freenet GROUP

mobilcom debitel

freenet

TALKLINE

klarmobil.de

GRAVIS

JESTA digital

MFE Energie

MOTION TM

Interim Report as of 31 March 2014

1st quarter 2014

freenet AG ▪ Hollerstraße 126 ▪ 24782 Büdelsdorf

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Key financials: Group overview

Result

In EUR million/as indicated	Q1/2014	Q4/2013	Q1/2013
Revenue	717.5	818.8	775.2
Gross profit	182.5	199.8	172.8
EBITDA	85.4	94.4	85.3
EBIT	69.5	80.0	71.1
EBT	60.0	67.0	61.1
Group result from continued operations	57.4	59.8	60.2
Group result from discontinued operations	0.0	0.0	0.0
Group result	57.4	59.8	60.2
Earnings per share (€) (diluted and undiluted)	0.45	0.47	0.47

Balance sheet

In EUR million/as indicated	31.3.2014	31.12.2013	31.03.2013
Balance sheet total in € million	2,520.9	2,477.2	2,518.7
Shareholders' equity in € million	1,297.0	1,239.6	1,239.2
Equity ratio in %	51.5	50.0	49.2

Finances and investments

In EUR million	Q1/2014	Q4/2013	Q1/2013
Free cash flow [1,2]	57.1	54.6	56.4
Depreciation and amortisation	16.0	14.4	14.2
Net investments [2] (CAPEX)	5.8	9.2	2.6
Net cash [2,3]	−424.9	−427.2	−421.4

Share

	31.3.2014	31.12.2013	31.03.2013
Closing price Xetra in €	25.39	21.78	18.96
Number of ordinary shares in '000s	128,061	128,061	128,061
Market capitalisation in EUR'000s [3]	3,250,829	2,789,169	2,428,037

Employees

	31.3.2014	31.12.2013	31.03.2013
Employees [3]	4,961	4,576	4,557

Key financials: overview Mobile Communications segment

Customer development

In million	Q1/2014	Q4/2013	Q1/2013
Mobile Communications customers[3]	13.13	13.29	13.71
Thereof Customer Ownership	8.79	8.76	8.47
Thereof contract customers	5.87	5.86	5.80
Thereof no-frills customers	2.92	2.90	2.67
Thereof prepaid cards	4.34	4.53	5.24
Gross new customers	0.69	0.91	0.78
Net change	−0.16	−0.08	−0.37

Result

In EUR million	Q1/2014	Q4/2013	Q1/2013
Revenue	704.0	809.7	767.5
Gross profit	171.5	194.7	167.8
EBITDA	90.5	101.3	83.0
EBIT	76.9	87.9	69.9

Monthly average revenue per user (ARPU)

In EUR	Q1/2014	Q4/2013	Q1/2013
Contract customer	21.2	21.6	22.4
No-frills customer	2.9	3.0	3.5
Prepaid card	2.7	3.0	2.8

1 Free cash flow (FCF) is defined as cash flow from operating activities minus investment in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.
2 This information relates to the overall Group (including discontinued operations).
3 At the end of period.

To our shareholders

From left to right: Joachim Preisig, CFO; Christoph Vilanek, CEO; Stephan Esch, CTO

Letter to shareholders

Dear shareholders, business partners, customers and friends of freenet AG,

The telecommunications market continues to be marked by dynamic trends and intense competition in the current year. This is being demonstrated once again by the current developments in our traditional area of business, mobile communications/mobile internet, and in the growing digital lifestyle segment.

The number of SIM cards in Germany rose to a new record of 115 million at the start of the year, which means that each citizen now has 1.4 mobile connections for his/her mobile phone, smartphone or tablet PC. As the market becomes more and more saturated, we are seeing growing customer demand for affordable flat-rate tariffs which let them control costs. Meanwhile, this development means that providers have been seeing average revenue per user (ARPU) fall for some time now.

In addition to this, the digital lifestyle is having an increasingly noticeable effect on our working and personal lives—smartphones and tablets have become an almost indispensable companion. We surf, shop, book and pay with these mobile mini computers. We use them at work, for our studies, for entertainment or when we are travelling, and we even use them to make our homes safer and more comfortable—controlling a wide range of functions remotely while we are elsewhere. Moreover, communication with friends, acquaintances and relatives is constantly becoming faster, more diverse and easier in the digital age.

As a service provider and Germany's largest network-independent telecommunications provider, freenet AG has positioned itself very well in these market segments over the past years with appropriate strategic decisions and actions: our main brand mobilcom-debitel is primarily aimed at contract customers with distinct user profiles who want a quality service and a lot of advice, while our lower-priced discount brands cater for cost-conscious smartphone users in particular. At the same time, we are successfully active in the digital lifestyle area with innovative products and customer-oriented services.

The acquisitions and consolidations made in the past financial year—GRAVIS, MOTION TM and, most recently, Jesta Digital Group—have helped to further improve our competitive position, range of services, customer proximity and marketing strength. This is demonstrated by the positive developments and the figures posted by freenet AG for the first quarter of the current financial year:

- At 717.5 million euros, revenue fell short of the level seen in the same period of 2013—particularly as a result of the declining low-margin share of revenue (Hardware Sales) but also because of dwindling ARPU across all markets in our core business of mobile communications. The aforementioned acquisitions also helped to partially compensate Group revenue.

- Compared to Q1 2013, gross profit rose slightly to 182.5 million euros, equivalent to a gross margin of 25.4 per cent.
- EBITDA was on a par with the previous year at 85.4 million euros.
- The slightly higher free cash flow of 57.1 million euros was within the parameters indicated in our guidance for the year as a whole.
- Postpaid ARPU continued to fall and stood at 21.2 euros.

Customer Ownership—a key performance indicator for our company—improved again. The number of customers in the postpaid and no-frills segment rose further in the first quarter of 2014 by around 30,000, taking the figure to 8.79 million.

This means that we successfully took our first step towards meeting the guidance figures issued at the start of the year for 2014 as a whole. We forecast a Group EBITDA of around 365 million euros and a free cash flow of approximately 265 million euros based on a slight year-on-year increase in revenue.

The positive results for the first quarter also confirm our strategy of working tirelessly to secure our strong competitive position in the long term and maintain our high level of profitability—and opening up new, attractive growth segments in the process. The operating business of freenet AG was marked by this commercial continuity in the first few months of this year.

Firstly, we increased and upgraded our range of digital lifestyle products and affordable tariffs for mobiles/smartphones/tablets—thereby actively shaping competition in the segment:

- For instance, in the entertainment segment, our users with “GamePack Plus” now have additional options in the form of attractive “Freemium Games”.
- In addition to a considerable increase in storage capacity for the same price, “mobilcom-debitel cloud” was improved with much better operating functions and updates that make it easier to use.
- The subsidiary GRAVIS offered a number of products at an attractive price in double packs as part of the “Digital Valentine” promotion.
- We also launched various special offers in February selling the latest premium smartphones and tablets produced by the world’s leading manufacturers, usually combined with …
- Very low-cost tariffs from our discount subsidiaries and the main brand mobilcom-debitel; in some cases, these results in savings of several hundred euros compared with our competitors’ standard charges.

At the same time, we are working hard to improve our marketing, services and range of products on an ongoing basis. To this end, in another step we intensified our existing sales cooperation with Kabel Deutschland. Germany’s largest cable network operator now has its own wall-mounted screens in the 320 or so mobilcom-debitel shops within its distribution area. This allows us to present and sell the shared internet and TV products in an even more customer-friendly manner.

We are continuously increasing the number of directly controlled shops and, by extension, our proximity to our customers. Over the course of the past twelve months, for instance, the number of mobilcom-debitel stores managed by franchise partners rose to 176. Our aim for the end of 2014 is to have more than 200 partner shops in the company's franchise network. We support these partners with intensive training and tried and tested programmes to boost their performance. Everyone involved—franchisees, customers and mobilcom-debitel itself—benefits here from the motivation, competence and customer proximity which go hand in hand with independent commercial activities.

Furthermore, we recently completed the takeover of Jesta Digital Group which was agreed at the end of 2013. As with the two preceding acquisitions of GRAVIS and MOTION TM, we will now integrate Jesta's digital entertainment formats—including ring tones, dial tones, logos, mobile phone games and videos, download portals and mobile dating/advertising platforms—into the product range of freenet. In this way, we gain access to all-new customer potential that far exceeds our traditional business areas and customer segments.

Following on from our acquisitions and consolidations, we will therefore align company processes in the Group with one another over the coming months and further optimise these. We should and will be able to achieve this with the experience and expertise gained from various mergers in previous years. Our efforts were buoyed by a recent Accenture study examining the digitalisation of Germany's 500 largest companies, which accorded us an excellent position: freenet AG occupies an impressive seventh place among the 20 major German companies where digitalisation is at its most advanced.

