



euNetworks Reports Second Quarter 2014 Results

For the quarter ended 30 June 2014:

- Recurring revenue growth driven by consecutive quarters of strong sales and installation performance
- Continued improvement in gross profit, adjusted EBITDA and proxy cash flow as the business scales
- Reiterated guidance, anticipating recurring revenue growth at or marginally above market growth in 2014

London, UNITED KINGDOM – 7 August 2014 – euNetworks Group Limited (SGX: 5VT.SI), a unique Western European provider of bandwidth infrastructure services, announced results for the three months ended 30 June 2014. Through Q2 2014 the Group continued the momentum that was evident from Q1 2014, further contributing to euNetworks' planned growth for 2014. Sales performance was strong, with the last three quarters delivering the strongest period of sales success in the company's history. The installation of services were also strong, growing 3% from Q1 2014 and driving growth in recurring revenue.

(€k)	Q2 2014	Q2 2013	% change	Q1 2014	% change	H1 2014	H1 2013	% change
New Sales	788.1	477.1	65	782.6	1	1,570.9	962.3	63
Installations	661.6	515.0	28	640.3	3	1,301.9	1,091.3	19
Monthly Incremental Service Revenue	225.9	(13.0)	1,846	155.1	45	381.6	247.5	54

(€m)	Q2 2014	Q2 2013	% change	Q1 2014	% change	H1 2014	H1 2013	% change
Total Revenue	25.1	24.5	2	25.4	(1.2)	50.5	49.3	2
Recurring Revenue	25.1	24.5	2	24.5	2	49.6	49.3	1
Gross Profit	18.9	17.7	7	18.7	1	37.6	35.7	5
Gross Profit Margin %	75.3%	72.0%	5	73.5%	2	74.5%	72.4%	3
Adjusted EBITDA⁽¹⁾	7.0	6.0	17	6.5 ⁽³⁾	8	13.5	11.7	15
Capital Expenditure	6.9	4.9	41	6.8	1	13.7	8.5	61
Proxy Cash Flow⁽²⁾	0.1	1.1	NA	(0.3)	NA	(0.2)	3.2	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 €25.1m in Q2 2014, improving 2% from Q2 2013 and Q1 2014. With two consecutive quarters of 2% growth in recurring revenue, there is good momentum for year on year recurring revenue growth.

In Q2 2014, €21.1m of total revenue was from network services, growing 5% from Q2 2013. euNetworks is growing network revenue at the upper end of the forecast market growth rate of 3-5% (Analyst estimates). These results reflect euNetworks' continued

successful commercial focus on Dark Fibre, Wavelengths, Ethernet and the euTrade service portfolio.

Gross profit continued to improve, reaching €18.9m in Q2 2014, up 7% from Q2 2013 and increasing 1% from Q1 2014. Core network gross profit was €15.9m, up from €15.8m in Q1 2014. Gross margin reached 75.3% in the quarter, up from 72.0% in Q2 2013. The company expects this trend to continue given the focus on selling on-net high bandwidth services. Average gross margin on new sales was 84% in Q2 2014 and 93% in Q1 2014.

Adjusted EBITDA was €7.0m in Q2 2014, increasing 17% from Q2 2013 and 8% from Q1 2014. This growth shows the continued scaling of the business.

Capital expenditure was €6.9m in Q2 2014, 41% higher than in Q2 2013 and up 1% from Q1 2014. euNetworks continues to invest in growth and network development projects to create value for the business. Capital expenditure was largely success based in support of key customer projects in the quarter.

Proxy cash flow was €0.1m in Q2 2014, down from €1.1m in Q2 2013 but improving from €(0.3)m in Q1 2014.

“Through 2Q we continued to deliver strong sales and recurring revenue growth, further improving our trading performance that I talked to last quarter,” said Brady Rafuse, Chief Executive Officer of euNetworks. “This coupled with our gross profit and adjusted EBITDA growth is scaling the business through 2014. “Our customers value our network footprint and the developments we continue to make with them. We are confident that these trends will continue through the remainder of 2014 and are excited by the opportunities we see ahead.”

Further review and discussion of the performance of the Group for Q2 2014 is set out on the following pages.

