



euNetworks

## euNetworks Reports Third Quarter 2011 Results

### Third Quarter 2011

- Acquired TeraGate AG Storage Optical Network
- Completed rights issue with net proceeds of more than €72m
- Total revenue of €24.1m, up 117% from 3Q 2010
- Gross profit of €15.8m, up 98% from 3Q 2010
- Gross margin of 65.6%, down from 72.1% in 3Q 2010
- Adjusted EBITDA of €4.3m, improving from €0.8m in 3Q 2010
- Net loss of €(2.2)m, improving from €(3.8)m in 3Q 2010
- 43 new customers gained in the quarter

**London, UNITED KINGDOM – 11 November 2011** – euNetworks Group Limited (SGX: H23.SI), announced strong third quarter results, with a further acquisition, a successful rights offering and continued sustained growth of the business.

Following the acquisition of LambdaNet Deutschland Communications AG (“LambdaNet”) in 2Q 2011, euNetworks completed the acquisition of TeraGate AG Storage Optical Network (“TeraGate”) on 29 July 2011. The results announced today include a full quarter of LambdaNet financials and two months of TeraGate financials.

In connection with the LambdaNet acquisition in May 2011, the Group announced the intention to undertake a rights issue. That was completed on 6 September 2011, raising more than €72m. The proceeds have repaid shareholder loans and the accumulated interest associated with funding recent acquisitions. The balance will support customer oriented capital expenditure, working capital and fund further growth opportunities.

euNetworks delivered significant growth in the quarter, both excluding and including the financials of the two acquired companies. Total revenues grew by 117% year on year, from €11.1m in 3Q 2010 to €24.1m in 3Q 2011. Recurring revenues were €21.2m, up 114% from 3Q 2010. Network revenues continued to grow, up 146% to €19.2m in 3Q 2011. Excluding LambdaNet and TeraGate, network revenues grew 38% year on year and by 27% from 2Q 2011. Gross profit in the quarter increased by 98% to €15.8m, up from €8.0m in 3Q 2010. Gross margin declined to 65.6%, largely reflecting the addition of LambdaNet and TeraGate to the Group. As euNetworks continues to integrate these businesses, leveraging euNetworks’ network, the Group anticipates improvement in gross margin. Adjusted EBITDA<sup>1</sup> was €4.3m for the quarter, indicating further improvement as the business scaled. Excluding acquisition costs of €0.2m relating to TeraGate and €0.3m of one-off restructuring costs, which were expensed in the period, underlying Adjusted EBITDA was €4.8m.

“It has been a busy quarter across the business, with very strong results,” said Brady Rafuse, Chief Executive Officer of euNetworks. “The standalone euNetworks business continued to deliver and the combined business with LambdaNet and TeraGate has accelerated our position, particularly in Germany. Integration is well underway, with projects delivering clear savings in line with our acquisition plan. Network rationalisation plans are progressing well and integration of the product portfolio is largely complete. Furthermore, our business depth and scale continues to develop, further enabling

(1) Adjusted EBITDA means EBITDA before the deduction of share option expense and loss on disposal of plant and equipment, and is designed to broadly reflect the Group’s operating cash flow.



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euNetworks to serve a widening array of customers and segments whose bandwidth requirements are only increasing. The organisation is being aligned to drive that forward. We remain deeply focused on serving our customers, and continue to maintain a high performing network and service delivery experience for our customers during this process of integration.”

“The completion of the rights issue in the quarter has strengthened our balance sheet and supports our organic growth plans,” said Rafuse. “I am very encouraged by the progress we are making and the results we are delivering, which continue to be ahead of expectations. Our funnel continues to indicate strong growth ahead and we remain focused on scaling our business further in future quarters.”

### **Third Quarter 2011 in Review**

Along with successful corporate activity in the quarter, euNetworks continued to drive growth in the business, with developments regionally, by product and within particular segments driving strong sales performance.

#### ***Sales Performance***

The value of total new sales order contracts continued to grow significantly in 3Q 2011, reaching €14.4m in 3Q 2011, up from €7.6m in 3Q 2010 and €12.1m in 2Q 2011. Excluding new sales from LambdaNet and TeraGate, euNetworks delivered €9.9m in new sales order contract value in the quarter, growing 30% year on year. Over 95% of sales in 3Q 2011 were for network services, spread across all key products.

Average contract term for the quarter was 28 months, down from 51 months in 2Q 2011 and 40 months in 3Q 2010. The decline was due to a lower mix of longer term fibre sales in 3Q 2011. Additionally, the LambdaNet and TeraGate businesses historically focused on shorter term contracts. euNetworks’ strategy of driving long term and high margin recurring revenues from its unique metropolitan assets remains a key focus for the Group.