We also perform very well in another, equally important company division—customer support call centres. We are managing to constantly improve the speed and efficiency with which we handle customer enquiries over the phone. A current example is our "Balance" project, which was launched in 2013: it aims to ensure that customer queries are handled by service agents with the corresponding skill set.

As a result of this project, customer satisfaction levels in this area rose significantly in a short space of time—and our Head of Customer Care at mobilcom-debitel was recently named Call Centre Manager of the Year. Good customer care is also fostered by the extremely low staff fluctuation rate in this area. Our agents have been working at the company for an average of 9.4 years—an exceptionally good level for the teleservices sector, where employees usually work at a call centre for between two and five years.

Last but not least, another major factor for the success of a company is continuity in its management. This is particularly true in an industry such as telecommunications, which has been marked by considerable dynamism, challenges and opportunities for many years. Against this backdrop, the Supervisory Board of freenet AG extended the three Executive Board members' contracts ahead of schedule until the end of 2018 and 2019 respectively in February this year.

We view the faith placed in us as recognition of our work so far and the achievements of each and every employee of freenet AG who works hard every day to ensure the long-term success of our company. At the same time, this ringing endorsement encourages us to channel all our expertise and experience into continuing along the successful path chosen for freenet over the coming months and years with unwavering commitment.

Christoph Vilanek

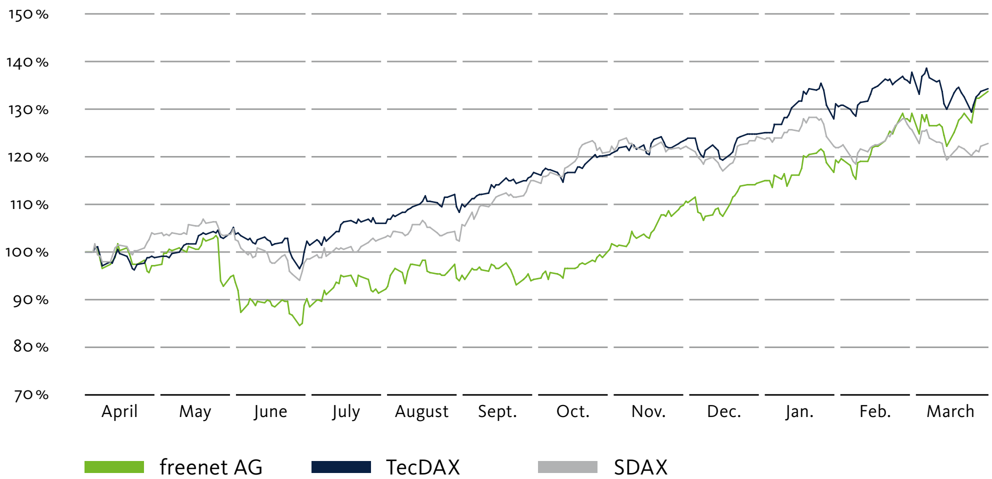
Joachim Preisig

Stephan Esch

freenet AG on the capital market

Performance of the freenet share

Figure 1: **Performance of the freenet share in 2013**
(indexed; 100 = Xetra closing price on 29 March 2013)



German stock market

While overall economic growth in the real sector gathered pace again in the first quarter, the mood on the German stock market was mixed.

Stock trading in Germany was dominated by long-term investors' foreign purchases in the quarter under review. The focus of buyer interest was on dividend-bearing stocks. In contrast to this, domestic investors were increasingly neutral in their behaviour. This is probably due to the fact that market players felt that the share price was relatively high. Nevertheless, an upward trend set in from the middle of March without any major dips.

Economic policy with regard to existing risks in the eurozone continues to set the tone for further growth on the capital market as well.

Against this backdrop, the German stock market trended sideways in the first quarter of 2014. While the DAX closed at 9,556 points on 31 March 2014 and therefore remained virtually unchanged in first quarter, the TecDAX recorded a sharp increase of 7 per cent to 1,252 points in the reporting period.

The freenet share

The freenet share continued to gain in value significantly in the quarter under review. The share started the new year with a Xetra daily closing price of 21.78 euros, and continued to trend dynamically throughout the quarter, ending at 25.39 euros. The average Xetra daily closing price in the reporting period was 23.26 euros.

Over the past quarter, around 32.8 million freenet shares were traded on the electronic trading platform Xetra compared with 31.8 million in the fourth quarter of 2013 and 29.9 million in Q3 2013. The proportion traded on alternative exchanges (dark pools) fell to 40 per cent of the total volume traded in the first quarter, down from 42 per cent in the preceding quarter and 50 per cent in the third quarter of 2013. The average daily volume traded on Xetra amounted to around 512,000 shares in the reporting period. An average of 517,000 freenet shares were traded per day on Xetra in the previous quarter, and 453,000 in the third quarter of 2013.

With a rise in price of approximately 17 per cent during the first three months of the current financial year, the freenet share developed much better than its benchmark index, TecDAX, which was only able to achieve an increase of 7 per cent in the same period. In contrast, the SXKP index, in which European telecoms companies are compiled, posted a slight decrease of 1 per cent in the first quarter of 2014.

In a twelve-month comparison, the freenet AG share saw a rise of 34 per cent and trended just as dynamically as the TecDAX, while the SXKP only improved by 23 per cent.

Dividend

The Executive Board and Supervisory Board have decided to propose the payment of a dividend for the 2013 financial year in the amount of 1.45 euros per no-par-value share from net income to the Annual General Meeting on 13 May 2014. This corresponds to a dividend payout ratio of around 72.5 per cent of free cash flow in 2013.

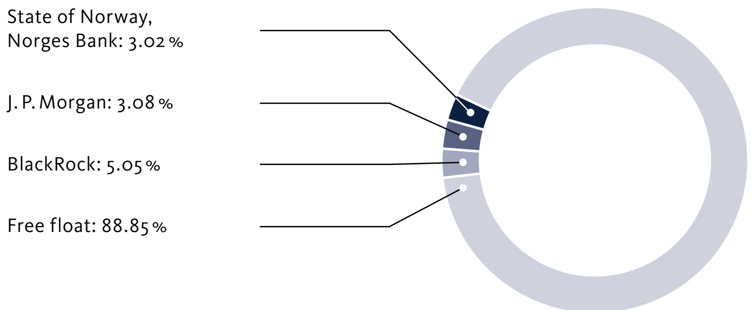
Shareholder structure

freenet AG's share capital totals 128,061,016 euros and is divided into 128,061,016 no-par-value bearer shares. Each share represents 1.00 euro of the share capital.

According to the voting rights disclosures received pursuant to Section 21 of the German Securities Trading Act (WpHG), freenet's shareholder structure changed as follows during the reporting period:

- On 24 January 2014, LSV ASSET MANAGEMENT (USA) informed us that it had exceeded the 3 per cent reporting threshold on 14 September 2012. Its share of the voting rights in freenet AG on this day amounted to 3.04 per cent (3,897,259 voting rights).

- On 6 February 2014, BlackRock (USA) informed us that it had exceeded the 5 per cent reporting threshold on 4 February. Its share of the voting rights in freenet AG on this day amounted to 5.05 per cent (6,465,114 voting rights).
- On 19 March 2014, J. P. Morgan (USA) informed us that it had exceeded the 3 per cent reporting threshold on 13 March. Its share of the voting rights in freenet AG on this day amounted to 3.08 per cent (3,943,983 voting rights).
- On 27 March 2014, LSV ASSET MANAGEMENT (USA) informed us that it had fallen below the 3 per cent reporting threshold on 25 March. Its share of the voting rights in freenet AG on this day amounted to 2.99 per cent (3,830,300 voting rights).



Source: freenet AG, 31 March 2014

Based on the voting rights disclosures received during the quarter under review, free float has decreased from 90.92 per cent to 88.85 per cent compared with the end of 2013.

According to the definition of Deutsche Börse AG, the free float continues be 100 per cent.

Interim group management report

Economic report

Business performance

As an independent service provider, freenet AG serves the growing digital lifestyle market with integrated product worlds, affordable mobile tariffs and customer-oriented services, in all of Germany's mobile telecommunications networks. The portfolio encompasses the company's own tariffs and services in the traditional business segment of mobile communications/mobile internet and corresponding services from network operators in Germany. In addition to this, the company offers innovative digital applications relating to entertainment and infotainment, data security, home automation and security—including the latest smartphones, tablets and notebooks as end devices and attractive accessories.

