

Management presentation Q3 2016 results

Christoph Vilanek, CEO and Joachim Preisig, CFO

9 November 2016 | **Analyst and Investor conference call**

freenet GROUP

MOBILCOM-DEBITEL / KLARMOBIL.DE / GRAVIS / FREENET.DE / MEDIA BROADCAST / FREENET DIGITAL / FREENET ENERGY / MOTION TM

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Financial and operational highlights in Q3 2016

- **Third quarter** showed strong core business performance and valuable contribution from Media Broadcast's B2B business
- **Group revenue** increases by 59.6 m€ from Q2 to 867.2 m€ in Q3 2016 (**+77.2 m€yoy**)
- **Group EBITDA** increases by 13.9 m€ from Q2 to 118.2 m€ in Q3 2016 (**+20.8 m€yoy**)
- **Customer Ownership** improved by 51,000 users to 9.47 million (**+263,000 yoy**) during the reported quarter mainly driven by **valuable postpaid customers** by 35,000 to 6.43 million (**+197,000 yoy**)
- **Stable postpaid ARPU** – at 21.6 € (+0.2 € compared to Q2 2016; -0.3 € yoy)
- **Initial go-to-market** of 'waipu.tv' and 'freenet TV'

2016 is a year of strategic importance for freenet

Q1 - Q3 2016 – Building the pillars for the future

Continuous improvement of the core mobile business

- Sharpening of the tariff portfolio in all segments
- Investment into brand recognition, brand profile and retail
- Perfecting sustainable business model by varying procurement with MNOs, spreading the offer portfolio and extending multi-channel efforts

Enlargement of digital lifestyle portfolio

- Extension of the offering e.g. with save TV, Ready
- Improvement of customer profiling and targeting

Enter the TV access arena

- Acquisition of Media Broadcast GmbH and Exaring AG
- Establishment of freenet as partner of the content industry also in terms of synergies with the core business

Q4 2016 – Implementation of winning forces

Mobile

- Full penetration of LTE offerings and enlargement of data packages
- Securing new channels e.g. mydealz
- Leverage advantage of multi-brand portfolio to optimise lifecycle contribution per customer (migration across brands with renewal and retention)

TV product launches

- Initial campaign-testing in retail and within customer base
- Assessment and prioritizing business opportunities of the IP technology with Exaring AG

Refocus branding under the freenet umbrella

- MFE Energie becomes **freenet energy**
- All digital lifestyle services under **freenet**
- All captive accessories under **freenet basic**

Strong ATL-marketing and retail-sales KPIs

Brand recognition >80%

- Costa campaign drives prompted brand recognition above 80%
- Still lower than MNO brands, but significantly higher than competitors such as Otelo (70%) or smartmobil.de (61%)
- For 60% of those that remember Costa mobilcom-debitel is not only a mobile provider but a digital lifestyle provider with a portfolio outside pure mobile access

Retail is a driver of loyalty and net-promoter-score

- 4000 interviews with new customers from POS 15.06.-15.09.2016

Customer satisfaction

- Overall 90%
- Advice and sales process 92%
- Friendliness and staff 96%



Mystery Shopping results June and July 2016

Top md-retail-partner fulfil expectations

- 90% delivery on overall performance
- 92% delivery on advice and counselling
- 100% delivery on sales arguments
- 100% delivery on sales closing behaviour
- 100% delivery on after sales

92% of all sales conversations conducted with pencil selling

freenet's unique proposition becomes more and more a strength

Unlimited access to all networks and MNO tariffs

- Best network quality anytime, anywhere
- Full access to high-speed LTE (voice and data)
- Transparency and involvement in next-gen-technology
- Unlimited capacity
- Usage right of original network brands

Various procurement models secure gross margin

- Retail-minus model mitigates risk from severe changes in usage patterns
- Margin based procurement model delivers plannable gross profit
- COGS and MVNO type of conditions allow competitive offers in No-frills / Sim-only market segment

Independent from disruption

- Procurement without minimum guarantees or minimum consumption
- Negligible risk from exponential growth in data consumption
- No participation in network CAPEX