Regionally, the United Kingdom has been euNetworks’ fastest growing market year to date. Following recent acquisitions, Germany delivered more than 50% of the Group’s revenues in 3Q 2011. Sales also improved in the Netherlands in the quarter, with this improvement anticipated to increase revenues in quarters to come.

euNetworks focused on integrating the product portfolio through the quarter but at the same time, continued to invest in the core products and underlying infrastructure to serve customer demand. Strong Wavelengths performance followed the completion of a number of wavelength overbuilds across the metropolitan and longhaul networks. This investment delivered new capacity and a significant increase in sales. Similar investment will be undertaken in 4Q 2011 and into 2012, with pre-deployment of wavelength capacity into key data centres and along high traffic routes to serve customer demand.

3Q 2011 was another strong quarter for the euTrade service portfolio. On-going optimisation to reduce latencies on existing network paths between key exchanges continued to drive value into the business. euNetworks maintained a high return on



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investment with this portfolio, although the segment remained actively competitive. Some signs of price compression are apparent in low latency services, but given the investment needed to maintain the required service level in this market, competing on price is not a sustainable strategy. High service performance and market leading latencies are key to strong sales results, with high and on-going investment required to achieve that. euNetworks continues to maintain a market leading position with that approach.

Following the announcement of a partnership with Vodafone on 25 July 2011, euNetworks continued to make progress serving the mobile segment, leveraging its unique metropolitan fibre assets to deliver backhaul to mobile operators. Multiple long term contracts are in place, with good demand for euNetworks' FTTx offering.

As well as continued focus on the financial services sector, and mobile operators, euNetworks increased its focus on the corporate market in the quarter. Across a wide array of industries, corporates with more advanced IT demands are leveraging euNetworks' capability, building dedicated networks in cities and between cities, with scalable 1G and 10G links between sites. euNetworks is also actively positioning its unique infrastructure capabilities to the acquired base of enterprise business from LambdaNet and TeraGate. Removing the constraints that both these businesses had from working with third party leased line providers, euNetworks is working to improve the service experience of these customers and enable further development and optimisation of their corporate IT infrastructure. In line with euNetworks' bandwidth infrastructure strategy, this will be a key focus for the business going forward.

With a larger revenue base this quarter, euNetworks began measuring churn as a percentage of monthly recurring revenues. In 1Q 2011 therefore, churn was 0.7% per month. Including LambdaNet in 2Q 2011, churn was 0.8% per month. Churn for the Group was higher in 3Q 2011 at 1.5%, driven by termination of a large contract. The customer required internal ownership of their network following a corporate event. euNetworks and the customer agreed to termination of higher layered services in return for on-going commitment for high bandwidth connectivity. Additionally, a one-time settlement was agreed, driving non-recurring revenues for the quarter. Excluding this event, churn was consistent with previous quarters at 0.8%.

### ***Operational Performance***

euNetworks continued to connect buildings in the quarter. The number of on-net buildings increased from 489 at 2Q 2011 exit, to 530 at the end of 3Q 2011. Entering 4Q 2011, there were a further 202 in the process of being connected.

Integration progressed well in the quarter while a strong focus on customer service was maintained. euNetworks commenced a restructuring programme in Germany in 3Q 2011 and anticipates this will be largely complete in 4Q 2011. As a result of this programme, cost savings are expected, although an associated one-off cost will be incurred in 4Q 2011.



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## 2011 Business Outlook

While the economic environment continues to challenge across countries and industries, the foundations put in place in 2010 by the Group continue to drive the euNetworks business forward, as do recent acquisitions. The sales funnel remains strong as the depth and scale of the business develops. The Group's segment and investment strategy continues to deliver results. Proceeds from the recent rights issue enables euNetworks to continue this development and fund further growth opportunities.

Connecting more bandwidth intensive buildings to the network, driving up sales with product and market developments and a relentless focus on good data to deliver a great experience to customers and value to shareholders and stakeholders remain key to euNetworks in quarters ahead.

## About euNetworks

euNetworks Group Limited (SGX: H23:SI) is a bandwidth infrastructure provider, owning and operating 13 fibre based metropolitan networks across Europe connected with a high capacity intercity backbone covering 37 cities in 9 countries. The Company offers a portfolio of metro and longhaul Ethernet and Internet Protocol services including Dark Fibre, Dedicated Fibre, Wavelengths, Ethernet, and Internet. Enterprise and carrier customers benefit from euNetworks' unique inventory of fibre and duct based assets that are tailored to fulfil their high bandwidth needs.

euNetworks Group Limited is headquartered in London and publicly listed on the Singapore Stock Exchange. For further information please visit [www.eunetworks.com](http://www.eunetworks.com).

## euNetworks Investor and Press Contact:

### Hannah Fox

Marketing Director, euNetworks

D: +44 207 952 1338

M: +44 7717 896 446

E: [hannah.fox@eunetworks.com](mailto:hannah.fox@eunetworks.com)

euNetworks  
15 Worship Street  
London, EC2A 2DT,  
United Kingdom