

**INTERIM REPORT**

**AS OF 30 JUNE 2015**

**Q2**  
**2015**



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# KEY FINANCIALS

## GROUP OVERVIEW

### Result

In EUR million/as indicated	1st half 2015	1st half 2014	Q2/2015	Q1/2015	Q2/2014
Revenue	1,501.0	1,444.7	752.5	748.5	727.2
Gross profit	377.8	373.0	186.4	191.4	190.5
EBITDA	175.1	173.1	89.1	86.0	87.6
EBIT	140.9	140.7	70.3	70.6	71.2
EBT	121.6	120.5	60.6	61.0	60.5
Group result from continued operations	111.1	114.5	54.9	56.2	57.1
Group result from discontinued operations	0.0	0.0	0.0	0.0	0.0
Group result	111.1	114.5	54.9	56.2	57.1
Earnings per share in EUR (diluted and undiluted)	0.86	0.89	0.42	0.44	0.44

### Balance Sheet

In EUR million/as indicated	30.6.2015	30.6.2014	30.6.2015	31.3.2015	30.6.2014
Balance sheet total	2,464.7	2,469.5	2,464.7	2,512.1	2,469.5
Shareholders' equity	1,217.3	1,168.5	1,217.3	1,346.0	1,168.5
Equity ratio in per cent	49.4	47.3	49.4	53.6	47.3

### Finances and investments

In EUR million	1st half 2015	1st half 2014	Q2/2015	Q1/2015	Q2/2014
Free cash flow <sup>1</sup>	136.3	131.3	74.1	62.2	74.2
Depreciation and amortisation	34.2	32.4	18.8	15.5	16.4
Net investments (CAPEX)	14.9	10.5	6.6	8.3	4.7
Net debt <sup>2</sup>	500.3	545.3	500.3	373.6	545.3

### Share

	30.6.2015	30.6.2014	30.6.2015	31.3.2015	30.6.2014
Closing price Xetra in EUR	30.22	23.23	30.22	28.08	23.23
Number of issued shares in '000s	128,061	128,061	128,061	128,061	128,061
Market capitalisation in EUR million	3,869.4	2,974.9	3,869.4	3,595.3	2,974.9

### Employees

	30.6.2015	30.6.2014	30.6.2015	31.3.2015	30.6.2014
Employees	4,611	4,904	4,611	4,713	4,904

# KEY FINANCIALS:

## OVERVIEW MOBILE

## COMMUNICATIONS SEGMENT

### Customer development

In million	1st half 2015	1st half 2014	Q2/2015	Q1/2015	Q2/2014
Mobile Communications customers/cards <sup>2</sup>	12.38	12.99	12.38	12.54	12.99
Thereof Customer Ownership	9.11	8.84	9.11	9.04	8.84
Thereof Postpaid	6.16	5.90	6.16	6.10	5.90
Thereof No-frills	2.94	2.94	2.94	2.94	2.94
Thereof Prepaid	3.27	4.14	3.27	3.50	4.14
Gross new customers/cards	1.39	1.42	0.68	0.71	0.73
Net change	-0.35	-0.31	-0.16	-0.19	-0.15

### Result

In EUR million	1st half 2015	1st half 2014	Q2/2015	Q1/2015	Q2/2014
Revenue	1,473.6	1,418.5	739.0	734.6	714.5
Gross profit	353.2	350.9	174.3	178.9	179.5
EBITDA	183.5	181.9	92.1	91.3	91.3
EBIT	154.8	154.4	76.2	78.6	77.5

### Monthly average revenue per user (ARPU)

In EUR	1st half 2015	1st half 2014	Q2/2015	Q1/2015	Q2/2014
Postpaid	21.2	21.4	21.4	21.1	21.5
No-frills	2.5	2.9	2.6	2.4	3.0
Prepaid	2.8	2.8	3.0	2.6	3.0

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 At the end of period.



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,*

For several years now, freenet AG has been implementing a cautious paradigm shift. As a mobile service provider, we are increasingly serving the attractive digital-lifestyle growth market with our products and services. At the same time, this paradigm shift towards smartphone and tablet-based applications such as home automation and home security, entertainment, health and data security is likewise taking place to an ever-increasing extent among consumers. This is shown in the findings of market surveys that we recently conducted among thousands of our own customers as well as those of competitors.