Private customers make up the key target group as part of a multi-brand strategy. In view of the intense level of competition in the industry, the main brand, mobilcom-debitel, concentrates primarily on high-quality contractual relationships when acquiring customers and managing existing ones, while freenet's discount brands successfully cover the no-frills segment.

In the first three months of the 2014 financial year, the company continued to pursue its successful strategy relating to digital lifestyle and mobile communications/mobile internet, and increased its products, services and activities in this segment.

Upgraded digital lifestyle services

mobilcom-debitel has been offering the add-on service "GameFlat" since May 2013 with a variety of current Gameloft premium games for all new and existing customers who subscribe to its voice and data tariffs. In mid-January 2014, another option for Android smartphones and tablets was added in the form of "GamePack Plus". This gives gaming enthusiasts access to "Freemium Games" for 3.99 euros a month. Moreover, when playing the blockbusters—most of which are free—such as Asphalt 8, Dungeon Hunter 4, Modern Combat 4 or Real Football 2013, they can purchase virtual goods and features to improve their chances of success. "GamePack Plus" users receive starting credit of at least 3.99 euros for every available game and there is no limit of the number of downloads. After the contract expires (24 months), the games remain in the possession of the user.

Subsequently, several promotions were launched in February offering smartphones, tablets and other digital lifestyle products from various premium manufacturers at low prices—usually in combination with attractive voice and data tariffs. The offers included:

- The Samsung Galaxy S3 mini for a one-off payment of 1.00 euro with the "Smart Surf" tariff. The package cost 13.49 euros per month, including 1 GB of data and 50 free minutes to any German network.
- The iPhone 5c for a special price of 479.99 euros, available from the subsidiary GRAVIS.
- A Samsung package consisting of the Galaxy S4 mini smartphone and the Galaxy Tab 3.8.0 plus a voice/data tariff, which offers savings of around 79.00 euros over buying the two devices separately.

- The Nokia Lumia 520 for 9.99 euros including a free Microsoft Xbox 360 and the “Flat Light 100” tariff with 100 free minutes, 3,000 text messages and a flat-rate mobile data package with 250 MB included for 17.91 euros per month.
- The Sony Xperia Tablet Z for 1 euro in combination with the data tariff “Internet Flat 3,000 special” for a reduced price of 22.49 euros per month and the data volume increased from 3.0 to 4.5 GB during the first twelve months of the contract.
- The Samsung Galaxy S4 mini for a one-off payment of 29.99 euros or the LG G2 and Sony Xperia Z1 each for 49.99 euros in combination with the “Red XS” tariff from Vodafone for 26.49 euros per month. “Red XS” includes an any-network flat-rate voice tariff and a flat-rate text message tariff to any German network, as well as a mobile internet data volume of 200 MB and maximum speeds of 14.4 MBit.

As part of its “Digital Valentine” promotion, GRAVIS offered an additional range of products at a particularly low price when customers bought two together under the motto “Experience more together”. For instance, two sets of earphones from “Urbanears Plattan” for a total price of 59.99 euros—a saving of over 30 per cent compared with offers available online.

Also in February, mobilcom-debitel widened the scope of its “mobilcom-debitel cloud” available as an add-on since April last year—with the cost remaining unchanged. With the “Cloud Basic” option, costing 1.99 euros per month, the user now receives 40 GB of storage space, while “Cloud Pro” gives customers 80 GB of storage space for a monthly fee of 3.99 euros. All existing cloud customers are also able to take advantage of the extra capacity without paying more.

At the same time, the functions of the Web interface were improved, together with the app to access the cloud, with convenient rights administration options to ensure maximum data security. In addition to this, the PC and Mac desktop clients were updated to further simplify operation and facilitate desktop syncing.

Cheaper smartphone tariffs . . .

. . . in the discount segment

In the no-frills segment, freenet’s discount brands once again made waves in the first quarter of 2014, not least as a result of a range of limited promotions on special deal platforms such as crash.tarife.de or Groupon.

For instance, in February the subsidiary klarmobil’s any-network flat rate was available at a monthly rate of 14.85 euros using the D1 network—with unlimited calls to any German network, 3,000 free text messages and 500 MB of data per month.

This was followed in March by the any-network flat rate using the D2 network for 19.85 euros per month, with a special bonus for taking your number with you and two months for free—a saving of 185.00 euros over the regular price with a contract term of two years. The any-network starter tariff was even cheaper, at just 9.95 euros per month with 200 MB of data, 200 free minutes and 200 free text messages—also with a bonus for taking your number with you. Customers could even secure three months free with the mobile data tariff “Flat-to-go” with 500 MB of data on the O_2 3G network, followed by a monthly fee of 9.95 euros.

In February, the “Talk Allnet comfort” tariff was available under the Talkline brand on the O_2 network for a discounted price of 12.40 euros for the first 24 months—with free minutes to any German network and 500 MB of downloads at speeds of 7.2 Mbit per second. Finally, freenetmobile permanently cut the price of its “freeFlat” tariff to 16.95 euros per month. This gives users unlimited calls to any German network in D1 quality plus 250 MB of high-speed data.

…and at mobilcom-debitel

Various tariffs from the main brand mobilcom-debitel have been upgraded further over the course of the past few months. For instance, in the case of “Real Allnet”, the data volume was doubled to 1 GB and there was a monthly discount of 10.00 euros on a second card linked to a signed contract.

In the “Flat 4 You” tariff, the monthly basic fee was cut in half to 14.90 euros at the beginning of March. The offer for the Vodafone network includes a flat rate for same-network calls and another flat rate to German landlines—or alternatively to another mobile network of the customer’s choice. The tariff also includes 3,000 free text messages, an internet flat rate which is reduced to GPRS speed after more than 300 MB is downloaded in a month, and the Samsung Galaxy S4 mini smartphone at a price of 1 euro.

In March, new customers choosing the “Flex Basic” tariff—with no basic monthly fees and considerable flexibility for users—received a fuel voucher worth 35.00 euros. In addition to this, the new “Flex 100” tariff offers a considerable range of options with 100 units included for 4.99 euros per month, which can be used for calls and text messages to any German network.

Enhancing service and driving up sales

freenet AG constantly works to improve its customer proximity and services. This includes, for instance:

- Optimising the number, structure and design of its own shops.
- Expanding sales activities, platforms and partnerships.
- Implementing projects to improve customer service on a continual basis.

The “Balance” project which was rolled out in 2013 forms part of this overall strategy. It uses intelligent routing to ensure that each customer query is handled by a service agent with the appropriate skill set, regardless of whether the customer contacts the company by telephone, email, fax or post.

The first few weeks and months of the current financial year showed that the project has already produced excellent results, in both senses of the word. Customer satisfaction levels increased significantly in a short space of time, inactive call times were reduced as a result of new automated workload distribution, and off-peak times in the call centre were handled more efficiently.

Consequently, the Head of Customer Care at mobilcom-debitel, Birgit Geffke, received an award for Call Centre Manager of the Year.

freenet AG subsidiaries have also set their sights on achieving the greatest possible degree of customer proximity. For instance, GRAVIS—which for many years was an exclusive Apple dealer but since the takeover has become a broad-based digital lifestyle provider—is currently introducing the innovative service “Yapital”. This enables customers at its 34 stores across the country and in its online shop to make use of the Otto Group’s multi-channel payment service.

mobilcom-debitel will also further intensify its sales cooperation with Kabel Deutschland. Germany’s largest cable network operator will have its own wall-mounted screen in the 320 or so mobilcom-debitel shops in its distribution area to improve the presentation of the firms’ joint internet and TV product s.

Key drivers of the business development

Customer development

In million	31.3.2014	31.12.2013	30.9.2013	30.6.2013	31.3.2013
Mobile Communications customers	13.13	13.29	13.37	13.56	13.71
Thereof Customer Ownership	8.79	8.76	8.67	8.56	8.47
Thereof postpaid customers	5.87	5.86	5.82	5.81	5.80
Thereof no-frills customers	2.92	2.90	2.85	2.75	2.67
Thereof prepaid cards	4.34	4.53	4.70	5.00	5.24

Despite persistently tough competition on the market, the number of contract customers rose slightly in the first quarter of 2014. The increase over the previous quarter amounts to around 10,000 customers, with a postpaid customer base of 5.87 million as at 31 March 2014. This means we were able to grow this customer group, which is a key focus for our strategic business approach, following a period of stabilisation in 2012 and slight growth in 2013. In a year-on-year comparison, the increase translates into some 70,000 customers. In our view, this positive development is attributable to the constantly updated range of products we offer with attractive contract tariffs in conjunction with rising customer demand for data usage with modern smartphones.

