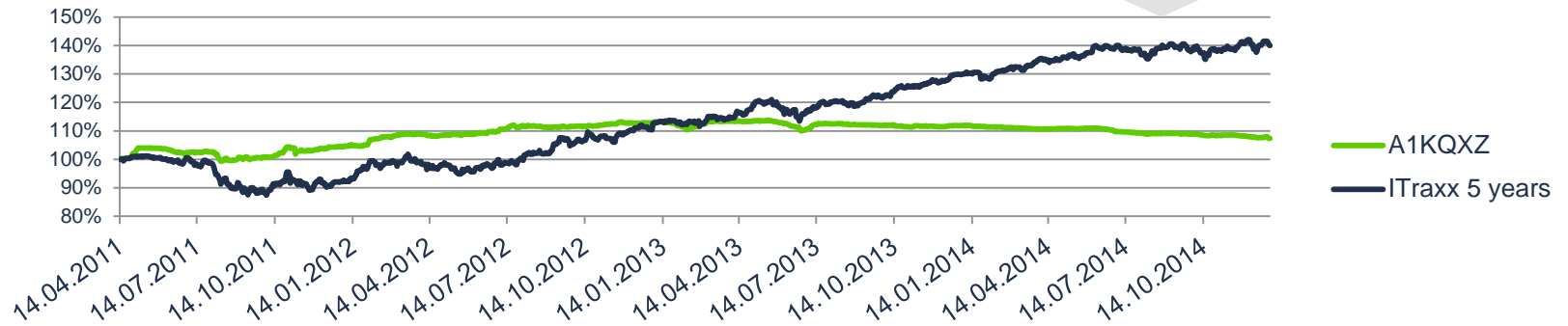
2) Free cash flow (FCF) is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.

## Indexed share performance (12 months)



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

Promissory notes	Tranche 1 (fix)	Tranche 2 (variable)	Tranche 3 (fix)	Unrated bond	Revolving Credit Line
Volume	44.5 m€	56.0 m€	19.5 m€	400 m€	300 m€
Coupon p.a.	3.27%	1.70% (first 6 months)	4.14%	7.125%	variable
Maturity	December 2017	December '17/'19	December 2019	April 2016	December 2018



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