Broader MNO cooperation secures relationship

- Multi-year agreement with Vodafone and sales contract for broadband and cable access
- Magenta bundle offers and cooperation in Smart Home with Telekom
- 10 year remedy for Telefonica

freenet is the sole provider covering any needs profitably



freenet portfolio serves all segments, needs and target groups

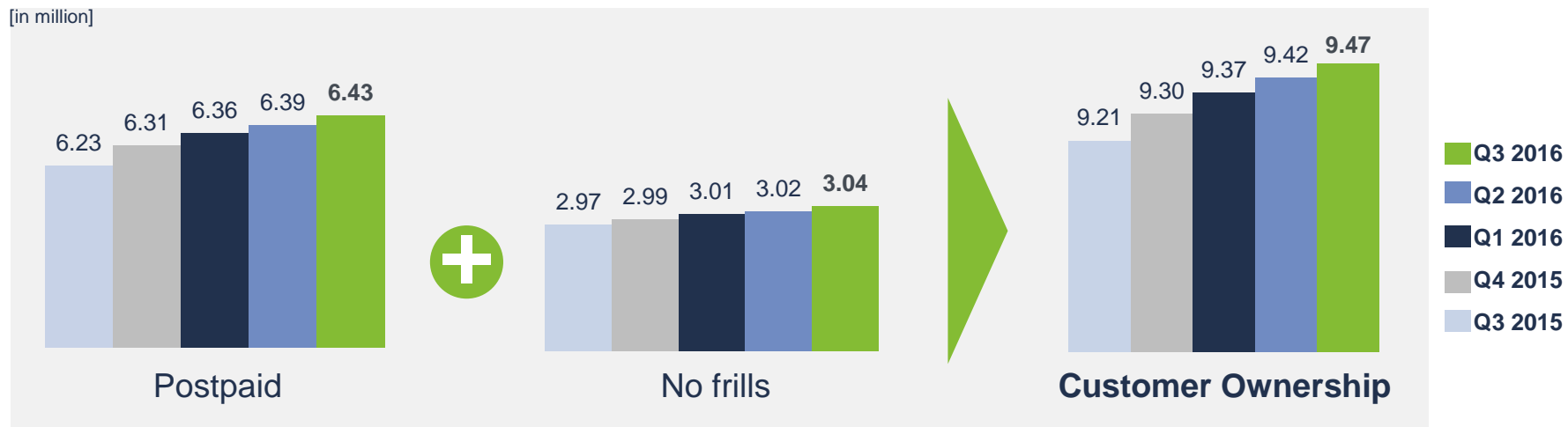
- PREMIUM
- VALUE
- DISCOUNT
- PREPAID

Original MNO tariffs with mobilcom-debitel (at own expenses and for own account)
mobilcom-debitel Allnet and Smartphone tariffs with subsidy
klarmobil, callmobile, freenetmobile Sim-only offering
MNO brands, as well as klarmobil, callmobile and partner brands (Media Markt)

Procurement model enables best quality at lowest price – achieving profitable growth

	FREEFLAT 1.000	FREEFLAT 2.000	FREEFLAT 4.000	Congstar Allnet Flat+	otelo Allnet Flat Max
Monthly subscription (SIM-Only)	9.95 €	11.95 €	14.95 €	30.00 €	29.99 €
Voice	Allnet	Allnet	Allnet	Allnet	Allnet
SMS	0,09 €	Allnet	Allnet	Allnet	Allnet
Data	1 GB	2 GB	4 GB	4 GB	4 GB
Speed / Technology	HSDPA 21 Mbit/s	HSDPA 21 Mbit/s	HSDPA 42 Mbit/s	HSDPA 42 Mbit/s	HSDPA 42 Mbit/s
Data usage	Fair only!	Fair only!	Fair only!	Fair only!	Fair only!
TCO 24 months	238.80 €	286.80 €	358.80 €	720.00 €	719.76 €

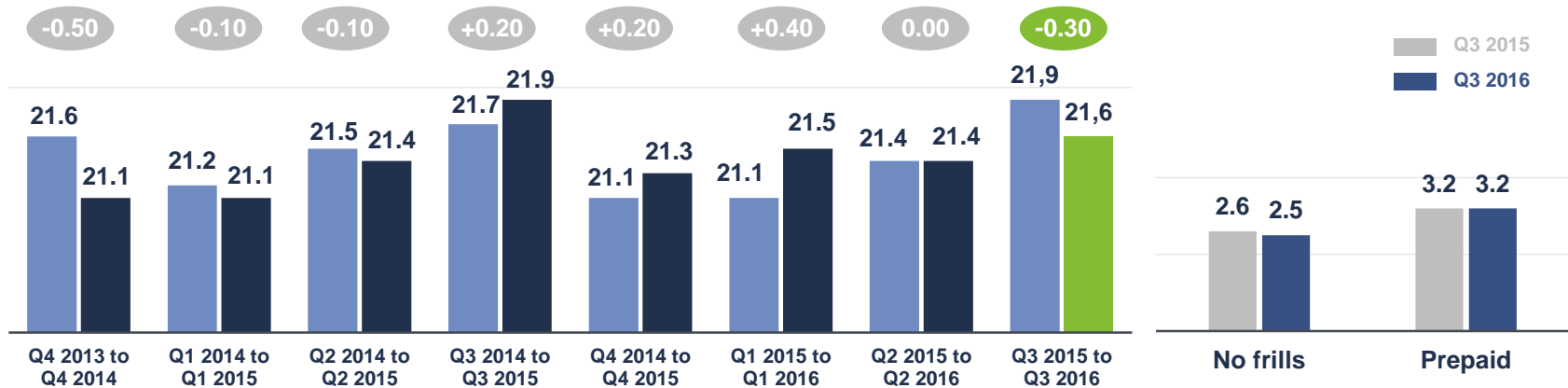
Customer Ownership growth +2.9 per cent year-on-year



