

# Management presentation Q1 2014 results

Christoph Vilanek, CEO

Joachim Preisig, CFO

8 May 2014

freenet **GROUP**

 mobilcom  
debitel

freenet 

**TL TALKLINE**

klarmobil.de

**GRAVIS**

**JETA**  
digital

 MFE Energie

 MOTION TM

# Cautionary statement

---

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.

This presentation does not constitute an offer to sell or a solicitation to purchase any securities of freenet AG. Any such decision must not be made on the basis of the information provided in this presentation.

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

# Operational performance in Q1 2014

Decreasing **Group revenue** because of reduction of low-margin hardware revenues

**717.5 m€**

**182.5 m€**

Increase of **gross profit** by 5.6% vs. Q1 2013

**Group EBITDA** on par with previous year

**85.4 m€**

**57.1 m€**

**Free cash flow** within the full year guidance

**Group result** in line with expectations

**57.4 m€**

**8.79 m**

**Customer Ownership** continued to rise

**Executive Board confirms two-year guidance for financial years 2014 and 2015**

# Key activities during first quarter 2014

## **Renewal of Executive Board contracts preserve continuity in the management**

- Christoph Vilanek was reappointed as chairman of the Executive Board and as Chief Executive Officer until 31 December 2018. Joachim Preisig was reappointed as Chief Financial Officer until 31 December 2019, and Stephan Esch was reappointed as Chief Technology Officer until 31 December 2019.

## **Further steps on the path towards Digital Lifestyle provider**

- Jesta Digital: closing of acquisition and start of integration of Digital Entertainment content into existing range of products
- Additional home automation solutions SmartHome Security – available from 14 April 2014
- Launch of additional or refreshed services e.g. games, mobilcom-debitel cloud, music streaming
- GRAVIS' "Digital Valentine" under the motto "Experience more together": offering numerous products in bundles
- Focus in February: premium hardware e.g. smartphones or tablets offered at favourable terms

## **Strengthened distribution power and customer service**

- Continuous expansion of shop chain with own shops, new franchise partners and takeover of Apple Premium Reseller shops
- Intensified distribution cooperation with Kabel Deutschland in 320 mobilcom-debitel shops
- Significant rise in customer satisfaction after launch of "Balance Project" (providing comprehensive customer service) in 2013 – satisfaction is one of the key drivers of loyalty

# Bundled offers – next step in Digital Lifestyle service

## Norton-Plus Bundle



### Service Plus

Contains following services for free:

Basic price (monthly)  
 €5.98

➤ Technical Hotline

➤ Loan of mobile device

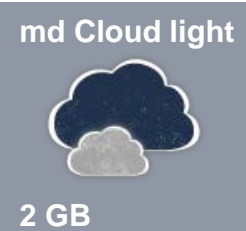
➤ Switch of SIM-card

➤ Preferred service

Basic price (monthly)  
 €6.98

Basic price (monthly)  
 €12.98

## Game-Plus Bundle



## MusicFlat-Plus Bundle



# Home security identified as next SmartHome product

## SmartHome Security – available from 14 April 2014



### SmartHome Security

- ✓ Router for system control
- ✓ Siren with voice output
- ✓ WLAN camera with motion detector
- ✓ 2 motion detector
- ✓ 1 opening detector for doors and windows
- ✓ 2 remote control for activation/deactivation of the system



- ✓ Controlling via App on Smartphones/Tablets

24 months contract period

Purchase costs, one-time	€ 99.00
Installation costs	€ 19.99
Monthly	€ 19.99



- ✓ Installation and control <https://sicherheit.md.de>



**Additional components can be purchased in the mobilcom-debitel shops:**

- ✓ smoke detector
- ✓ outdoor siren
- ✓ keyboard for activation/deactivation through numeric code
- ✓ water warning device



# Jesta Digital – closing on 15 January 2014

**JESTA**  
digital

- Complements and leverages existing digital lifestyle activities
- Jesta's digital entertainment content will be integrated into existing range of products

**Jamba Jamster**

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

**bitbop™**

- Download portal for premium content (games and apps)