Operational improvements

euNetworks implemented a target account sales strategy in Q2 2013 to accelerate recurring revenue growth. One year on, this strategy is delivering strong sales performance and as with Q1 2014, customer relationships continue to strengthen and drive further sales and revenue growth.

Recent announcements with Sohonet and Kaia Global Networks are indicative of the company's focus on further developing existing customer relationships. Through the quarter euNetworks has also been working to plan more network development projects for 2H 2014 based on demand from customers. These projects will support an increase in geographical market share 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. To recap these are as follows:

These begin with the sale of new or replacement services to customers, or sales performance. New sales lead to the installation of services to customers that drive monthly incremental service revenue (MISR), the timing of which is dependent on the cycle time – the time from customer contract signature to installation of the service.

Cycle time varies based on whether the service is being installed at a site or data centre that is already on-net to euNetworks, or requires third party leased connectivity or construction to complete delivery.

MISR is also impacted by the value of service disconnections and any price decreases associated with contract renewals made in the month with customers. This is the Group's churn in recurring revenue.

Sales performance

New sales in Q2 2014 were again strong at €788.1k, growing 65% from Q2 2013 and 1% from Q1 2014. Installations in Q2 2014, indicating the conversion of sales to billing incremental recurring revenue, were €661.6k, up 28% from Q2 2013 and 3% from Q1 2014.

Churn

In Q2 2014 churn averaged 0.8%, improving from 1.0% in Q1 2014 and Q4 2013. This churn metric offers a like for like industry comparison, so excludes disconnections that are replaced by new services. euNetworks monitors these disconnections internally as they impact the business production line and until Q1 2014, they were included in external churn reporting.

Monthly incremental service revenue (MISR)

MISR is the lead indicator for growth in monthly recurring revenue (MRR) for the business. Following the Group's sales performance over recent months, installations in the quarter, disconnections, price increases and decreases, euNetworks added €226k of MISR (net of disconnections and price decreases) in Q2 2014. All else held equal, this

will translate to a €1.6m increase in recurring revenue in 2014. When interpreting this, it is important to note that 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 Q2 2014, 77% of new sales were for the focus products of Dark Fibre, Metro and Long Haul Wavelengths, euTrade and Ethernet. This is in line with Q1 2014 performance. The Group forecasts that over time Dark Fibre, Metro and Long Haul Wavelengths, euTrade and Ethernet will represent >85% of sales, with gross margins as reported in Q2 2104.

With a focus on deepening existing customer relationships, euNetworks has worked to sell customers multiple products and services. By the end of Q2 2014, 70% of the Group's revenue came from customers taking 3 or more euNetworks products.

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. By the end of 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 (Q2 2014: Wholesale 43% of MRR, Channel 18% of MRR, Finance 22%, Industry 6%, Online 5%, Media 4%). Significant progress was 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 €6.9m in Q2 2014, up from €4.9m in Q2 2013 and €6.8m in Q1 2014. Customer growth projects accounted for 80% of capital expenditure in Q2 2014, up from 53% in Q1 2014 and 44% in Q4 2013. This was due to a number of customer projects underway in the quarter. The Group anticipates further network development capital expenditure in H2 2014 and will detail these in future announcements.

Measuring value

To recap on euNetworks' approach to capital allocation, when allocating capital for growth the company typically target that the majority of projects will have 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 Q2 2014, improving from 7 months in Q1 2014. The average money multiple on capital spend associated with the top 10 incremental committed sales in the period was 2.2 and was 1.9 in H1 2014.

Capital structure and value

Value

euNetworks' strong sales 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.

Forward looking guidance

The Group's guidance remains in line with its Q1 2014 statement. euNetworks considers that it can achieve revenue growth at or marginally above total European bandwidth market growth, expected to be 3%-5% in FY2014. As euNetworks continues to manage costs effectively and focus on sales of its core products, they expect to see gross profit grow at a slightly greater rate than recurring revenue. Recurring Adjusted EBITDA is expected to grow at a slightly greater rate than gross profit given the Group's approach to cost management and as the business scales further. These trends have been evident through the last financial year and H1 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 38 cities in 9 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.



euNetworks
bandwidth. from the ground up.

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