

Management presentation Q2 2014 results

Christoph Vilanek, CEO

Joachim Preisig, CFO

6 August 2014

freenet **GROUP**

 mobilcom
debitel

freenet 

klarmobil.de

GRAVIS

11 TALKLINE

freenet
digital

 MFE
Energie

 MOTION TM

Cautionary statement

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

Christoph Vilanek

Chief Executive Officer

Strong operational performance in Q2 2014

[Q2 2013]

| | | | |
|--|-------------------------------|-------------------------------|---|
| Decreasing Group revenue because of reduction of low-margin hardware and lower ARPU | 727.2 m€ [809.6 m€] | 190.5 m€ [177.0 m€] | Gross profit +7.6% |
| Group EBITDA +2.9% | 87.6 m€ [85.2 m€] | 74.2 m€ [70.4 m€] | Free cash flow + 5.3% |
| Group result +3.0% | 57.1 m€ [55.4 m€] | 8.84 m [8.56 m] | Customer Ownership +3.2% |

For the financial years 2014 and 2015 Executive Board reconfirms its guidance for the most relevant KPI's

Main events and key activities during second quarter 2014

Conditional approval for the acquisition of E-Plus by Telefónica Deutschland

- Telefónica Deutschland has received the conditional approval for the takeover of E-Plus Group from the European Commission in early July
- Since 2007 freenet cooperates with Telefonica in a MVNO-like model waiving commissions for high revenue share
- Consequently freenet would only have benefitted from a new model, that would provide even higher gross margin pools, which was not the case taking capacity exposure into consideration

Further steps on the path towards Digital Lifestyle Provider

- Re-naming of Jesta Digital Group to freenet Digital and start of sales of successful freenet DLS products
- SmartHome Security launched as additional home automation solution on April 14, 2014; test of additional sales channels
- Launch of additional or refreshed bundled services, e.g. games, mobilcom-debitel cloud, music streaming
- Expansion of the GRAVIS store chain to 46 stores by acquiring 12 additional former Apple reseller stores
- Growth of organic DLS revenues 1 half year YOY more than 50%

Multi-channel distribution and sales promotion activities

- Cooperation with Axel Springer for Bild+ App as well as launch of Click & Collect throughout mobilcom-debitel shop chain
- Multitude of World Cup related marketing campaigns to strengthen the Digital Lifestyle Provider profile
- Redressing of Category management for the stores (Core, Innovation, Fast moving)
- Redesign of mobilcom-debitel and GRAVIS Apps with new online shop functionality, relaunch of Online shops
- Launch of Media Markt branded tariff plan to compete branded resellers such as Aldi and Lidl

Market consolidation beneficial for freenet

Approach

- Extensive negotiation process over a 3 month period
- Target to improve current terms and conditions and to secure favourable conditions for future usage patterns
- Limit financial exposure through later vacancy of capacity
- Secure cooperative relationship to benefit from remedy

Outcome

- Generic remedy securing cooperation till 2025 and access to LTE as well as existing set of terms lead to demanding conditions expressed by freenet
- Telefonica and freenet could not agree on full set of terms
- LTE available to freenet already since the start of the service

