



euNetworks Reports Third Quarter 2014 Results

For the quarter ended 30 September 2014:

- Strong recurring revenue and adjusted EBITDA growth following good sales and installation performance over the last three quarters
- Continued improvement in gross profit, with increased capital expenditure for growth and network development

London, UNITED KINGDOM – 7 November 2014 – euNetworks Group Limited (SGX: 5VT.SI), a unique Western European provider of bandwidth infrastructure services, announced results for the three months ended 30 September 2014. The Group delivered strong recurring revenue and adjusted EBITDA growth in Q3 2014 following consistently strong sales and installation performance over the last three quarters. Service installations grew 4% from Q2 2014, delivering the highest quarter for installs in the company's history. Sales performance in Q3 2014 was lower than in Q2 2014, however new sales increased 18% from Q3 2013.

(€k)	Q3 2014	Q3 2013	% change	Q2 2014	% change	H1 2014	H1 2013	% change
New Sales	630.8	535.1	18	788.1	(20)	2,201.7	1,497.4	47
Installations	688.9	419.8	64	661.6	4	1,990.8	1,510.1	32
Monthly Incremental Service Revenue	254.2	(30.0)	948	225.9	13	635.8	217.5	192

(€m)	Q3 2014	Q3 2013	% change	Q2 2014	% change	Nine Months 2014	Nine Months 2013	% change
Total Revenue	25.7	24.1	7	25.1	2	75.3	73.4	2
Recurring Revenue	25.7	23.8	8	25.1	2	75.3	73.1	3
Gross Profit	19.6	17.6	11	18.9	4	57.2	53.2	8
Gross Profit Margin %	76.1%	72.9%	4	75.3%	1	74.9%	72.5%	3
Adjusted EBITDA⁽¹⁾	7.5	6.3	19	7.0	7	21.1	17.9	18
Capital Expenditure	8.8	8.7	1	6.9	28	22.5	17.2	31
Proxy Cash Flow⁽²⁾	(1.3)	(2.4)	46	0.1	NA	(1.1)	0.7	NA

1. Adjusted EBITDA means EBITDA before the deduction of share option expense.
2. Proxy cash flow is calculated as Adjusted EBITDA less capital expenditure.

Recurring revenue was €25.7m in Q3 2014, improving 8% from Q3 2013 and 2% from Q2 2014. €21.7m of total revenue was from network services, growing 8% from Q3 2013. euNetworks continues to grow network revenues at the upper end of the forecast market

growth rate of 3-5%. These results reflect euNetworks' continued successful sales and marketing focus on Dark Fibre, Wavelengths, Ethernet and its euTrade service portfolio.

Gross profit was €19.6m, up 11% from Q3 2013 and increasing 4% from Q2 2014. Core network gross profit was €16.6m, up from €15.9m in Q2 2014. Gross margin grew to 76.1% in the quarter, up from 72.9% in Q3 2013 and 75.3% in Q2 2014. euNetworks' focus on selling on-net bandwidth services continues to drive an improved product mix, delivering higher gross margins.

Adjusted EBITDA grew 19% from Q3 2013 and 7% from Q2 2014, reaching €7.5m. This growth reflects the continued scaling of the business and successful focus on achieving operational efficiencies while increasing sales performance.

Capital expenditure reached €8.8m in the quarter, 1% higher than Q3 2013 and up 28% from Q2 2014. Capital expenditure was again largely success based in support of key customer projects.

Proxy cash flow was €(1.3)m, improving from €(2.4)m in Q3 2013 but down from €0.1m in Q2 2014. The cash flow position in Q3 2014 was largely driven by the increase in capital expenditure.

"The results reported today reflect the positive momentum we see in the business as we continue to deliver to the bandwidth demands of our customers," said Brady Rafuse, Chief Executive Officer of euNetworks. "Improving gross profit and significant growth in adjusted EBITDA indicates we continue to deliver operational efficiencies as we grow."

"We are investing in growth and network development projects at the same time to create value for the business. The debt funding commitment secured in October provides us with further opportunity to invest and also add growth inorganically. We are delighted to have closed the Fibrelac acquisition in October, with this fibre based business offering a natural extension to our network footprint and a great Swiss and European bandwidth proposition to the combined customer base. We are excited by the opportunities all these activities bring and as ever thank our stakeholders for their ongoing support."

Further review and discussion of the performance of the Group for Q3 2014 is set out on the following pages.

Operational improvements

The target account sales strategy that was implemented in Q2 2013 continued to strengthen euNetworks' customer relationships and drive further recurring revenue growth in the quarter.

As with Q2 2014, capital expenditure was largely allocated to significant customer growth projects. Network development capital also increased from Q2 2014, as additional network expansion projects are now underway. One such project culminated in the launch of *dc connect London* in October which supports an increase in geographical market share, growth in the number of data centres directly connected to the network, as well as growth in recurring revenue from focus products with both existing and new customers.

Lead measures of financial performance

Lead measures are indicators of the Group's future financial performance.

Sales Performance

New sales in Q3 2014 were €630.8k, growing 18% from Q3 2013 and 20% down on Q2 2014. Installations in Q3 2014, indicating the conversion of sales to billing incremental recurring revenue, were €688.9k, up 64% from Q3 2013 and 4% from Q2 2014.

Churn

In Q3 2014 churn averaged 1.1%, slightly higher than 0.8% in Q2 2014 and 1.0% in Q1 2014. This churn metric offers a like for like industry comparison, so excludes disconnections that are replaced by new services.