**iLOVE**

- Mobile dating platform with focus on location based social dating

**mobizzo**

- Quiz platform with prize draws and sweepstakes

**MOTILITY**

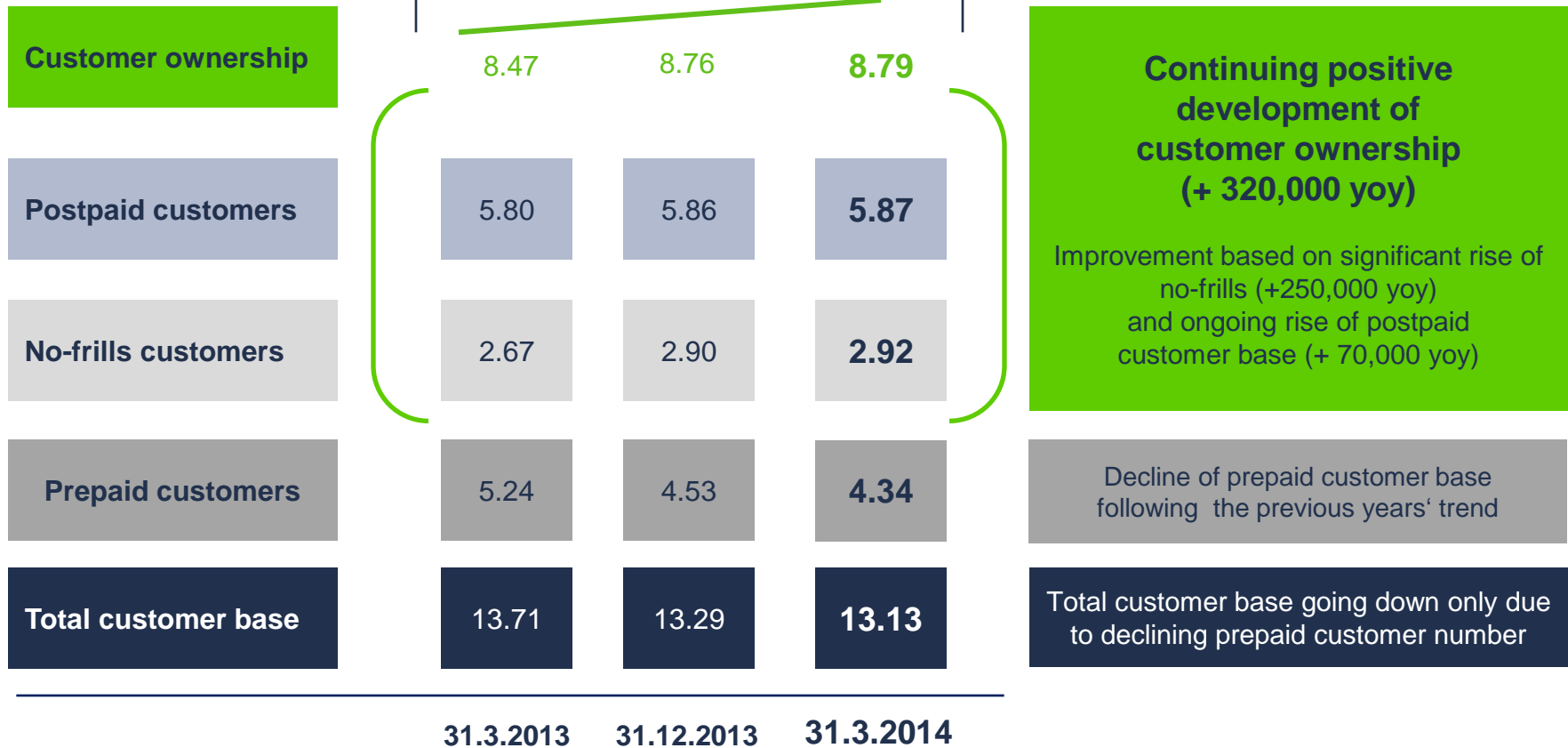
- 'Mobile Advertising' and customer acquisition platform