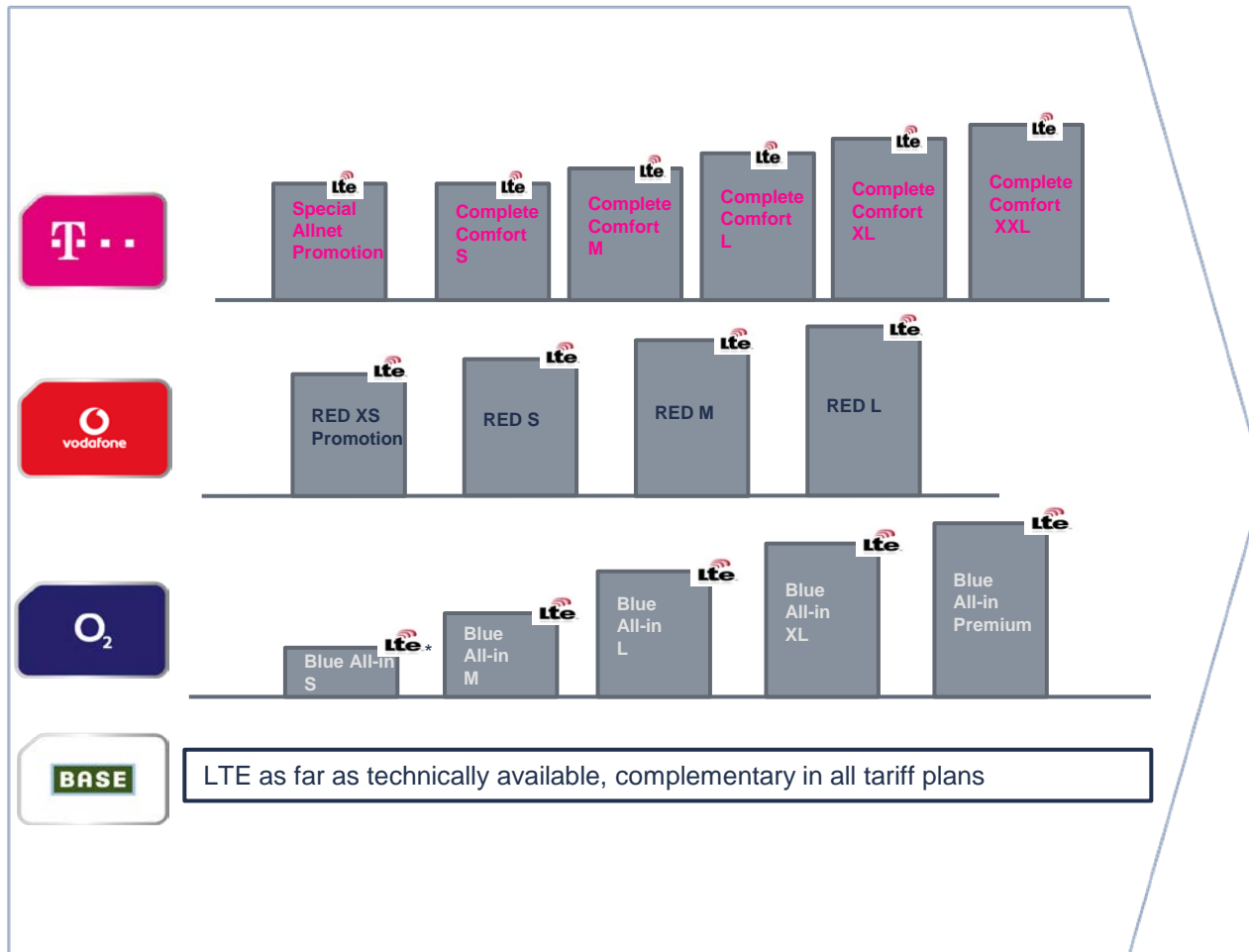
Perspective

- freenet will stepwise convert existing Eplus customer base into new framework
- freenet in strong position towards Telefonica, since from January 2015 O2/Eplus customers could be switched to other networks without penalty
- Negotiation position towards Telekom and Vodafone improved

Summary

- Improved position
- No financial exposure on capacity
- Secured benefits from overall remedy

freenet delivers 4G to all its customers on all networks



Unique proposition

- 4G on all networks
- Full customer satisfaction since freenet can serve best available 4G in all locations of the country
- Data consumption 5 times higher than on 3G

New Smart Home product meets trend of burglary increase in Germany

SmartHome Security



Default set

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

Pricing model

24 months contract period

Initial payment € 99.00

One time installation fee € 19.99

Monthly service charge € 19.99



- ✓ Remote control via App on Smartphones/Tablets



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



Additional components available in the shops and online

- ✓ smoke detector € 49.00
- ✓ outdoor siren € 99.00
- ✓ keyboard for activation/deactivation through numeric code € 49.00
- ✓ water warning device € 49.00
- ✓ Opening detector € 29.00

Aside from traditional distribution channels freenet is testing alternative ways to sell the product e.g. door-to-door, DRTV





Bundling of services to increase share of wallet




Norton-Plus Bundle

| | | | | | | |
|---|---|---|---|---|---|--------------------------|
| Norton Security | + | md Cloud light¹⁾ | + | ServicePlus²⁾ | = | Basic price (monthly) |
|  | |  | |  | | €5.98 |

Game-Plus Bundle

| | | | | | | |
|---|---|---|---|---|---|--------------------------|
| GamePlus | + | md Cloud light¹⁾ | + | ServicePlus²⁾ | = | Basic price (monthly) |
|  | |  | |  | | €6.98 |

MusicFlat³⁾-Plus Bundle

| | | | | | | |
|---|---|---|---|---|---|--------------------------|
| MusicFlat³⁾ | + | md Cloud light¹⁾ | + | ServicePlus²⁾ | = | Basic price (monthly) |
|  | |  | |  | | €12.98 |