- Improvement of customer ownership largely due to increase of **postpaid customers** by 3.2 per cent (+197,000 yoy) and an increase of the **no-frills customer base** by 2.2 per cent (+67,000 yoy)
- Further decline of **prepaid customer base** to 2.59 million attributable to the further deactivation of inactive SIM-Cards (technical churn)
- **Total customer base** at **12.06 million** – below previous years' figure of 12.28 million

Postpaid ARPU stable on track, +20 cent from Q2

[EUR/month]



Postpaid ARPU

- Improved by 0.2 euros to 21.6 euros compared to previous quarter
- Data revenue** share at 34.61%

No frills ARPU

- At 2.5 euros slightly exceeds the previous quarter figure by 0.1 euros

Prepaid ARPU

- On par with the previous years' figure and +0.1 euros compared to previous quarter

Both TV offerings now presented in 280 shops

freenet TV

100% of Media Broadcast Group, Cologne

Conversion to DVB-T2 HD standard in March 2017

Potential of roughly 7 million DVB-T1 users

Supply chain full of around 4 million boxes by 13 manufacturers

Extensive TV campaign, supported by public and private channels

waipu .tv

24,99% of EXARING AG, Munich

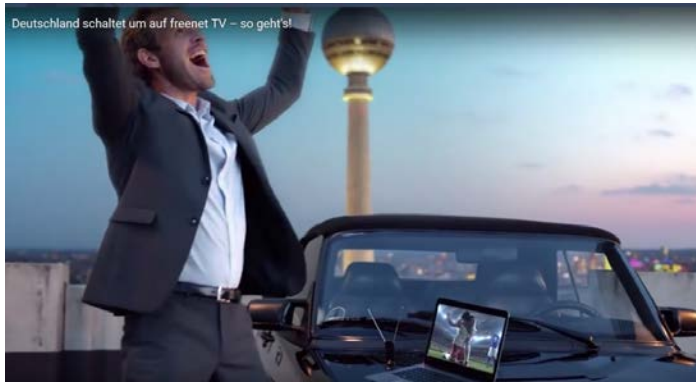
12,000 km exclusive fibre-optic infrastructure

23 million households connected via peering contracts

Extensive PR campaign, initial tests of online campaigns



Promising marketing and research KPIs for freenet TV



Deutschland schaltet um auf freenet TV - so geht's!

- ✓ alle Top Programme
- ✓ beste Bildqualität: Full HD
- ✓ bester Preis



freenet TV Einfach. Besser. Fernsehen über DVB-T2 HD.

Within four weeks after launch of end-customer communication at the end of August, spontaneous brand recognition tripled

- More than 80 per cent of the TV viewers remember having seen the spot
- freenet TV achieved high degree of campaign recognition 38 per cent (compare Sky at 27 per cent and Unity Media at 4 per cent)
- More than 71 per cent of DVB-T2 interested parties (potential buyers) feel addressed by the TV spot and approx. 60 per cent feel motivated to purchase the product – this represents a corresponding increase of 30 percentage points

Prompted brand recognition amounts to 23 per cent 4 weeks after campaign launch.

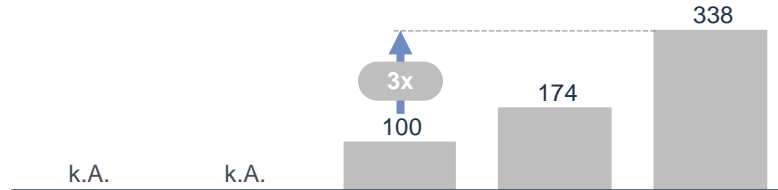
Digitization report 2016 proves excellent basis for DVB-T2 HD

- More than 7.4 million households in Germany use DVB-T on TV, laptop or on mobile devices – representing 19 per cent of all TV households, in some core regions (if/where private channels are available) the number even surges up to 35 per cent
- More and more viewers benefit from the advantage of using digital terrestrial television – the portable and mobile reception of TV signal; compared to 2015 an increase of 10 per cent