We also further increased our customer base in the second strategically important customer group, the no-frills segment. The quarterly rise of 20,000 to 2.92 million customers as at 31 March 2014 is evidence of the ongoing growth in this discount market segment, in which we primarily use online sales channels to serve particularly price-sensitive customers who need less individual advice. A year-on-year comparison illustrates the persistently dynamic trend in this market segment, revealing growth of around 250,000 customers.

Accordingly, our Customer Ownership—which includes the postpaid and no-frills customer groups and serves as a key performance indicator for our company—rose slightly by 30,000 (0.3 per cent) in the reporting period. This represents a 320,000 increase in our customer base, taking it to 8.79 million and corresponding to a rise of approximately 3.8 per cent compared with the first quarter of 2013.

The number of prepaid SIM cards in circulation continued to fall as expected in a year-on-year comparison, amounting to 4.34 million cards on 31 March 2014. At the end of 2013, the number of prepaid SIM cards in circulation totalled 4.53 million. The number was down by 0.9 million cards year on year (31 March 2013: 5.24 million cards). This further fall is the result of more inactive SIM cards being deactivated by network operators.

This means the total number of mobile customers declined by approximately 160,000 to 13.13 million compared with the end of 2013 (13.29 million customers). Consequently, the customer base has shrunk by around 580,000 compared with the same period of the previous year (13.71 million).

Monthly average revenue per user (ARPU) in the Mobile Communications segment

In EUR	Q1/2014	Q4/2013	Q3/2013	Q2/2013	Q1/2013
Contract customer	21.2	21.6	22.6	22.5	22.4
No-frills customer	2.9	3.0	3.5	3.6	3.5
Prepaid cards	2.7	3.0	3.2	3.0	2.8

The average monthly revenue per contract customer (postpaid ARPU) fell to 21.20 euros in Q1 2014, 0.40 euros below the level of the previous quarter. The decline amounted to 1.20 euros compared with the same period of 2013 (22.40 euros). This was primarily attributable to unrelenting price competition on the German market. This means that some freenet customers with older contracts, which in some cases still have relatively high basic monthly fees, are also switching to the current smartphone tariffs on offer.

At 2.90 euros, the average monthly revenue per no-frills customer in the quarter under review (no-frills ARPU) remained virtually unchanged compared with the previous quarter (3.00 euros). However, the no-frills ARPU was 0.60 euros lower than in the first quarter of 2013 (3.50 euros). This trend also reflects competitive pressure—e. g. from sales promotions—in this price-sensitive market. The no-frills segment primarily caters for particularly price-conscious mobile communications customers who take out contracts online.

Prepaid ARPU in the first quarter of 2014 came to 2.70 euros, which corresponds to a decline of 0.30 euros over the previous quarter and 0.10 euros compared with the same period of the previous year.

Assets, earnings and financial position

Revenue and results

In EUR'000s	Q1/2014	Q1/2013	Change
Revenue	717,524	775,249	–57,725
Gross profit	182,506	172,824	9,682
Overhead costs	–97,057	–87,547	–9,510
EBITDA	85,449	85,277	172
EBIT	69,492	71,064	–1,572
EBT	60,024	61,124	–1,100
Group result	**57,428**	**60,195**	**–2,767**

GROUP REVENUE fell by 7.4 per cent in the first quarter of 2014 compared with the same period of the previous year. Among other factors, lower revenue from low-margin business (primarily hardware sales to sales partners and distributors and from the prepaid segment) and the decline in postpaid ARPU by an average of 1.20 euros per customer had a negative impact on revenue. Contrasting effects which, however, did not compensate for the aforementioned reduction resulted from the full inclusion of GRAVIS (Q1 2013: only two months) and MOTION TM (Q1 2013: only eleven days) and the first-time inclusion of Jesta Digital Group in the Group's scope of consolidation.

The **GROSS MARGIN** widened by 3.1 percentage points to 25.4 per cent compared with Q1 2013, which was primarily attributable to the significant decline in low-margin business mentioned above. **GROSS PROFIT** was 9.7 million euros up on the same quarter last year at 182.5 million euros—mainly as a result of the larger group of additionally consolidated companies (GRAVIS, MOTION TM, Jesta Digital Group).

OVERHEAD EXPENSES—which form the difference between gross profit and EBITDA and include the items **OTHER OPERATING INCOME, OTHER OWN WORK CAPITALISED, PERSONNEL EXPENSES, OTHER OPERATING EXPENSES** and the **RESULT OF COMPANIES CONSOLIDATED USING THE EQUITY METHOD**—rose by 9.5 million euros compared with Q1 2013, also mainly as a result of the larger group of consolidated companies.

The Group's earnings from continued operations before interest, tax, depreciation and amortisation **(EBITDA)** in Q1 2014 came to 85.4 million euros, slightly above the level of Q1 2013.

DEPRECIATION, AMORTISATION AND IMPAIRMENT was up 1.7 million euros year on year at 16.0 million euros. This was primarily due to the impairment of intangible assets recognised in connection with the acquisition of the new companies (GRAVIS, MOTION TM, Jesta Digital Group) as part of the purchase price allocation.

NET INTEREST INCOME, i. e. the balance of interest income and expenses, was reported at –9.5 million euros in Q1 2014, reflecting a slight improvement over the same quarter of the previous year (–9.9 million euros). This corresponded to the slight year-on-year decline in average net borrowing in the quarter under review.

As a result of the effects outlined above, the Group's pre-tax earnings **(EBT)** fell slightly by 1.1 million euros year on year to 60.0 million euros.

INCOME TAX expenses totalling 2.6 million euros were reported for the quarter under review (Q1 2013: 0.9 million euros). This figure resulted from offsetting current income tax expenses in the amount of 8.0 million euros (previous year: 8.0 million euros) against deferred tax income, due primarily to the addition to deferred tax assets from tax loss-carryforwards totalling 5.4 million euros (previous year: 7.1 million euros).

As in the first quarter of the previous year, the **GROUP PROFIT** reported for Q1 2014 resulted solely from continuing operations and amounted to 57.4 million euros. This represents a slight fall of 2.8 million euros compared with the 60.2 million euros earned during the same quarter of the previous year.

Assets and financial position

Assets

In EUR million	31.3.2014
Non-current assets	1,880.4
Current assets	640.4
Total assets	**2,520.9**

In EUR million	31.12.2013
Non-current assets	1,836.1
Current assets	641.1
Total assets	**2,477.2**

Liabilities

In EUR million	31.3.2014
Shareholders' equity	1,297.0
Non-current and current liabilities	1,223.9
Total equity and liabilities	**2,520.9**

In EUR million	31.12.2013
Shareholders' equity	1,239.6
Non-current and current liabilities	1,237.6
Total equity and liabilities	**2,477.2**

As at 31 March 2014, the **BALANCE SHEET TOTAL** amounted to 2,520.9 million euros, having increased by 43.7 million euros (1.8 per cent) since 31 December 2013 (2,477.2 million euros).

On the **ASSETS SIDE, NON-CURRENT ASSETS** increased by 44.3 million euros. This was largely due to a rise in intangible assets of 16.9 million euros to 414.3 million euros and an increase in goodwill of 28.0 million euros to 1,150.1 million euros. The main reason for both changes was the preliminary purchase price allocation carried out during the acquisition of Jesta Digital Group. In this respect, please also refer to note 2 of the selected explanatory notes pursuant to IAS 34.

Within **CURRENT ASSETS**, there was a notable 27.9 million euros decline in trade receivables to 395.3 million euros. This should be viewed in the context of the factoring of receivables from mobile phone upgrade options ("Handy-Option"), which totalled a nominal amount of 23.2 million euros. Please refer to note 5 of the selected explanatory notes pursuant to IAS 34 for more information. Cash and cash equivalents increased by 10.5 million euros to 121.3 million euros. The slight rise in cash assets was mainly the result of cash flow generated from operating activities, reduced for payments made for the acquisition of Jesta Digital Group.

On the **EQUITY AND LIABILITIES SIDE**, gross borrowing increased by 8.2 million euros to 546.2 million euros compared with 31 December 2013, mainly due to non-cash interest accrued on the corporate bond in the past quarter.

Trade liabilities declined by 32.4 million euros to 369.6 million euros—the main reason for this was the payment of annual bonuses to retailers. The rise in current income tax debt of 10.4 million euros was primarily attributable to the acquisition of Jesta Digital Group.

The **EQUITY RATIO** increased from 50.0 per cent at the end of December 2013 to 51.5 per cent at the end of March 2014, mainly due to the Group's net profit in the quarter under review. Net borrowing amounted to 424.9 million euros as at 31 March 2014 (31 December 2013: 427.2 million euros).