BRANDS

# Further rise of Customer Ownership

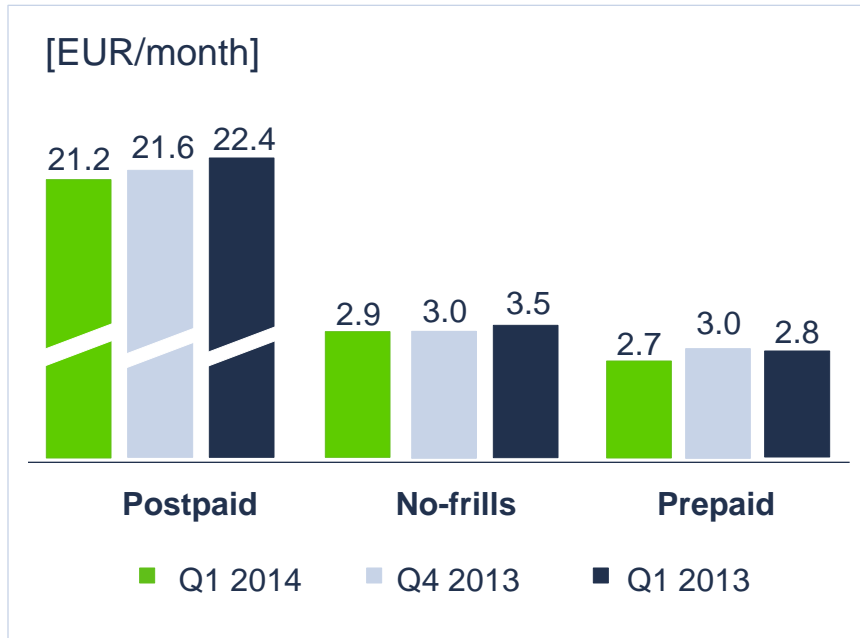
[in million]

+ 3.8%





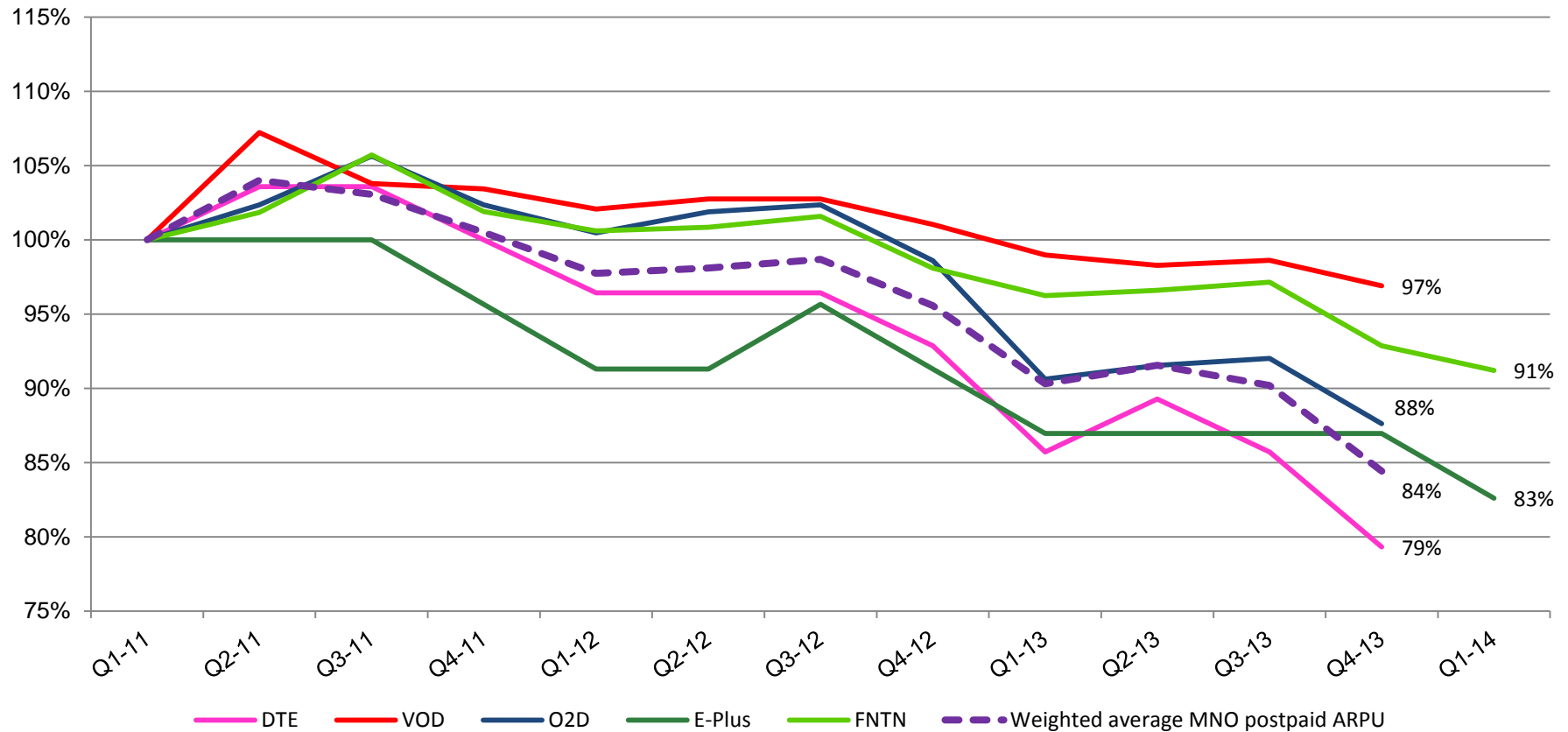
# ARPU development within internal projection