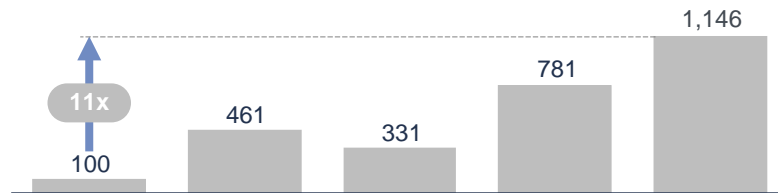
Early performance indicators with strong upward trend

Operational KPIs since freenet acquisition and involvement

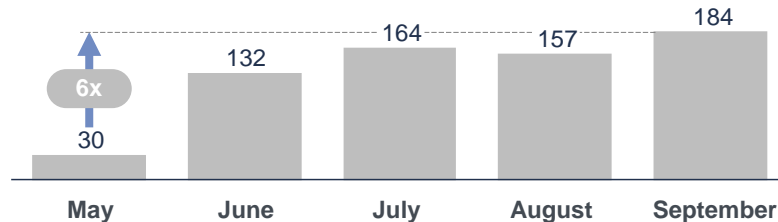
Contacts
customer service
(Index)



Unique Users
freenet.tv website
(Index)



Average stay
spent on freenet.tv
(in seconds)



- Our operational performance indicators point to a **considerable rise of consumer interest**
- This is attributable to the pre-sales activities of Media Broadcast, being primarily focused on **the launch of the TV campaign** late August
- Now we change “messaging” to convert **interest into immediate hardware sales**
- Thereby, we manage the supply chain to delete **risk of supply bottlenecks** in the transition process in March 2017 and **boost the sales figures**

Still 6 months to go for the launch – but all signals positive

3

tripling the contact volume
since
August 2016

11

website visitors
multiplied by 11 times

+80%

increase of the set-top-box sales
after launch of first campaign
(August)

4 million

pieces of hardware in supply chain

269,000

unique visitors on freenet.tv
in September

19 million

equivalent value of ATL advertising

freenet TV

waipu.tv launch in October with promising early indicators

Waipu.tv B2C qualitative results

- 75% of direct entry users swype the TV picture to their TV-screen within the first couple of days
- >60% of the registered users open waipu.tv emails with latest TV tips and more than a half click either the record function or deep dive into the suggested program
- High satisfaction with user interface, feature set and functionality, high engagement and usage
- Daily extended self care information based on customer feedback
- Amazon Fire to be added as platform by end 2016

Waipu.tv B2B opportunities

- PR campaign with more than 100 clippings during the first week caused a number of new contacts
- Local broadband providers seeking to peer
- Content providers searching to play out special interest or sequential event content
- Retail providers looking to copy mobilcom-debitel instore-TV-solution based on waipu.tv
- Game and e-sport operators to broadcast their events
-

Financial statements

Income statement information

[in EUR million]

	Q1-Q3 2016	Q1-Q3 2015	Q3 2016	Q3 2015
Revenue	2,424.1	2,291.1	867.2	790.1
Gross profit	645.7	574.9	234.1	197.1
EBITDA	311.7	272.4	118.2	97.3
Depreciation and amortisation	-89.4	-52.6	-31.9	-18.4
EBIT	211.7	219.9	81.2	79.0
Interest result	-41.5	-29.2	-14.0	-9.9
EBT	170.2	190.7	67.2	69.0
Taxes on income	-8.2	-17.6	-9.2	-7.1
Group result	162.1	173.1	58.0	61.9
Earnings per share (€)	1.30	1.35	0.46	0.48