Cash flow

In EUR milion	Q1/2014	Q1/2013	Change
Cash flow from operating activities	62.9	59.0	3.9
Cash flow from investing activities	–51.9	–17.1	–34.8
Cash flow from financing activities	–0.5	–45.5	45.0
Change in cash and cash equivalents	**10.5**	**–3.5**	**14.0**
Free cash flow [1]	57.1	56.4	0.7

1 Free cash flow (FCF) is defined as cash flow from operating activities minus investment in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.

In the first quarter of 2014, **CASH FLOW FROM OPERATING ACTIVITIES** came to 62.9 million euros, which equates to a year-on-year increase of 3.9 million euros. Given that EBITDA was virtually unchanged, this increase was partly due to the fact that the EBITDA in the same quarter last year contained 4.0 million euros of non-cash gains from the disposal of freeXmedia GmbH. Secondly, the lower increase of 2.9 million euros in net working capital to 15.5 million euros had a positive effect on cash flow from operating activities. It should be noted here that receivables from mobile phone upgrade options ("Handy-Option") with a nominal value of 23.2 million euros were sold to a bank in Q1 2014. Please refer to note 5 of the selected explanatory notes for more details. On the other hand, it should be stated that payments relating to a network operator bonus in both 2014 and in the previous year (approx. 21 million euros in 2014 versus approx. 19 million euros in 2013) were each only received in April, after they were due. Tax payments increased by 3.1 million euros compared to Q1 2013, due partly to the larger group of consolidated companies (GRAVIS, MOTION TM, Jesta Group).

The **CASH FLOW FROM INVESTING ACTIVITIES** amounted to –51.9 million euros in Q1 2014, compared with –17.1 million euros in the first quarter of 2013. Payments for investments in property, plant and equipment and for intangible assets increased from 2.7 million euros to 6.1 million euros. The most significant investment in the quarter under review was in proprietary software in connection with a range of strategic projects, IT developments and computer hardware. Apart from this, investing activities in the quarter under review were dominated by the acquisition of Jesta Digital Group, which prompted a cash outflow of 46.3 million euros less the cash and cash equivalents acquired. In Q1 2013, the balance sheet was reduced by 12.0 million euros for the purchase of GRAVIS and MOTION TM, likewise excluding the cash assets from the acquisition of these companies. Furthermore, the deconsolidation of freeXmedia GmbH deprived the Group of cash and cash equivalents totalling 2.7 million euros.

In the quarter under review, **cash flow from financing activities** increased to –0.5 million euros compared with –45.5 million euros in the same period last year. As the redeemable loan was paid back ahead of schedule at the end of 2013, the planned instalment of 40.0 million euros in Q1 2014 was no longer necessary, unlike in Q1 2013.

As a result of the factors described above, **free cash flow** in the first quarter of 2014 increased by 0.7 million euros year on year to 57.1 million euros.

Financial Management and Control System

The corporate strategy of freenet AG is underpinned by focused financial management, which uses the capital structure and liquidity development as key performance indicators (KPIs). The strategy is implemented by means of a comprehensive treasury management system based on established controlling structures.

The capital structure is primarily managed via financial KPIs comprising gearing, the interest coverage ratio and the equity ratio. Gearing indicates how much of the current operating result (EBITDA) would be needed to pay off the company's net debt (borrowing less cash and cash equivalents). Interest coverage is the ratio of EBITDA to the interest balance.

Key figures of financial management

	Target 2013	Q1/2013	Q4/2013	Q1/2014	Target 2014/15
Debt ratio	1.0—2.5	1.2	1.2	1.2	1.0—2.5
Interest Cover	> 5	8.6	8.3	8.4	> 5
Equity ratio	> 50 %	49.2 %	50.0 %	51.5 %	> 50%

At 1.2, gearing remains in the lower portion of the strategic range of 1.0 to 2.5. Borrowing is dominated by the corporate bond in the amount of 400 million euros due in April 2016. Gearing will rise in the second quarter of 2014 as a result of the pending dividend payout.

At 8.4, interest coverage is virtually unchanged compared with Q1 of the previous year and is still well above the target level.

The equity ratio as at 31 March 2014 is just above the target level of 50 per cent. The increase compared with the previous year primarily stemmed from the Group's positive earnings situation. However, the equity-reducing effect of next quarter's forthcoming dividend payout also needs to be taken into account when considering this key indicator.

Key figures of the dividend policy

The dividend policy adopted by the Executive Board at the beginning of 2013 and endorsed by the Supervisory Board stipulates annual dividend payments of 50 to 75 per cent of free cash flow. By upping this range from the 2013 financial year onwards, the Executive Board is taking into account the interests of value-oriented shareholders who wish to participate to a reasonable extent in the company's free cash flow, while ensuring an optimum capital structure to safeguard the company's long-term value.

	2011	2012	2013 [2]	Target 2014/15
Payout ratio as a percentage of FCF [1]	64 %	66 %	72,5 %	50—75 %
Dividends paid in euros per share	1.20	1.35	1.45	n. a.
Dividend yield on day of payment	10.6 %	7.7 %	n. a.	n. a.

1 Free cash flow (FCF) is defined as cash flow from operating activities minus investment in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.
2 Proposal by the Executive Board and the Supervisory Board to the Annual General Meeting.

Employees

At the end of Q1 2014, the number of employees had increased to 4,961 compared with 4,576 at the end of the fourth quarter of 2013, and 4,557 at the end of Q1 2013. This increase was primarily attributable to the first-time consolidation of Jesta Digital Group in the quarter under review.

Opportunities and risk report

In the first quarter of 2014, there were no significant changes in the opportunities and risks as described in detail in the "Opportunities and risk report" of our 2013 annual report. The 2013 annual report is available online at *www.freenet-group.de/investor/publications/quarterly-annual-reports*

Forecast

The Executive Board confirms its guidance for the current financial year as included in the Group management report 2013 for the 2014 and 2015 financial years. There were no significant changes in the first quarter of 2014.

Accordingly, for the 2014 and 2015 financial years the company continues to expect a slight increase in Customer Ownership (postpaid and no-frills)—an important indicator—with the postpaid ARPU expected to fall slightly in the current financial year and stabilise in 2015.

A slight rise in Group revenue is expected for the 2014 and 2015 financial years.

In line with the developments described above, the company aims to achieve a Group EBIDTA of around 365 million euros for the 2014 financial year and around 370 million euros for the 2015 financial year.

The company also aims to achieve a free cash flow for the freenet Group in the amount of approx. 265 million euros in the 2014 financial year and approx. 280 million euros in the 2015 financial year. Free cash flow is defined as cash flow from operating activities, less investments in property, plant, equipment and intangible assets, plus cash inflows from the disposal of intangible assets and property, plant and equipment.

Significant events after the reporting date

There were no events after the balance sheet date which were of significance to the freenet Group.

Transactions with related parties

The following major transactions took place between the Group and related parties:

In EUR'000s	1.1.2014 —31.3.2014	1.1.2013 —31.3.2013
Sales and income attributable to services		
Joint ventures		
FunDorado GmbH, Hamburg	82	59
Companies with a major influence on freenet AG[1]		
b2c.de GmbH, Munich (Drillisch AG Group)	n.a.	286
	82	**345**
Purchased services and onward charging		
Companies with a major influence on freenet AG[1]		
eteleon e-solutions AG, Munich (Drillisch AG Group)	n.a.	24
b2c.de GmbH, Munich (Drillisch AG Group)	n.a.	3.029
	0	**3.053**

The following major receivables due from and liabilities due to related parties existed as at 31 March 2014:

In EUR'000s	31.12.2013	31.12.2012
Liabilities from regular transactions		
Joint ventures		
FunDorado GmbH, Hamburg	77	28
	77	**28**

All transactions were at market rates.

If the parties were not classified as related parties under IAS 24, no details were provided (n.a.).

1 According to a voting rights notification dated 25 March 2013, the voting rights of Drillisch AG, including the shares held by MSP Holding GmbH, totalled 10.43 percent at 20 March 2013. So, because Drillisch AG has not been able to exercise any controlling influence on the freenet Group since 20 March 2013, Drillisch AG and its affiliated companies have not been classified as related parties. Transactions with companies in the Drillisch group during the first quarter of 2013 were therefore only reported as transactions with related parties if they occurred before 20 March 2013.