The responses indicate that customers are particularly interested in the entertainment (54 per cent) and smart home (52 per cent) fields at the moment. This was the case among price-conscious users on the one hand, who take account of quality and service as well as price when signing contracts and making purchases, and bargain-hunters on the other. In other words, it was the case among almost the very same customer groups to whom we make a targeted pitch in our traditional key business segment of mobile communications: firstly with our main brand mobilcom-debitel for high-calibre contract customers with a pronounced need for advice and individual user profiles, and then with our discount brands for highly price-conscious smartphone users.

With this strategy we are managing to keep ARPU in the fiercely competitive mobile communications segment comparatively stable, despite the steady decline of ARPU in all market fields, and ensuring that freenet AG's profitability is at a sustainably high level. At the same time, we are creating a second source of income for freenet AG with innovative products and services associated with the digital lifestyle field.

The figures for the second quarter of 2015 also confirm the positive developments in the preceding quarters and years:

- The customer ownership figure, i.e. the number of customers in the postpaid and no-frills area, continues to increase: this key performance indicator of our company has grown again, this time by 68 thousand to 9.11 million in comparison to the previous quarter; especially the contained number of particularly valuable contract customers with 24-month contracts has risen the twelfth consecutive quarter to 6.16 million at the end of June 2015, which represents an increase of 67 thousand.
- At the same time, postpaid ARPU again remained stable at 21.4 euros.

- As a result of these developments and in addition because of increasing revenue in the digital lifestyle field, revenue has increased slightly over the comparative and previous quarter to the current total of 752.5 million euros.
- Gross profit likewise decreased compared with the second quarter of 2014, totalling 186.4 million euros with a gross profit margin of 24.8 per cent. This is mainly due to higher activation numbers and the resultant increase in subscriber acquisition costs.
- EBITDA improved slightly to 89.1 million euros, 1.7 per cent higher than in the comparative quarter in 2014 – despite the substantially increased investments in our customer growth in recent months.
- Finally, the free cash flow is now located at the level of the comparable quarter with 74.1 million euros.

Based on the cumulative figures for the first half of 2015, namely EBITDA of 175.1 million euros and free cash flow of 136.3 million euros, we confirm our guidance for 2015 as a whole: EBITDA of about 370 million euros and free cash flow of around 280 million euros, accompanied by further growth in customer ownership and by stable postpaid ARPU as well as stable revenue. At the same time, the results establish the foundation for our constant, shareholder-value-oriented dividend policy that provides for a distribution comprising between 50 and 75 per cent of the free cash flow. Accordingly, freenet AG's Annual General Meeting in May passed a resolution to distribute dividends totalling 192.0 million euros; this corresponds to 1.50 euros for each share entitled to dividends, or alternatively 72.1 per cent of the free cash flow from 2014.

Also in May, we took advantage of the current, highly favourable interest rate situation on the financial markets to carry out a partial refinancing with the aim of considerably reducing freenet AG's annual interest burden in the years ahead. To do so, we took up three tranches of promissory notes with an aggregate value of 100.0 million euros, with terms of five to seven years and – to some extent variable – interest rates of between 1.05 and 1.79 per cent. Thanks to the revolving credit line totalling 300.0 million euros, which is still available in its entirety, our finances up until 2018 are generally, sound.

On the operational side we are also working prudently and continuously to make the company's structures leaner and more efficient while simultaneously increasing the attractiveness of our product range. In the digital lifestyle field, for example, we have also been offering one of our most successful apps – the “Pocket Liga” (i.e. League) for football fans – since April, as well as a version for the new Apple Watch on the occasion of its market launch. In this way we are taking account of, not least, Apple's continuing dominant market position as a premium manufacturer – while once again underlining our outstanding position as a digital lifestyle provider. In our outlets, customers find the widest possible selection of network operators and products covering all aspects of mobile communications and mobile internet. And this is accompanied by independent advice in our closely spaced network of mobilcom-debitel shops and GRAVIS stores, as well as our presence at around 6,000 specialist trade partners and in large consumer electronic markets.