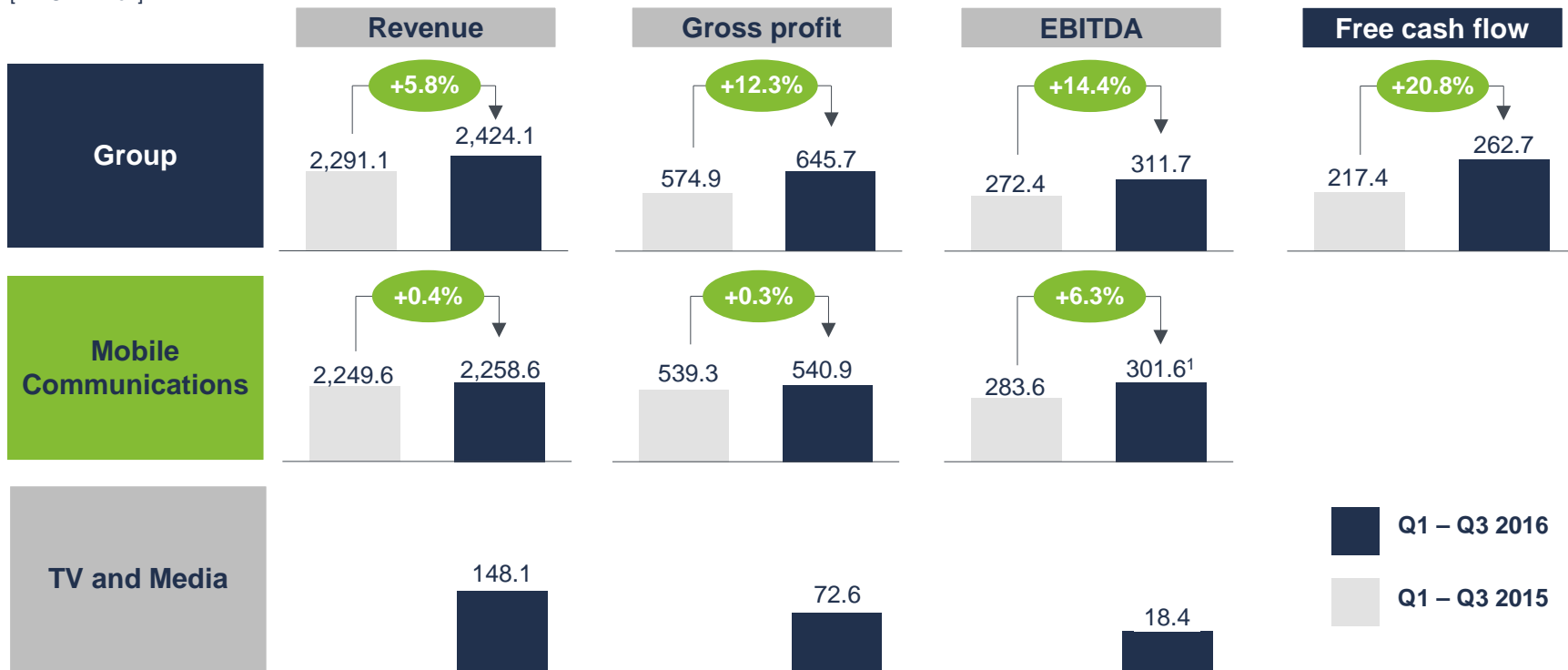
Revenue improved by 9.8% yoy mainly due to contribution from Media Broadcast in the amount of 70.1 m€.

EBITDA of 118.2 m€ (+21.4% yoy) includes contribution of 10.0 m€ from the investment in Sunrise Communications Group AG

Depreciation and amortisation increased by 13.5 m€ yoy based on the increase in property, plant and equipment and intangible assets related to the recent transactions (Media Broadcast and EXARING) and associated final purchase price allocations.

Nine-months Group and Segment overview

[in EUR million]

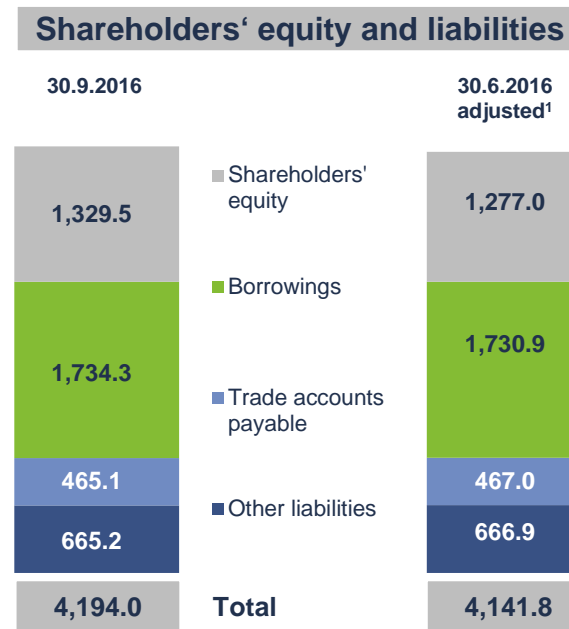
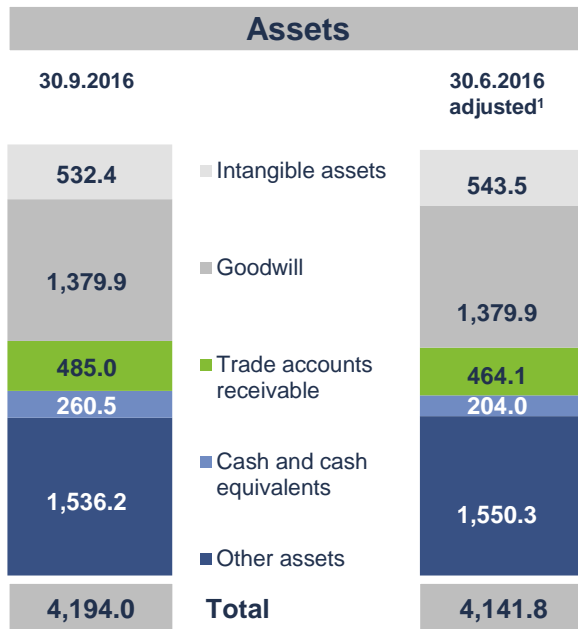