Condensed interim consolidated financial statements

Overview

Consolidated income statement

for the period from 1 January to 31 March 2014

In EUR'000s	Q1/2014 1.1.2014 —31.3.2014	Q1/2013 1.1.2013 —31.3.2013
Revenue	717,524	775,249
Other operating income	15,233	17,545
Other own work capitalised	2,398	1,478
Cost of materials	–535,018	–602,425
Personnel expenses	–46,295	–40,978
Depreciation and impairment write-downs	–15,957	–14,213
Other operating expenses	–68,463	–65,641
Operating result	**69,422**	**71,015**
Share of results of associates	70	49
Interest receivable and similar income	292	473
Interest payable and similar expenses	–9,760	–10,413
Result before taxes on income	**60,024**	**61,124**
Taxes on income	–2,596	–929
Group result from continued operations	**57,428**	**60,195**
Group result from discontinued operations	**0**	**0**
Group result	**57,428**	**60,195**
Group result attributable to shareholders of freenet AG	57,331	60,215
Group result attributable to non-controlling interest	97	–20
Earnings per share in EUR (undiluted)	**0.45**	**0.47**
Earnings per share in EUR (diluted)	**0.45**	**0.47**
Earnings per share from continued operations in EUR (undiluted)	0.45	0.47
Earnings per share from continued operations in EUR (diluted)	0.45	0.47
Earnings per share from discontinued operations in EUR (undiluted)	0.00	0.00
Earnings per share from discontinued operations in EUR (diluted)	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)	128,011	128,011
Weighted average of shares outstanding in thousand (diluted)	128,011	128,011

Consolidated statement of comprehensive income

for the period from 1 January to 31 March 2014

In EUR'000s	Q1/2014 1.1.2014 —31.3.2014	Q1/2013 1.1.2013 —31.3.2013
Group result	**57,428**	**60,195**
Change in fair value of held-for-sale financial instruments	–32	–49
Foreign currency translation adjustments	1	0
Taxes on income recognised directly in equity	9	14
Other comprehensive income (not recognised in profit or loss)/ to be reclassified to the income statement in the following periods	–22	–35
Other comprehensive income (not recognised in profit or loss)	**–22**	**–35**
Consolidated comprehensive income	**57,406**	**60,160**
Consolidated comprehensive income attributable to shareholders of freenet AG	57,309	60,180
Consolidated comprehensive income attributable to non-controlling interest	97	–20

Consolidated balance sheet

as of 31 March 2014

Assets

In EUR'000s	31.3.2014	31.12.2013
Non-current assets		
Intangible assets	414,256	397,331
Goodwill	1,150,118	1,122,112
Property, plant and equipment	34,363	33,752
Investments in associates	1,465	1,395
Other investments	1,540	1,540
Deferred income tax assets	184,916	186,947
Trade accounts receivable	77,343	78,508
Other receivables and other assets	16,416	14,549
	1,880,417	**1,836,134**
Current assets		
Inventories	74,643	69,802
Current income tax assets	4,609	2,326
Trade accounts receivable	395,255	423,121
Other receivables and other assets	44,669	35,049
Cash and cash equivalents	121,261	110,766
	640,437	**641,064**
	2,520,854	**2,477,198**

Shareholders' equity and liabilities

In EUR'000s	31.3.2014	31.12.2013
Shareholders' equity		
Share capital	128,061	128,061
Capital reserve	737,536	737,536
Cumulative other comprehensive income	–12,808	–12,786
Retained earnings	441,107	383,776
Capital and reserves attributable to shareholders of freenet AG	**1,293,896**	**1,236,587**
Capital and reserves attributable to non-controlling interest	3,092	2,995
	1,296,988	**1,239,582**
Non-current liabilities		
Other payables	66,596	65,894
Borrowings	517,766	517,599
Deferred income tax liabilities	154	157
Pesion provisions	44,646	44,369
Other provisions	9,352	9,512
	638,514	**637,531**
Current liabilities		
Trade accounts payable	369,605	401,970
Other payables	109,540	113,520
Current income tax liabilities	53,706	43,276
Borrowings	28,399	20,413
Other provisions	24,102	20,906
	585,352	**600,085**
	2,520,854	**2,477,198**

Schedule of changes in equity

from the period from 1 January to 31 March 2014

In EUR'000s	Share capital	Capital reserve	Cumulative other comprehensive income: Revaluation reserve	Cumulative other comprehensive income: Actuarial valuation reserve in accordance with IAS 19	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
As of 1. 1. 2013	**128,061**	**737,536**	**–13**	**–13,284**	**324,883**	**1,177,183**	**370**	**1,177,553**
Initial consolidation of subsidiaries	0	0	0	0	0	0	1,505	1,505
Group result	0	0	0	0	60,215	60,215	–20	60,195
Change in fair value of held-for sale financial instruments	0	0	–35	0	0	–35	0	–35
Sub-total: Consolidated comprehensive income	0	0	–35	0	60,215	60,180	–20	60,160
As of 31. 3. 2013	**128,061**	**737,536**	**–48**	**–13,284**	**385,098**	**1,237,363**	**1,855**	**1,239,218**

In EUR'000s	Share capital	Capital reserve	Cumulative other comprehensive income: Revaluation reserve	Cumulative other comprehensive income: Foreign currency translation adjustments	Cumulative other comprehensive income: Actuarial valuation reserve in accordance with IAS 19	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
As of 1. 1. 2014	**128,061**	**737,536**	**–69**	**0**	**–12,717**	**383,776**	**1,236,587**	**2,995**	**1,239,582**
Group result	0	0	0	0	0	57,331	57,331	97	57,428
Change in fair value of held-for sale financial instruments	0	0	–23	0	0	0	–23	0	–23
Foreign currency translation	0	0	0	1	0	0	1	0	1
Sub-total: Consolidated comprehensive income	0	0	–23	1	0	57,331	57,309	97	57,406
As of 31. 3. 2014	**128,061**	**737,536**	**–92**	**1**	**–12,717**	**441,107**	**1,293,896**	**3,092**	**1,296,988**

Consolidated statement of cash flows

for the period from 1 January to 31 March 2014

In EUR'000s	1.1.2014 –31.3.2014	1.1.2013 –31.3.2013
Result from continued and discontinued operations before interest and taxes (EBIT)	**69,492**	**71,064**
Adjustments		
Depreciation and impairment on items of fixed assets	15,957	14,213
Share of results of associates	–70	–49
Income from the sale of subsidiaries	0	–4,009
Loss on disposals of fixed assets	–140	14
Increase in net working capital not attributed to investing or financing activities	–15,502	–18,395
Other non-cash components	0	–76
Income taxes paid	–6,825	–3,740
Cash flow from operating activities	**62,912**	**59,022**
Investments in property, plant and equipment and intangible assets	–6,123	–2,651
Proceeds from the disposal of property, plant and equipment and intangible assets	304	23
Purchase of subsidiaries	–46,292	–12,033
Outflow of funds from deconsolidation	0	–2,734
Interest received	190	323
Cash flow from investing activities	**–51,921**	**–17,072**
Cash repayments of borrowings	–98	–44,807
Interest paid	–398	–676
Cash flow from financing activities	**–496**	**–45,483**
Cash-effective change in cash and cash equivalents	**10,495**	**–3,533**
Cash and cash equivalents 1.1.	**110,766**	**207,353**
Cash and cash equivalents 31.3.	**121,261**	**203,820**

Composition of cash and cash equivalents In EUR'000s	**31.3.2014**	**31.3.2013**
Cash and cash equivalents of continued operations	121,261	203,820
	121,261	**203,820**

Composition of free cash flow In EUR'000s	**31.3.2014**	**31.3.2013**
Cash flow from operating activities	62,912	59,022
Investments in property, plant and equipment and intangible assets	–6,123	–2,651
Proceeds from the disposal of property, plant and equipment and intangible assets	304	23
Free cash flow (FCF)	**57,093**	**56,394**

Selected explanatory notes in accordance with IAS 34

Major accounting, valuation and consolidation principles

1. These condensed interim consolidated financial statements have been prepared in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, based on the international accounting standards endorsed by the European Union, the International Financial Reporting Standards (IFRS), in accordance with IAS 34. The Group took into account all IFRSs adopted and mandated by the EU. No review of these condensed interim consolidated financial statements has been carried out.

   The Group applied all of the accounting standards which have been mandatory since 1 January 2014. Of the accounting standards which were applied for the first time, the following had no material impact on the presentation of the Group's assets, earnings and financial position: the amendments to IAS 32 (Financial Instruments: Presentation—Offsetting Financial Assets and Financial Liabilities), IAS 36 (Impairment of Assets: Measurement of Recoverable Amount), IAS 39 (Financial Instruments: Recognition and Measurement—Novation of Derivatives and Continuation of Hedge Accounting), IFRIC 21 (Levies: Identification of a present obligation to pay a levy) and the amendments to IFRS 10, IFRS 11, IFRS 12 and IAS 27 with regard to the exemption of investment companies from the consolidation obligation. The notes to the consolidated financial statements regarding IFRS 12 will be included in the annual report 2014.