- Data analysis showed that conversion on single services was limited
- Conversion rates decrease with 2nd and 3rd upselling
- Combination and bundling drives total revenue per customer, allows more attractive commission towards the dealer and increases potentially customer loyalty in the long run

1) 2 GB cloud, full functionality as md cloud Basic

2) Technical Hotline free of charge, preferred service, loan of mobile device free of charge, switch of SIM-Card free of charge

3) 30-days-testing period with exceptional termination right is not applicable

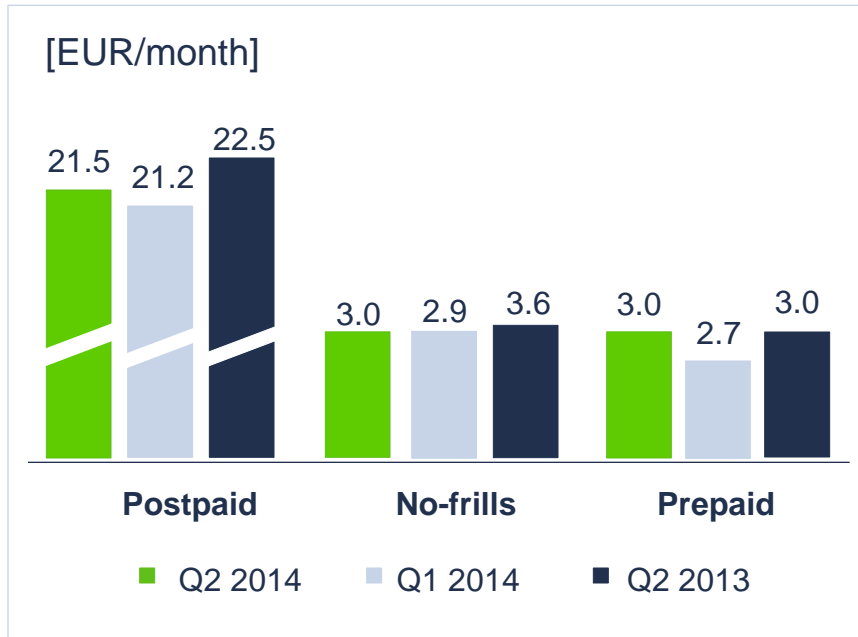
Further rise of Customer Ownership

[in million]

+ 3.3%



ARPU development within internal projection



- **Postpaid ARPU** down 1.0 € yoy at 21.5 € driven by legacy customers' switching into new flat tariffs
- **No-frills ARPU** in the last quarters stable around 3.0 €
- **Data revenue** share 28.1% of postpaid ARPU in Q2 2014
- **Prepaid ARPU** stable compared with previous year's quarter

Monthly DLS revenue per postpaid customer up from ca. 0.65 € to more than 1.0 € (not included in ARPU)