1) Including proceeds from Sunrise 16.3 m€

Financial statements

Balance sheet information

[in EUR million]



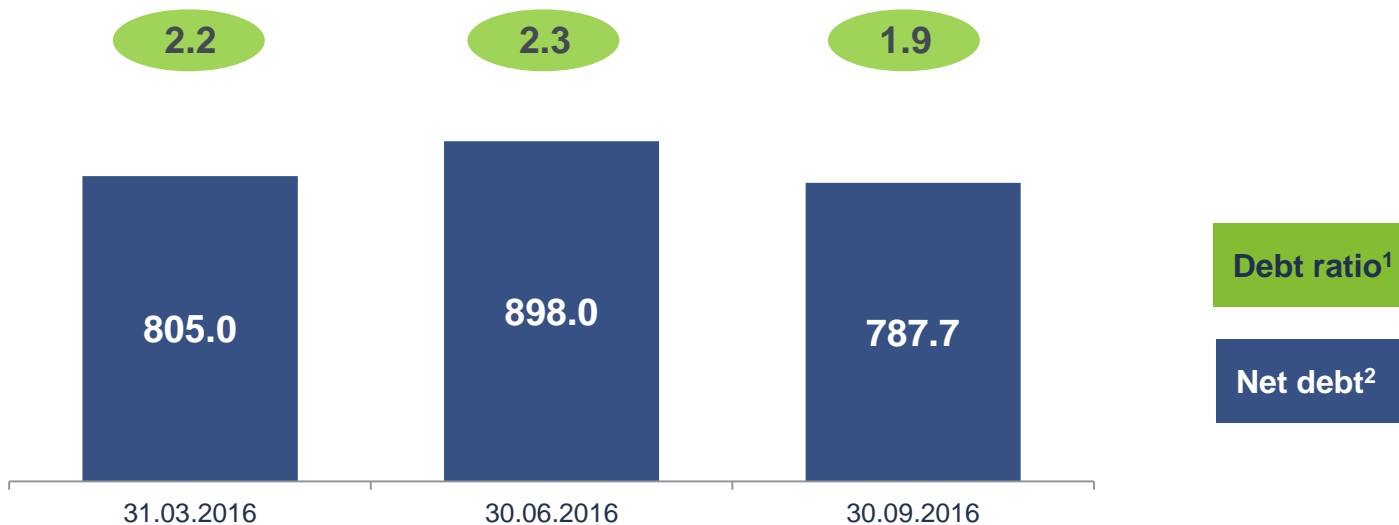
- Equity ratio at 31.7 per cent as of 30 September 2016 (30.8 per cent as of 30 June 2016)

1) Retrospective adjustment due to finalised purchase price allocation (PPA) of Media Broadcast Group.

Development of net debt and debt ratio

Debt ratio within target range of 1.0 - 2.5

[in EUR million]



1) Debt ratio is defined as net debt² divided by the EBITDA of the last twelve months.

2) Financial debt minus cash and cash equivalents minus market value of freenet's share in Sunrise Communication Group AG on the reference date (Closing price on 30.09.2016 of the Sunrise share on the Swiss stock exchange, converted from CHF to EUR by Bloomberg at the officially fixed exchange rate)

Placing of a promissory note loan totaling 350 million euros for out-financing the existing syndicated bank loan

Transaction details

- Investment grade structure and pricing

Drawing at the lower end of the marketing range at favourable conditions (average initial margin of 1.11% p.a.; maturity structure between 4 and 8 years)

- Lead arrangers

Bayerische Landesbank, Landesbank Baden-Württemberg, Norddeutsche Landesbank, ING Bank

Promissory notes November 2016	tranche 1 (fix)	tranche 2 (var.)	tranche 3 (fix)	tranche 4 (var.)	tranche 5 (fix)
Volume (m€)	63.5	161.0	90.5	23.0	12.0
Interest rate p.a.	1.00%	1.00%	1.28%	1.20%	1.68%
Maturity	2020	2020	2022	2022	2024