- **Postpaid ARPU** down 1.2 € yoy at 21.2 € mainly due to legacy customers' switching into new flat tariffs, but relatively stable compared to the market
- **No-frills ARPU** confirms the trend of previous quarters
- **Data revenue** share 28.1% of postpaid ARPU in Q1 2014
- **Prepaid ARPU** stable compared with previous year's quarter

**Postpaid ARPU expected to decline somewhat in 2014 and stabilise in 2015**

# Indexed development of postpaid ARPUs (as reported)



**freenet outperforms 3 out of 4 network operators in Germany**

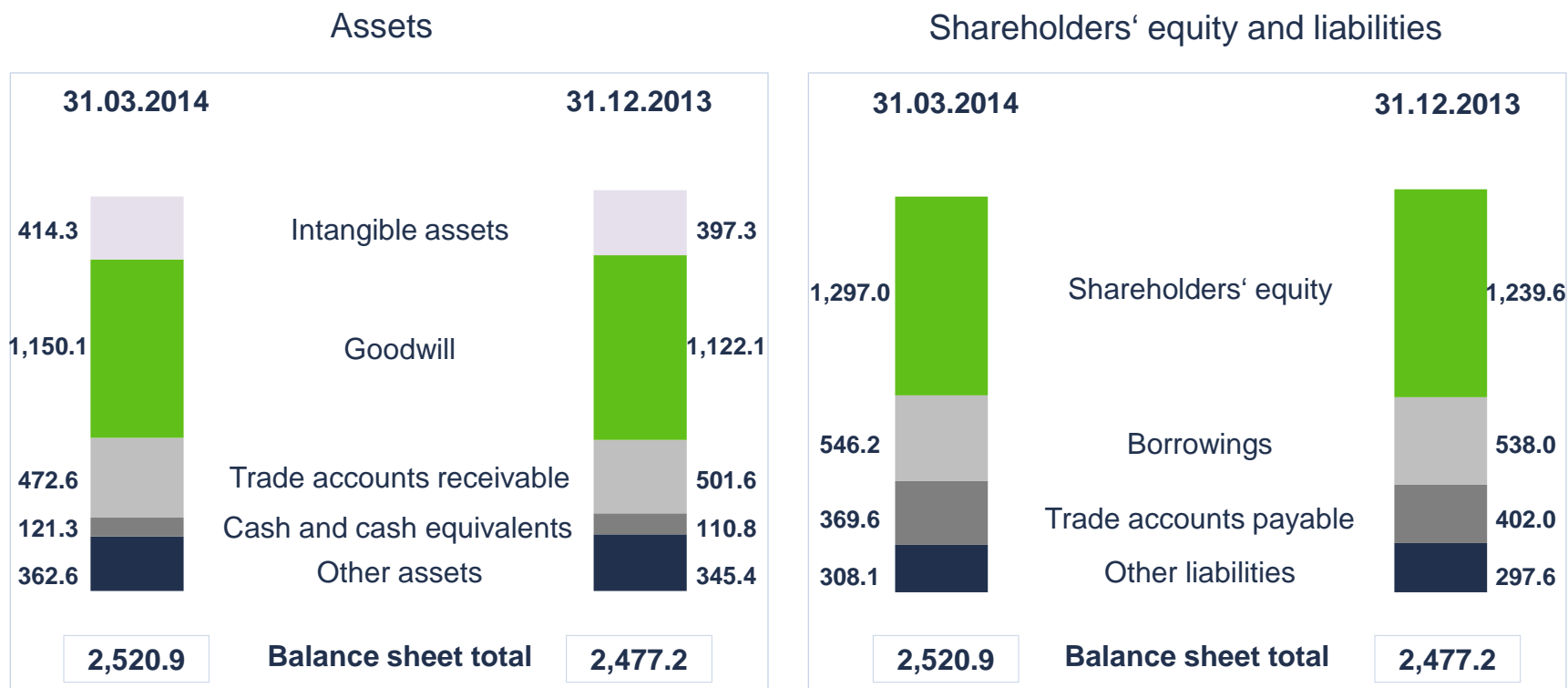
# Financial statements – income statement