Joachim Preisig

Chief Financial Officer

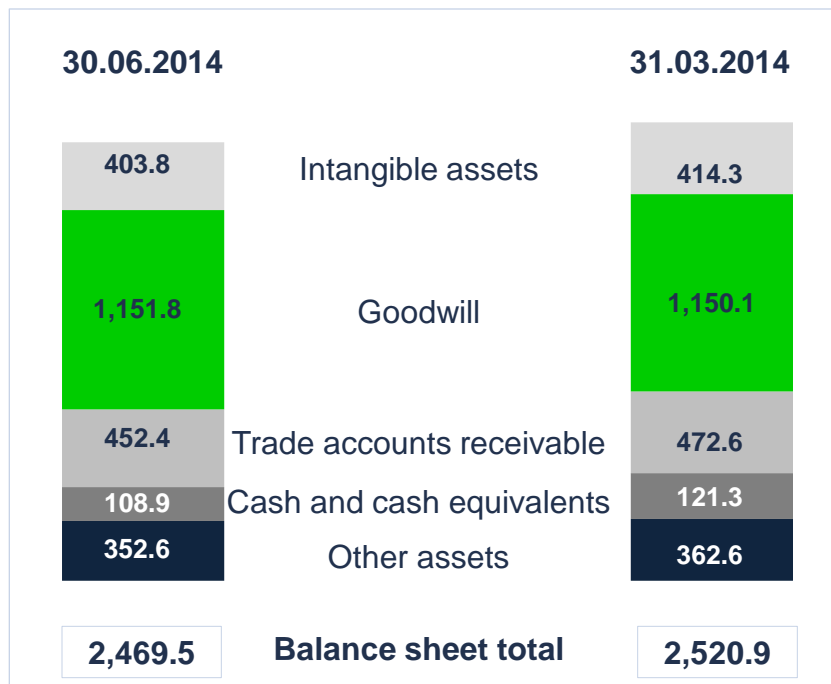
Financial statements – income statement

| in EUR million | Q1 – Q2 2014 | Q1 – Q2 2013 | Q2 2014 | Q2 2013 |
|-------------------------------|-----------------|-----------------|---------|---------|
| Revenue | 1,444.7 | 1,584.9 | 727.2 | 809.6 |
| Gross profit | 373.0 | 349.8 | 190.5 | 177.0 |
| EBITDA | 173.1 | 170.4 | 87.6 | 85.2 |
| Depreciation and amortisation | -32.4 | -27.7 | -16.4 | -13.5 |
| EBIT | 140.7 | 142.7 | 71.2 | 71.7 |
| Interest balance | -20.2 | -20.1 | -10.7 | -10.2 |
| EBT | 120.5 | 122.6 | 60.5 | 61.5 |
| Taxes on income | -6.0 | -7.0 | -3.4 | -6.1 |
| Group result | 114.5 | 115.6 | 57.1 | 55.4 |
| Earnings per share (€) | 0.89 | 0.90 | 0.44 | 0.43 |

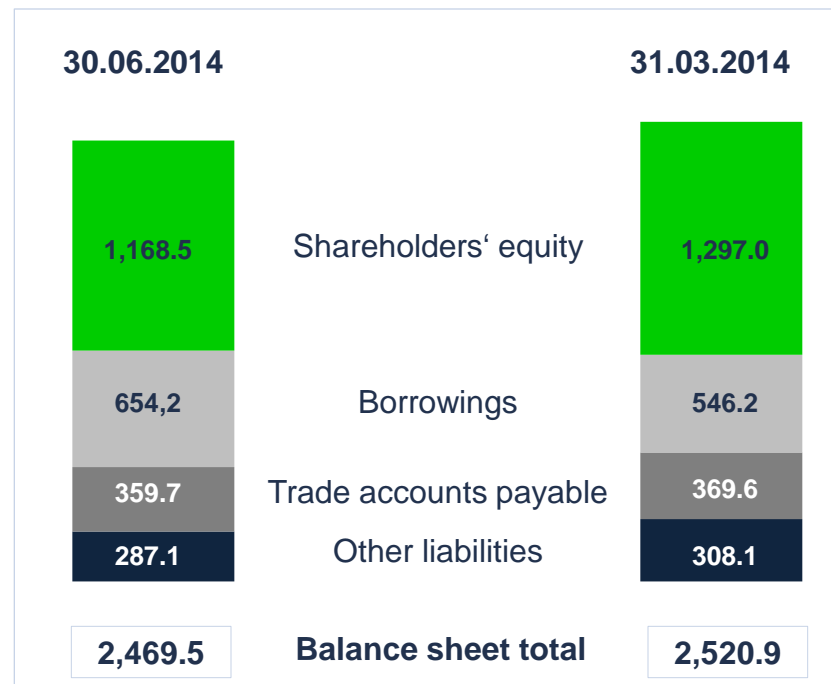
Financial statements – balance sheet

[in EUR million]