Financial statements

Cash flow information

[in EUR million]

	Q1-Q3 2016	Q1-Q3 2015	Q3 2016	Q3 2015
Cash flow from operating activities	297.0	237.1	80.8	86.0
Cash flow from investing activities	-847.9	-20.1	-8.9	-5.7
thereof net capex	-34.2	-19.7	-9.5	-4.8
Cash flow from financing activities	541.7	-125.3	-15.4	-0.7
Change in cash and cash equivalents	-9.2	91.7	56.5	79.6
Free cash flow¹	262.7	217.4	71.3	81.1

Cash flow from operating activities at 80.8 m€ – positive impact from 10.7 m€ EBITDA increase (before Sunrise) and 2.1 m€ yoy decline of tax payments; negative effect from 18.6 m€ increase of net working capital

Cash flow from investing activities mainly related to property, plant and equipment of Media Broadcast Group, cash effective investments of 9.5 m€ entirely financed out of the company's own resources

Cash flow from financing activities Increased significantly year-to-date mainly due to the financing of the acquisitions

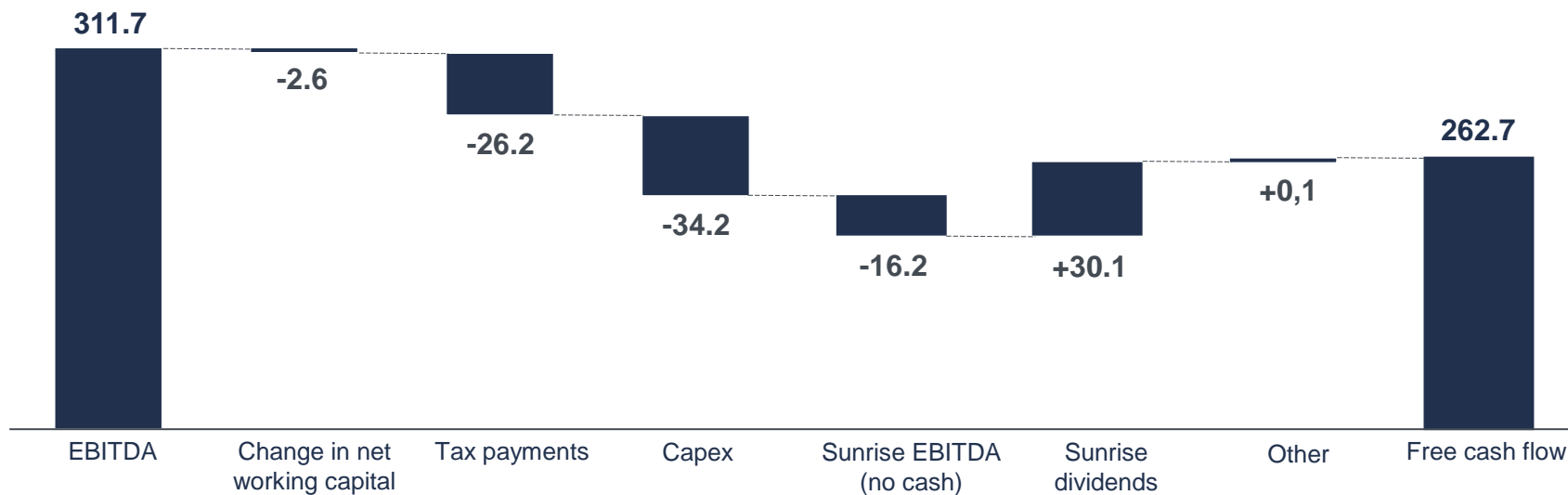
Free cash flow – year-to-date increase mainly due to the higher EBITDA as well as the received Sunrise dividend

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.

Detailed Bridge from EBITDA to free cash flow







Q1 – Q3 2016

[in EUR million]



FY 2015	370.2	- 10.3	- 44.3	- 30.4			- 0.6	284.5
FY 2016e	>400	-10	- 40	- 50	-20	+30		~340

Management reiterates guidance for financial year 2016

	Customer ownership	Postpaid ARPU	Group revenue	Group EBITDA	Free cash flow (FCF) ¹	Dividend pay out
Guidance 2016				> 400.0 m€ ²	~300.0 m€ ³	1.60 €/share ⁴
Results 2015	+ 376,000	21.4 €	3,117.9 m€	370.2 m€	284.5 m€	1.55 €/share
Guidance 2015				370 m€	280 m€	50-75% of FCF

- 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) As before, we assume that the consolidation of the Sunrise-shares will lead to additional EBITDA in financial year 2016 (not included in guidance).
- 3) Dividend payment of 30.1 m€ from Sunrise Communications Group AG not included in guidance.
- 4) Dividend of 1.60 euros per dividend-bearing share for the financial year 2016 to be proposed by the Executive Board.

freenet Group management

We take time for your questions



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 O₂ since 1996

Thank you.