Monthly Incremental Service Revenue (MISR)

MISR is the lead indicator for growth in monthly recurring revenue (MRR) for the business. With the Group's new sales and high rate of service installations, euNetworks added €254k of MISR (net of disconnections and price decreases) in Q3 2014. MISR is not a direct corollary to reported revenue as it does not reflect the timing of each service starting or being disconnected or service credits, but remains a fundamental indicator of future performance.

Product, geography and customer mix

In Q3 2014, 83% of new sales were for the focus products of Dark Fibre, Metro and Long Haul Wavelengths, euTrade and Ethernet, up from 77% in Q2 2014. The Group forecasts that over time Dark Fibre, Metro and Long Haul Wavelengths, euTrade and Ethernet will represent >85% of sales.

The proportion of revenue generated by each operating geography has remained broadly stable over time, however euNetworks is increasingly delivering services to customers in two or more countries, indicating the growing value of its European footprint to the customer base. At the end of Q3 2014, and as with Q2 2014, more than 60% of revenue came from customers taking euNetworks services in more than 2 countries.

euNetworks' segment view of its customer base remained relatively unchanged in the quarter (Q3 2014: Wholesale 42% of MRR, Channel 18% of MRR, Finance 22%, Industry

6%, Online 6%, Media 4%). Progress was again made in selling high bandwidth products to Cloud Service Providers and this provides further growth potential from these providers going forward.

Creating value

euNetworks invests capital to create value, measured in recurring revenue and EBITDA growth. Growth capital expenditure (success based) and network development capital expenditure typically make up over 75% of capital spend each quarter.

Types of capital expenditure

category	description	typical payback
Growth	Capital expenditure that enables services for one or more customers and could also develop the network further	< 12 months
Network Development	Capital expenditure supporting deeper network coverage or expansion to drive opportunity. This is more speculative investment than Growth, but is based on qualified demand from the existing customer base and also market trends e.g. London metro expansion, London to Stockholm ULL optimisation	24-48 months project dependent
Maintenance & Capitalised labour	Capital expenditure required to maintain current operations. Capitalised labour accounts for the proportion of people's time spent working on capital projects.	Not applicable

Capital expenditure was €8.8m in Q3 2014, up from €8.7m in Q3 2013 and €6.9m in Q2 2014. Customer growth projects accounted for 72% of capital expenditure in Q2 2014, down from 80% on Q2 2014 and up from 53% in Q1 2014. There were a number of significant customer projects underway in the quarter and as mentioned above, network development also increased. The Group anticipates further network development capital expenditure and will detail these in future announcements.

Measuring value

Capital that is allocated for growth is typically targeted with a **money multiple** of greater than 1. Money multiple (MoM) is the return from money invested (the net present value divided by the capital expenditure) and assumes a 10% cost of capital. A money multiple of greater than 1 is good. Through 2013 euNetworks averaged between 4-6 months payback on capital for incremental committed sales. Payback on capital was 6 months in Q3 2014, in line with payback in Q2 2014 and improving from 7 months in Q1 2014. The average money multiple on the capital spend associated with the top 10 incremental committed sales in the period was 2.1, with 2.2 achieved in Q2 2014.

Capital structure and value

Value

euNetworks' strong service installations performance and financial growth demonstrate value is being created from core assets. euNetworks' shares typically trade at low volumes, and at an EBITDA multiple below comparable companies. This highlights the potential for future value creation as euNetworks continues to successfully execute its strategy.

Corporate Development

On 3 October 2014 euNetworks announced it had entered into a €70m credit loan facilities agreement jointly with Barclays Bank PLC and RBC Capital Markets. This credit loan may be expanded to €100m as organic or inorganic growth opportunities materialise. These funds are intended to be used for general corporate purposes, network development and corporate development activities and a portion of this new credit loan facility was used to completely repay existing debt facilities that were entered into on 8 May 2013.

On 16 October 2014 euNetworks closed the acquisition of Fibre Lac S.A. ("FibreLac"), a Swiss based fibre company, adding ~360km of dark fibre network connecting 7 Swiss cities. FibreLac offers a natural extension of euNetworks' market leadership in Germany and also broadens the lit service offering available to FibreLac customers across euNetworks' European long haul and densely fibred metropolitan footprint. This is a highly complementary business to euNetworks and delivers strong market presence for us with further value to be created. Integration is now well underway and euNetworks will maintain local presence in Switzerland.

Forward looking guidance

The Group considers that it can achieve revenue growth above total European bandwidth market growth, expected to be 3%-5% over the next 2 calendar years, by growing market share in its focus products: Fibre, Wavelengths, and Ethernet.

Further, as euNetworks continues to scale, both gross profit and recurring Adjusted EBITDA are expected to grow at a greater rate than revenue.

These improvements will derive from euNetworks' continued focus on high gross margin sales of 80% or better (in Q3 2014 average gross margin on new sales was 83%), and cost management at all levels. This is a continuation of trends evident in the last financial year and for the financial period from 1 January 2014 to 30 September 2014.

About euNetworks

euNetworks Group Limited (SGX: 5VT:SI) is a bandwidth infrastructure provider, owning and operating 13 fibre based metropolitan networks across Europe connected with a high capacity intercity backbone covering 45 cities in 10 countries. The Company offers a portfolio of metropolitan and long haul services including Colocation, Dark Fibre, Metro Wavelengths, 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.

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