in EUR million	Q1 2014	Q1 2013
Revenue	717.5	775.2
Gross profit	182.5	172.8
EBITDA	85.4	85.3
Depreciation and amortisation	16.0	14.2
EBIT	69.5	71.1
Interest balance	-9.5	-9.9
EBT	60.0	61.1
Taxes on income	-2.6	-0.9
Group result	57.4	60.2
Earnings per share (€)	0.45	0.47

- **Group revenue** below previous year's level particularly due to reduced low-margin share of revenue (Hardware Sales) and declining Postpaid ARPU
- GRAVIS, MOTION TM and Jesta Digital partially compensate Group revenue decline
- **Gross profit margin** increased to 25.4 % (Q1 2013: 22.3%) because of focussing on high-margin business
- **Taxes on income** higher because of lower deferred taxes on PPA

# Financial statements – balance sheet

[in EUR million]



- Equity ratio at 51.5% in Q1 2014 (2013: 50.0%)
- Net debt of 424.9 m€ in Q1 2014 compared to 427.2 m€ as of 31 December 2013

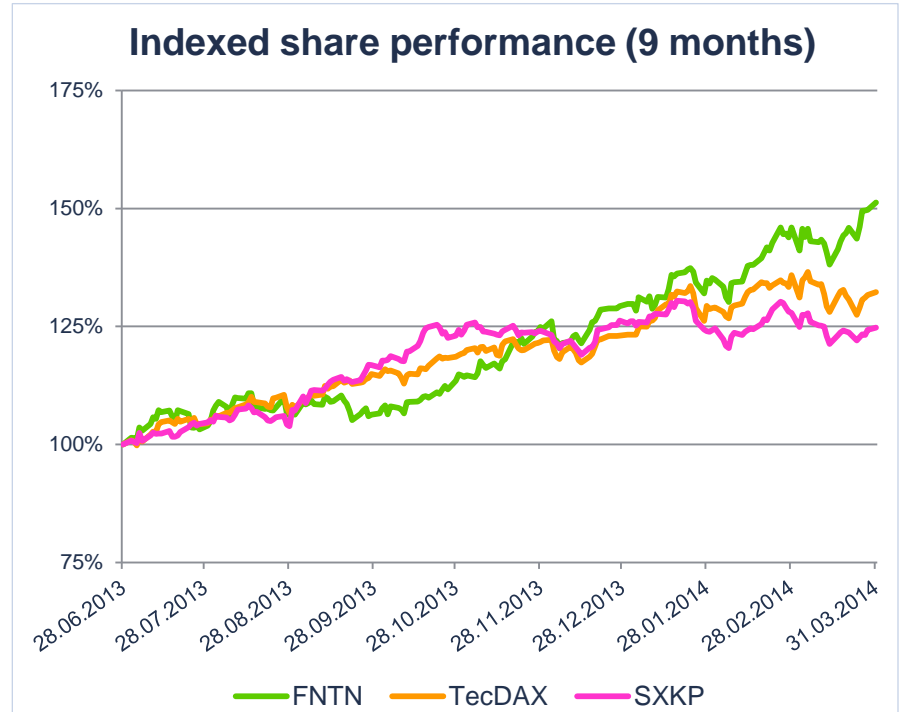
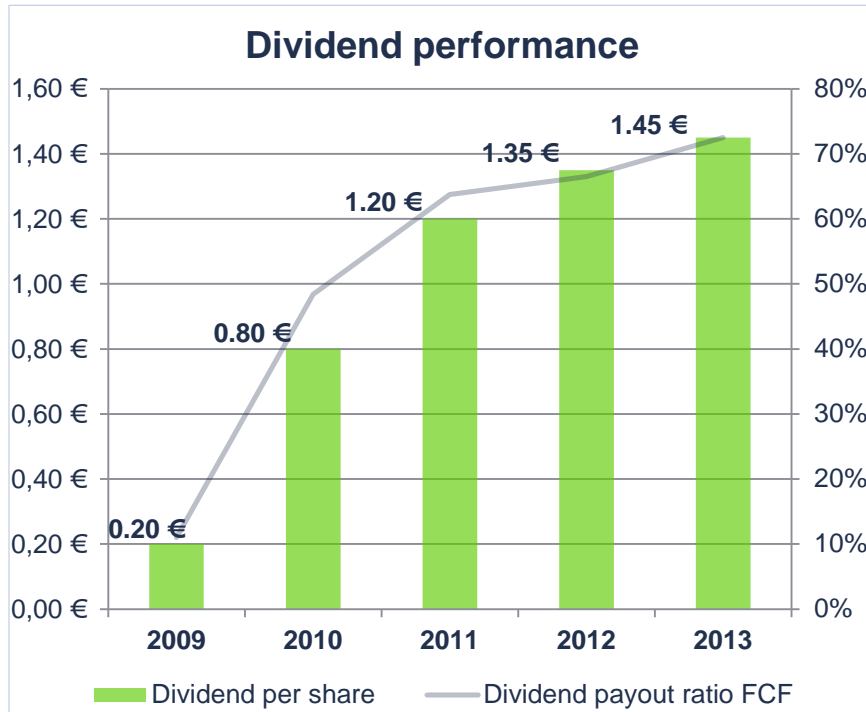
# Financial statements – cash flow statement

in EUR million	Q1 2014	Q1 2013
Cash flow from operating activities	62.9	59.0
Cash flow from investing activities thereof net capex	-51.9 -5.8	-17.1 -2.6
Cash flow from financing activities	-0.5	-45.5
<b>Change in cash and cash equivalents</b>	<b>10.5</b>	<b>-3.5</b>
<b>Free cash flow<sup>1</sup></b>	<b>57.1</b>	<b>56.4</b>

- **Cash flow from operating activities** slightly better because of working capital needs
- **Cash outflow from investing activities** increased mainly due to the acquisition of Jesta Digital Group
- **Cash outflow from financing activities** due to advanced repayment of syndicated loan at the end of 2013 – no repayments due in 2014

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.