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BACK UP

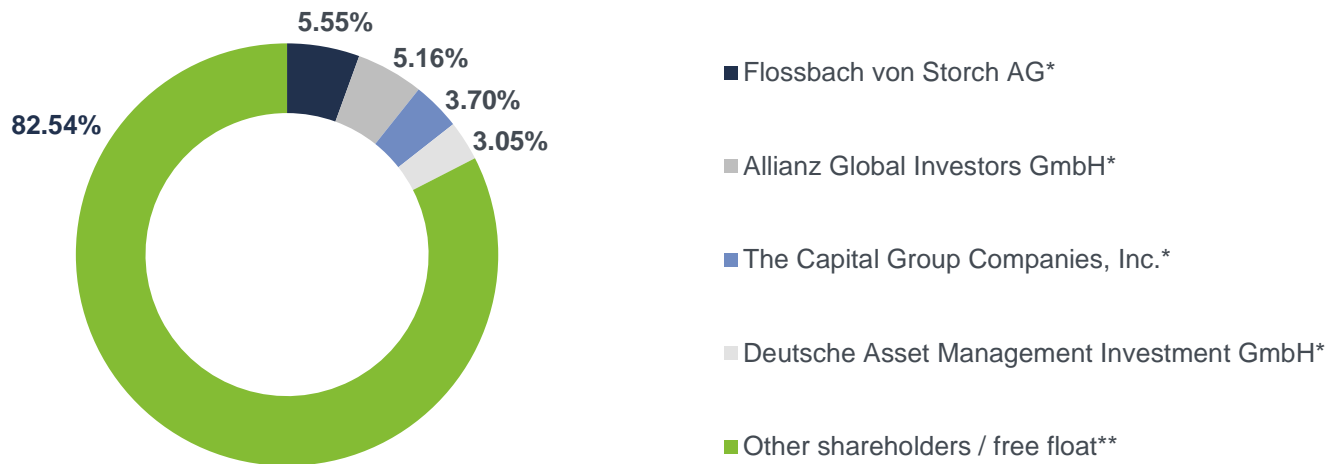
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Shareholder structure

Major shareholders of freenet AG

As of 30 September 2016



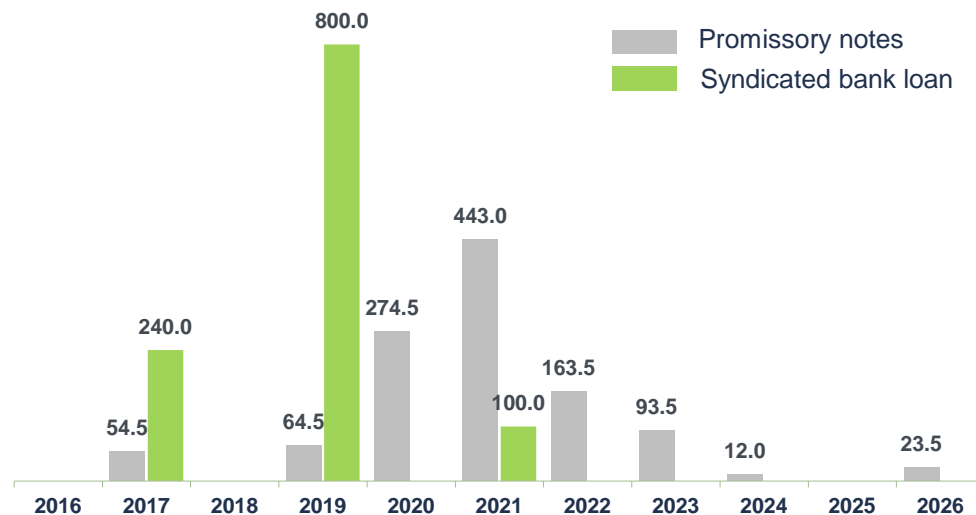
* Including attributions according to German Securities Trading Act

** The free float according to Deutsche Börse AG amounts to 89.29%

Overview over current financing and maturity structure

Average financing cost below 2.0 per cent p.a.

[in EUR million]



Issue	Instrument	Volume	Maturity
2012	Promissory note	119 m€	2017, 2019
2015	Promissory note	100 m€	2020, 2022
2016 (March)	Promissory note	560 m€	2021, 2023, 2026
2016 (November)	Promissory note	350 m€	2020, 2022, 2024
2016	Syndicated bank loan	1,140 m€	2017, 2019, 2021