   The accounting and valuation methods used to prepare the interim report for the period ending 31 March 2014 and to establish the benchmark figures for the previous year are the same as those which were applied in the consolidated financial statements for the period to 31 December 2013. A detailed description of the Group's accounting and valuation methods is included in the notes to the consolidated financial statements of freenet AG as at 31 December 2013.

Significant events and transactions

2. On 16 December 2013, the Group concluded a purchase agreement to acquire all of the shares and voting rights in Jesta Digital GmbH, based in Berlin, Jesta Digital Holdings, Inc., based in the USA, and Jesta Digital Group U.S. Holdings, Inc., based in the USA (these companies and their subsidiaries are hereinafter referred to as Jesta Digital Group). Following approval from the anti-trust authorities and after having met other conditions, the takeover was completed effective 15 January 2014, which gave the Group control over this subsidiary. With offices in Berlin and Los Angeles, as well as around 300 employees, Jesta Digital Group is one of the world's leading providers of modern digital entertainment formats and services for users of digital applications.

   A cash price of USD 72.18 million was agreed. The cash price is subject to adjustments depending on the net working capital, cash and cash equivalents, and financial liabilities of the purchased group of companies. The completion accounts of Jesta Digital Group as at 31 December 2013 are relevant for determining the final figure for these purchase price adjustments. At the time these condensed interim consolidated financial statements were prepared, the cash price was not yet binding: although the completion accounts described above had been prepared, they had not yet been fully agreed by the vendor and the purchaser. A translated cash price of 44,741 thousand euros has been recognised for the purposes of the purchase price allocation in these condensed interim consolidated financial statements. In the first quarter of 2014, the Group recorded a cash outflow of 50,125 thousand euros as the provisional cash purchase price.

   In addition, there may be an first earn-out ranging between USD 0 and USD 10 million; the exact amount of this earn-out is based on the gross profit of Jesta Digital Group for the 2014 calendar year. As at 31 March 2014, the Group recognised a purchase price liability of 3,655 thousand euros for the first earn-out. For this purpose, various scenarios throughout the full range were evaluated with their probabilities of occurrence.

   There may also be a second earn-out. This depends on whether Jesta Digital Group or significant parts thereof are sold within the first 60 months of being acquired or within the first 96 months if a certain EBITDA is achieved. Under certain conditions, a defined share of the proceeds from the sale would fall due as an additional purchase price, for which no upper limit has been set.

   The purchase price allocation carried out in accordance with IFRS 3 for the acquisition of Jesta Digital Group is of a provisional nature as it was only possible to establish a provisional figure for the fair value of the identifiable assets and liabilities.

The following overview provides details of the assets and liabilities of Jesta Digital Group acquired at fair value at the time of the initial consolidation:

Assets and liabilities of Jesta Digital Group measured at fair value as at 15 January 2014

Assets

In EUR'000s	15.1.2014
Non-current assets	
Intangible assets	26,873
Goodwill	28,006
Property, plant and equipment	660
Other receivables and other assets	202
	55,741
Current assets	
Current income tax assets	1,415
Trade accounts receivable	18,141
Other receivables and other assets	2,710
Liquid assets	3,833
	26,099
	81,840

Liabilities

In EUR'000s	15.1.2014
Non-current liabilities	
Deferred tax liabilities	7,523
	7,523
Current liabilities	
Trade account payable	10,249
Other liabilities and deferrals	3,982
Current tax liabilities	8,307
Other provisions	3,383
	25,921
	33,444

The difference of 48,396 thousand euros between the assets and liabilities represents the expected total purchase price (expected cash price of 44,741 thousand euros plus the anticipated first earn-out of 3,655 thousand euros). The provisional purchase price allocation results in goodwill of 28,006 thousand euros, which is mainly attributable to Jesta Digital Group's ability to continue acquiring new customers in the future, as well as the company's workforce which cannot be recognised separately on the balance sheet. The goodwill was attributed to the cash-generating unit "Jesta Digital Group". It is not tax-deductible. The acquired intangible assets mainly comprise customer relationships worth 12,189 thousand euros, technology in the amount of 9,132 thousand euros and trademark rights totalling 3,879 thousand euros, which were recognised as a result of the provisional purchase price allocation. Due to the subsequent amortisation of the intangible assets recognised in the course of the purchase price allocation, write-downs for an asset depreciation range of 48 to 60 months need to be recognized in the amount of 1,309 thousand euros per quarter for the initial four financial years following the purchase date and in the amount of 1,066 thousand euros per quarter in the fifth financial year following the purchase date. No contingent liabilities were recognised in the purchase price allocation. The fair value of the acquired receivables is 20,851 thousand euros. Value adjustment allowances amounting to 2,122 thousand euros were set aside for gross trade receivables of 20,263 thousand euros as at the acquisition date. We have not identified any transactions which have to be shown separately from the acquisition of the assets and liabilities.

The ongoing spread of smartphones and tablet PCs together with data-friendly mobile phone tariffs are fuelling increasing demand for mobile digital lifestyle applications. With the acquisition of Jesta Digital Group, freenet plans to press ahead with its growth course in the digital lifestyle segment.

For the purpose of the freenet AG Group's segment reporting, Jesta Digital Group was allocated to the segment "Other".

3. The cash flow statement for the first three months of 2014 shows an outflow of 46,292 thousand euros for the acquisition of subsidiaries under the cash flow from investing activities. In addition to the cash price of 50,125 thousand euros paid for the acquisition of Jesta Digital Group, the Group also received cash and cash equivalents amounting to 3,833 thousand euros for the purposes of the cash flow statement (holdings of liquid assets less liabilities due to banks in connection with the short-term management of financial investments) as a result of the first-time consolidation of Jesta Digital Group.

4. During the first three months of 2014, Jesta Digital Group contributed a total of 6.3 million euros to Group revenue following its first-time consolidation. If this transaction had taken place on 1 January 2014, its contribution to Group revenue would have been 7.7 million euros for the first quarter of 2014. Its contribution to the Group's earnings was of minor significance. This would still have been the case had the transaction taken place on 1 January 2014.

5. For some time now, the freenet Group has been offering its customers the opportunity to choose higher-value devices for an additional monthly fee with its mobile phone upgrade option. Contracts with this mobile phone upgrade option continue to be recognised as follows: freenet has an unconditional right to payment from the customer receiving the mobile phone as part of the mobile phone upgrade option. freenet records a receivable in the amount of the present value of the additional monthly amounts to be paid by the customer for the higher-value mobile phone over the term of the contract when the contract is signed and the mobile phone is handed over. As customers' willingness to pay more for higher-value smartphones has increased, the number of postpaid customers selecting this mobile phone upgrade option has risen steadily over the past few financial years. This also means that the figure for deferred receivables relating to the mobile phone upgrade option (which is marketed as "Handy-Option") recognised under non-current and current trade receivables has climbed continuously. For the freenet Group, this means that tied-up capital has been rising for years: today's higher-value smartphones are more expensive to purchase than the mobile phones of the past, and while cash outflows to acquire these devices occur before or when a contract is signed with the end-user, cash inflows from the mobile phone upgrade option are spread over the 24 months of the contract with the end-user.

   With this in mind, the Group has concluded a factoring agreement with a bank, which was first utilised in Q1 2014 when receivables with a nominal value of 23.2 million euros relating to the mobile phone upgrade option were sold. Consequently, deferred receivables from the mobile phone upgrade option within non-current and current trade receivables fell circa 25 million euros as at 31 March 2014, compared to previous quarter.

The contract with the bank is a master agreement with an indefinite term. It is possible to sell mobile phone upgrade option receivables on a quarterly basis up to a certain limit. Within this limit, freenet is at liberty to decide whether and to what extent receivables are to be sold. This sale of receivables without recourse represents genuine factoring. The relevant risks (such as the risk of default) and opportunities are transferred to the bank without the continuing involvement of freenet. The bank purchases the receivables with a defined del credere discount and it also bills freenet for interest and fees.