# freenet AG share



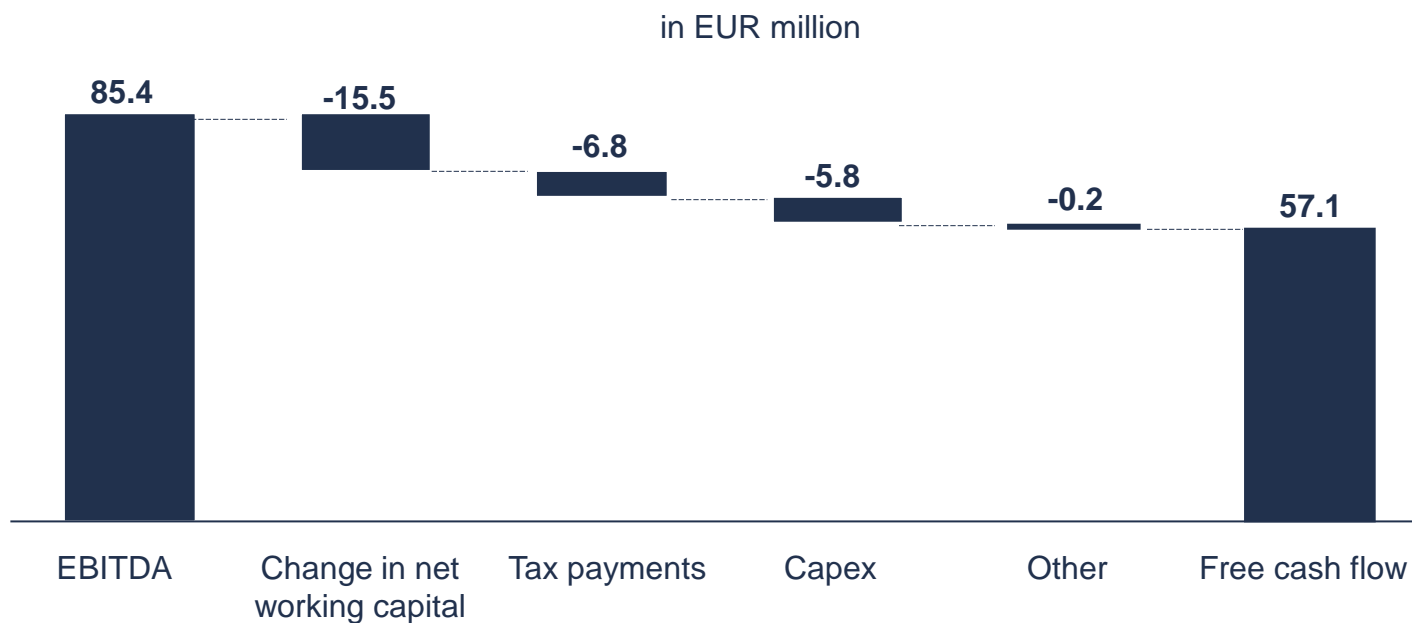
## Shareholder Structure

100% free float according to Deutsche Börse AG

As of 30 March 2014

<b>BlackRock</b>	<b>5.05 %</b>
<b>State of Norway, Norges Bank</b>	<b>3.02 %</b>
<b>JPMorgan</b>	<b>3.08 %</b>
<b>Other shareholders</b>	<b>88.85 %</b>

# Detailed bridge from EBITDA to free cash flow for Q1 2014



FY 2014e	365	- 35	- 45	- 20	~ 0	265
FY 2015e	370	- 35	- 35	- 20	~ 0	280

# Two-year guidance confirmed

	Results 2013	Guidance 2014	Guidance 2015	
<b>Contract customers</b>	+ 80,000			Slight increase in customer ownership expected for 2014/2015
<b>Postpaid ARPU</b>	22.3 €			Postpaid ARPU expected to slightly decline in 2014 and stabilise in 2015
<b>Group revenue</b>	3,193.3 m€			Revenue increase anticipated for 2014/15
<b>Group EBITDA</b>	357.4 m€	365 m€	370 m€	Further increase of Group EBITDA in 2014/15
<b>Free cash flow (FCF)<sup>1</sup></b>	256.2 m€	265 m€	280 m€	Further rise of free cash flow anticipated for 2014/15
<b>Dividend pay-out</b>	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

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 proposal of 1.45 € per share to the Annual General Meeting.



# Summary on Q1 2014 performance

---

- KPIs in line with management expectation and with guidance; therefore confirmation of two-year guidance for 2014 and 2015
- Further focus on extension and optimisation of digital lifestyle products and services; successful integration of new businesses – one of the key goals in 2014
- Price deterioration effect overcompensated by high-margin customer relationships including digital lifestyle value-added products and services
- Dividend proposal of 1.45 € per share to the Annual General Meeting

# We take time for your questions



From left to right:  
**Joachim Preisig, CFO**  
**Christoph Vilanek, CEO**

## Christoph Vilanek, CEO

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

## Joachim Preisig, CFO

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

freenet AG  
Hollerstraße 126  
24782 Büdelsdorf

[www.freenet-group.de](http://www.freenet-group.de)

freenet AG  
Investor Relations  
+49 (0)40 51306 778

[investor.relations@freenet.ag](mailto:investor.relations@freenet.ag)