Assets



Shareholders' equity and liabilities



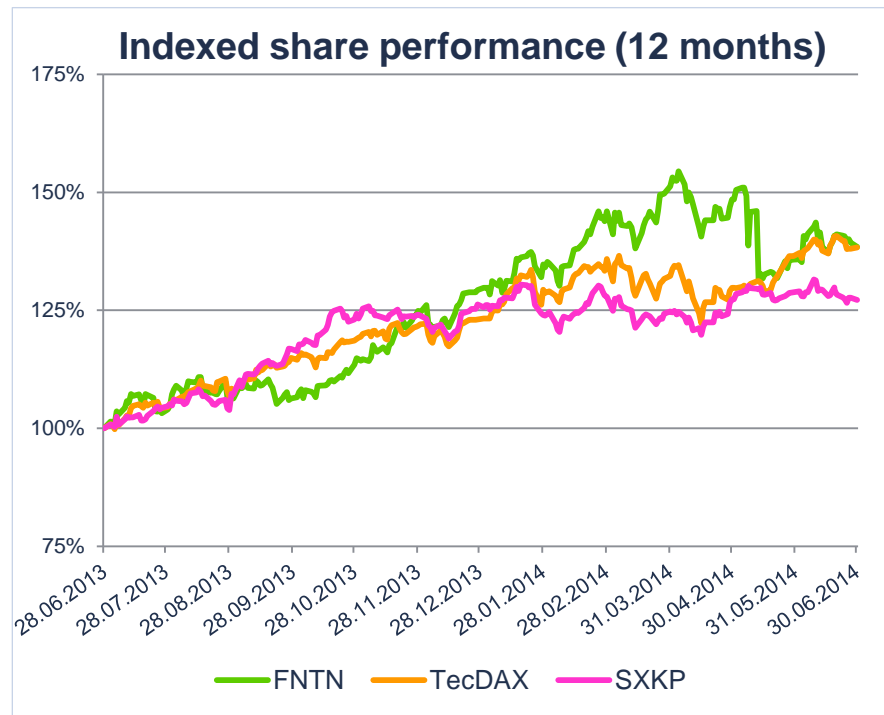
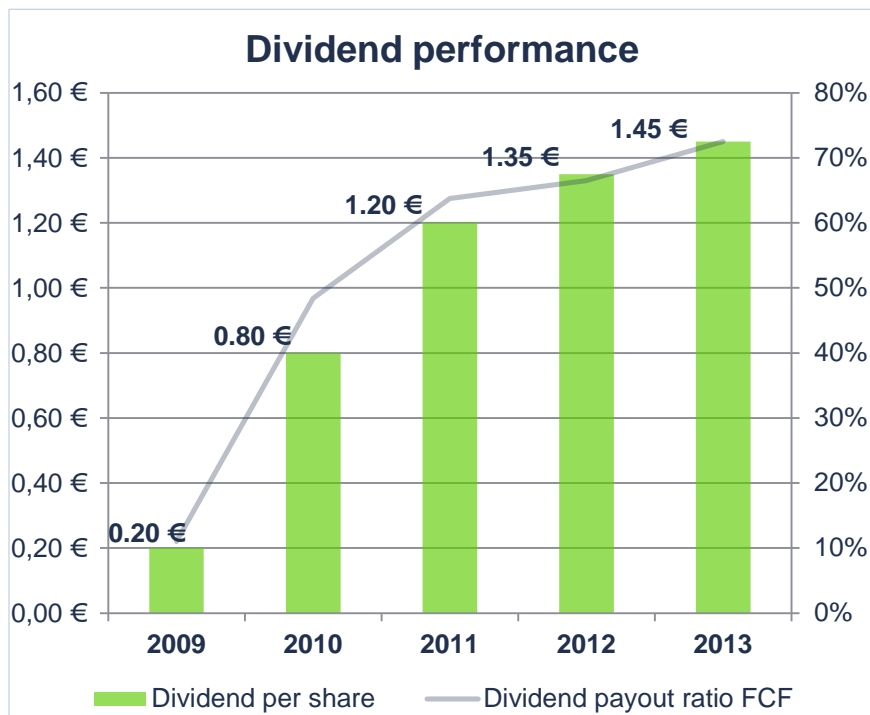
- Equity ratio at 47.3% in Q2 2014 (Q1 2014: 51.5%)
- Net debt of 545.3 m€ in Q2 2014 compared to 424.9 m€ as of 31 March 2014

Financial statements – cash flow statement

| in EUR million | Q1 – Q2 2014 | Q1 – Q2 2013 | Q2 2014 | Q2 2013 |
|---|-----------------|-----------------|---------------|---------------|
| Cash flow from operating activities | 141.7 | 132.8 | 78.8 | 73.8 |
| Cash flow from investing activities <i>thereof net capex</i> | -56.2 -10.5 | -19.9 -6.0 | -4.3 -4.7 | -2.8 -3.4 |
| Cash flow from financing activities | -216.4 | -253.2 | -215.9 | -207.7 |
| Change in cash and cash equivalents | -130.9 | -140.3 | -141.4 | -136.7 |
| Free cash flow¹ | 131.3 | 126.8 | 74.2 | 70.4 |