6. The underlying figure for the cash flow statement is the earnings generated by ongoing and discontinued operations before interest and income taxes (EBIT). The following shows the way in which this EBIT figure is derived from the consolidated income statement:

Calculation of the starting point for determining the consolidated cash flow statement

In EUR'000s	1.1.2014 —31.3.2014	1.1.2013 —31.3.2013
Earnings before taxes of continued operations	60,024	61,124
Interest payable and similar expenses of continued operations	9,760	10,413
Interest payable and similar income of continued operations	–292	–473
Earnings before interest and taxes (EBIT) of continued and discontinued operations	**69,492**	**71,064**

Other disclosures

7. We wish to provide the following information with regard to fair values:

Financial instruments according to classes as of 31 March 2014

In EUR'000s	Valuation category according to IAS 39	Carrying amount 31. 3. 2014	Approach: Amortised cost of purchase	Approach: Cost of purchase	Approach: Fair value in income statement	Approach: Fair value in equity	Fair value 31. 3. 2014
Assets							
Cash and cash equivalents	LR	121,261	121,261				121,261
Total cash and cash equivalents		**121,261**	**121,261**				**121,261**
Other financial assets (measured at cost of purchase)	HFS	503		503			–
Other financial assets (measured at fair value)	HFS	1,037				1,037	1,037
Total other financial assets		**1,540**					
Trade accounts receivable	LR	**472,598**	**472,598**				**472,790**
Other non-derivative financial assets	LR	35,789	35,789				35,789
Held-for-sale other assets	HFS	2,865				2,865	2,865
Derivative financial assets	FIPL	0			0		0
Non-financial assets		22,431					
Sum of receivables and other assets		**61,085**					
Liabilities							
Trade accounts payable	FLAC	369,605	369,605				369,605
Financial debt (liabilities due to banks and shareholders)	FLAC	545,809	545,809				590,533
Derivative financial liabilities	FIPL	0			0		0
Sum of financial liabilities within the scope of IFRS 7		**545,809**					**590,533**
Other non-derivative financial liabilities measured at cost of purchase	FLAC	102,885	102,885				102,885
Non-financial liabilities		73,251					
Sum of liabilities and deferrals		**176,136**					
Financial instruments not covered by the scope of IFRS 7							
Present values of liabilities from finance lease according to IAS 17		356					356
Pension provisions according to IAS 19		44,646					44,646
Provisions for employee participation programmes according to IFRS 2		4,018					4,018
Sum of financial instruments not covered by the scope of IFRS 7		**49,020**					
Thereof aggregated by valuation categories according to IAS 39							
Held-for-sale financial instruments	HFS	4,405		503		3,902	3,902
Loans and receivables	LR	629,648	629,648				629,840
Financial instruments measured at fair value through profit or loss	FIPL	0			0		0
Financial liabilities measured at amortised cost of purchase	FLAC	–1,018,299	–1,018,299				–1,063,023

Fair value hierarchy as of 31 March 2014

In EUR'000s	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	2,865	2,865	0	0
Other financial assets	1,037	1,037	0	0
Trade accounts receivable	76,718	0	0	76,718
Borrowings	562,151	440,224	0	121,927
Total	**–481,531**	**–436,322**	**0**	**–45,209**

There were no shifts regarding the levels.

Other financial assets are measured at fair value. Wherever a reliable estimate of fair value is not possible, the asset is valued at its cost of acquisition. The shares that are valued at acquisition cost are not publicly traded and there is no active market for them. Furthermore, a sale is not currently planned. If there are indications that fair values are lower, these are used.

8. With the exception of the acquisition described above, the scope of consolidation remained unchanged compared with the consolidated financial statements for the period ending 31 December 2013.

9. As was the case in the 2013 consolidated financial statements, an average rate of 29.85 per cent (Q1 2013: 29.3 per cent) was used to calculate the current and deferred income taxes.

10. During the first three months of 2014, net borrowing declined by 2.3 million euros from 427.2 million euros to 424.9 million euros. The cash flow from operating activities was the most important factor reducing net debt, while the purchase of Jesta Digital Group was the main reason for cash outflows which had the opposite effect.

11. There were no events of significance after the balance sheet date.

12. Segment reporting (see following double-page spread)
The "Other/Holding" segment includes other business activities in addition to operating activities. These primarily include freenet AG's activities as a holding company (with the provision of intra-Group services in central divisions such as Legal, HR and Finance), as well as other accounting entries that cannot be clearly allocated. The segment revenue of 19.9 million euros (previous year: 12.3 million euros) reported for the "Other/Holding" segment in Q1 2014 relates to operating activities (17.4 million euros; previous year: 9.9 million euros) and other business activities (2.5 million euros; previous year: 2.4 million euros). The gross profit of 12.5 million euros (previous year: 6.2 million euros) reported for the "Other/Holding" segment in Q1 2014 relates to operating activities (12.6 million euros; previous year: 6.2 million euros) and other business activities (–0.1 million euros; previous year: 0.0 million euros). The EBITDA of –5.1 million euros (previous year: 2.2 million euros) reported for the "Other/Holding" segment in Q1 2014 relates to operating activities (–0.7 million euros; previous year: 7.0 million euros) and other business activities (–4.4 million euros; previous year:

–4.8 million euros). The EBIT of –7.4 million euros (previous year: 1.2 million euros) reported for the “Other/Holding” segment in Q1 2014 relates to operating activities (–2.8 million euros; previous year: 6.3 million euros) and other business activities (–4.6 million euros; previous year: –5.1 million euros).

The decline in EBITDA and EBIT generated by the operating activities of the “Other/Holding” segment compared with the same period last year is primarily attributable to the fact that the figure for Q1 2013 included gains of 4.0 million euros from the disposal of freeXmedia GmbH.

Segment report 1 January to 31 March 2014

In EUR'000s	Mobile Communications	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**700,934**	**16,590**	**0**	**717,524**
Intersegment revenue	3,023	3,286	–6,309	0
Revenue, total	703,957	19,876	–6,309	717,524
Cost of materials, third party	**–530,465**	**–4,553**	**0**	**–535,018**
Intersegment cost of materials	–2,028	–2,847	4,875	0
Cost of materials, total	–532,493	–7,400	4,875	–535,018
Segment gross profit	**171,464**	**12,476**	**–1,434**	**182,506**
Other operating income	14,905	1,266	–938	15,233
Other own work capitalised	2,181	217	0	2,398
Personnel expenses	–36,352	–9,943	0	–46,295
Other operating expenses	–61,666	–9,169	2,372	–68,463
Share of result in associates	0	70	0	70
Segment EBITDA	**90,532**	**–5,083**	**0**	**85,449**
Depreciation and impairment write-downs	–13,655	–2,302	0	–15,957
Segment EBIT	**76,877**	**–7,385**	**0**	**69,492**
Group financial result				–9,468
Taxes on income				–2,596
Group result from continued operations				**57,428**
Group result from discontinued operations				**0**
Group result				**57,428**
Group result attributable to shareholders of freenet AG				57,331
Group result attributable to non-controlling interest				97
Investments in continued operations	**5,601**	**522**		**6,123**

Segment report 1 January to 31 March 2013

In EUR'000s	Mobile Communications	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**765,093**	**10,156**	**0**	**775,249**
Intersegment revenue	2,369	2,138	–4,507	0
Revenue, total	767,462	12,294	–4,507	775,249
Cost of materials, third party	**–598,629**	**–3,796**	**0**	**–602,425**
Intersegment cost of materials	–1,042	–2,340	3,382	0
Cost of materials, total	–599,671	–6,136	3,382	–602,425
Segment gross profit	**167,791**	**6,158**	**–1,125**	**172,824**
Other operating income	12,325	6,177	–957	17,545
Other own work capitalised	1,411	67	0	1,478
Personnel expenses	–34,681	–6,297	0	–40,978
Other operating expenses	–63,802	–3,921	2,082	–65,641
Share of result in associates	0	49	0	49
Segment EBITDA	**83,044**	**2,233**	**0**	**85,277**
Depreciation and impairment write-downs	–13,162	–1,051	0	–14,213
Segment EBIT	**69,882**	**1,182**	**0**	**71,064**
Group financial result				–9,940
Taxes on income				–929
Group result from continued operations				**60,195**
Group result from discontinued operations				**0**
Group result				**60,195**
Group result attributable to shareholders of freenet AG				60,215
Group result attributable to non-controlling interest				–20
Investments in continued operations	**2,352**	**299**		**2,651**

Further information

Financial calender

8 May 2014
Interim Report as of 31. 3. 2014—First Quarter 2014

13 May 2014
Annual General Meeting of freenet AG, CCH Hamburg

28 May 2014
Berenberg TMT Conference 2014, Zurich, Switzerland

11 June 2014
db Access German, Swiss & Austrian Conference 2014, Deutsche Bank, Berlin, Germany

7 August 2014[1]
Semi-Annual Financial Report as of 30. 6. 2014—Second Quarter 2014

7 November 2014[1]
Interim Report for the period January to September 2014—Third Quarter 2014

1 Probable dates.

Imprint, contact, publications

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The annual report and our interim reports are also available at:
www.freenet-group.de/investor/publications/quarterly-annual-reports

The English version of the Interim Report is a translation of the German version of the Interim Report. The German version of this Interim Report is legally binding.

Current information concerning freenet AG and the freenet share is available on our website at:
www.freenet-group.de/en

If your mobile phone has QR-Code recognition software, you will be directed to the freenet Group website by scanning this code.

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