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



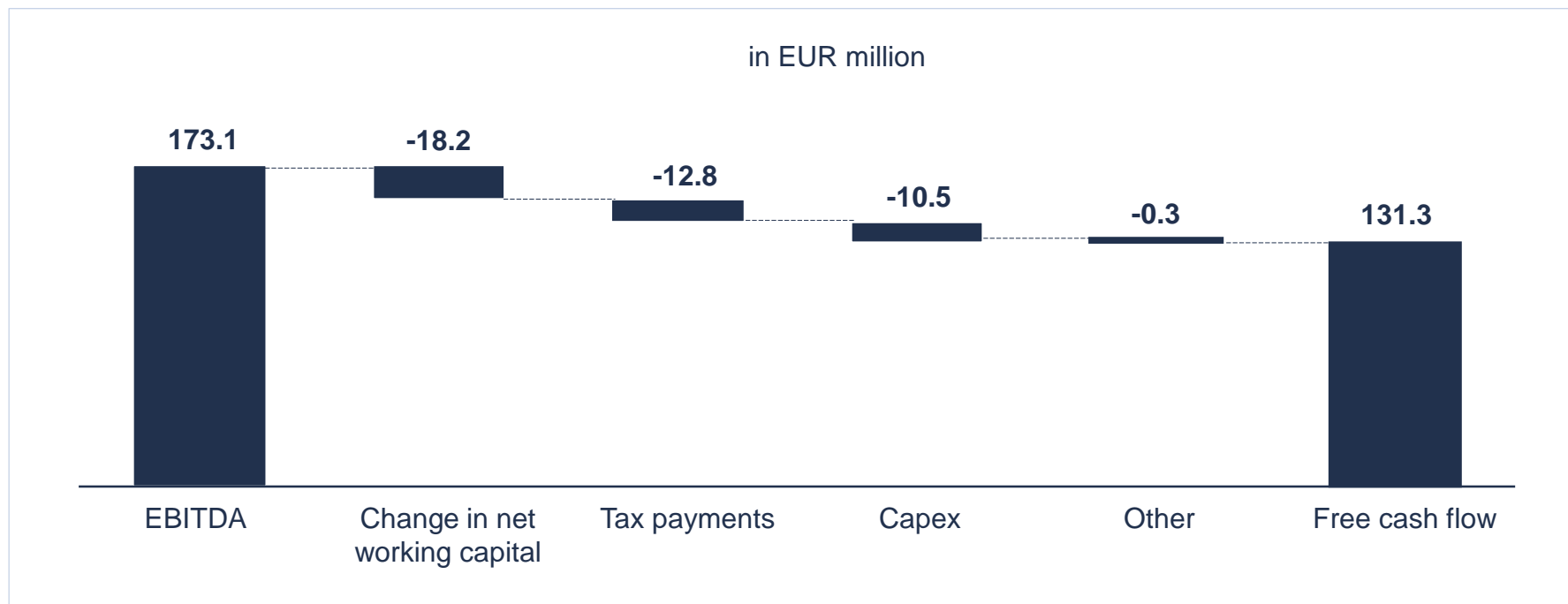
Shareholder Structure

100% free float according to Deutsche Börse AG

As of 30 June 2014

| | |
|------------------------------|---------|
| State of Norway, Norges Bank | 3.30 % |
| JPMorgan | 3.08 % |
| Other shareholders | 93.62 % |

Detailed bridge from EBITDA to free cash flow for H1 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 | |
|---|---|------------------|------------------|--|
| Contract customers | + 80,000 | | | Slight increase in customer ownership expected for 2014/2015 |
| Postpaid ARPU | 22.3 € | | | Postpaid ARPU expected to slightly decline in 2014 and stabilise in 2015 |
| Group revenue | 3,193.3 m€ | | | Revenue decreasing in 2014, but stable in 2015 |
| Group EBITDA | 357.4 m€ | 365 m€ | 370 m€ | Further increase of Group EBITDA in 2014/15 |
| Free cash flow (FCF)¹ | 256.2 m€ | 265 m€ | 280 m€ | Further rise of free cash flow anticipated for 2014/15 |
| Dividend pay-out | 1.45 €/share ² (= 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 of 1.45 euros per dividend-bearing share resolved by the AGM on 13 May 2014.

Christoph Vilanek

Chief Executive Officer

Summary on Q2 2014 performance

- Strong Q2 with all relevant KPIs up YOY and in line with internal expectation
- Postpaid customer base growing 8 quarters in a row
- EBITDA, free cash flow growing corresponding with full year guidance
- ARPU in line with management expectation and with guidance; price deterioration effect again overcompensated by high-margin customer relationships including Digital Lifestyle value-added products and services
- Strategic growth of Digital Lifestyle revenues achieved
- Decrease of no-margin or low-margin hardware revenues without any effect on EBITDA and free cash flow; margins are increasing
- O2/E+-merger under the condition of non-MNO-remedies in favour of freenet

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 O₂
- 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

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

investor.relations@freenet.ag