New offerings in the entertainment field, too, are designed to guarantee customers independence in their purchasing decisions. At our main brand mobilcom-debitel, the video option from maxdome and the music option from JUKE have also been available to customers without a mobilcom-debitel mobile communications contract since June. Our portfolio of digital lifestyle flats is currently being supplemented by "AudioBooks". This means that users have access to around 30,000 German and/or foreign-language audiobook titles in return for a monthly fee of just under 10 euros, while for contract customers of mobilcom-debitel the price is reduced to just under 6 euros.

In order to further increase the number of contract customers, freenet – as in the previous quarters – again carried out attractive special tariff-related promotions via special trading platforms. Based on the only very short-term conditions available for the respective offers, new customers were able to achieve savings of up to three euro-figures over the two-year contract period compared to the standard charges of our discount subsidiaries and the main brand mobilcom-debitel. As a result, our tariffs again occupied a diversity of top placements in tests for very different user profiles published in the trade journals.

These campaigns are accompanied by new service offers for customers. They include, for example, individually bookable personal training sessions in the digital lifestyle area provided specifically for middle-aged and older age groups in the GRAVIS stores, as well as publications concerning data administration, hygiene and security or the relaunch of our freenet.de portal. In collaboration with users, we have now made our new online presence more up-to-date, more informative and more user-friendly.

We also launched two large-scale marketing campaigns at the end of June. One of these is the now traditional truck tour by mobilcom-debitel through German cities. For the fifth year in a row, two 15-metre trucks each fitted out with a large-scale LED wall, flat-screen TV, lounge area and integrated stage are going to draw attention to the digital lifestyle at top locations and events. The trucks provide a space for trying out the latest smartphones and tablets, wearables and apps in accordance with our umbrella campaign's new motto "Macht was ihr wollt. Wir machen's möglich" ("Do what you like. We make it possible.") Supported by two accompanying VW "Bulli" minibuses, a variety of presentations, competitions and games at the tour locations give a substantial boost to buying frequency and revenue in our adjacent shops, as experience from previous years has shown.

In addition, the "Summer Weeks" were launched, a sales campaign that will continue until the end of August 2015. The focus of these classic marketing measures is the sale of hardware products through TV commercials, online communication and a variety of on-site campaigns in the shops.

On top of that, we intend to give even more vigorous support to our own physical retail outlets in the future, as well as to particularly efficient and loyal specialised sales partners, and to manage them more efficiently and/or integrate them strategically. With this in mind, we set the course accordingly in the second quarter. Both distribution channels are now directly supervised by the same field sales force and thereby benefit from proven best-practice solutions within freenet AG and from streamlined procedures and coordination under the overall sales management.

We are going to continue along this path of continuous improvement of our company's products and services, processes and structures with prudence and determination in the second half of this year and beyond. This is because only outstanding products and services and lean and efficient processes will enable us to cement freenet's strong position over the long haul in our fiercely competitive market environment. And we – the management and employees of freenet AG – will continue to apply all of our expertise, strength and experience in order to achieve these goals again in the current financial year.



Christoph Vilanek



Joachim Preisig



Stephan Esch

# FREENET AG

## ON THE CAPITAL MARKET

### Capital market environment

Despite the persistent uncertainties flowing from the European financial crisis, the German benchmark index DAX, the EuroStoxx and the global share index MSCI World closed the first half of 2015 with significant gains. According to the German Bundesbank's monthly report published in June, economic growth and the major central banks' interest rate policies played an important part in this development.

In the course of 2015 the Bundesbank is expecting to see solid economic growth that will manifest itself in an increase of 1.7 per cent in real gross domestic product. This development will be underpinned by domestic demand, which is benefiting from a positive labour market situation and sharp growth in incomes. In the Bundesbank's opinion, the dampening effects arising from the current global economic situation are being countered by the depreciation of the euro and the solidifying economic recovery in the eurozone.

This confident overall picture is also reflected in German business sentiment. Surveys by the German Chamber of Industry and Commerce, the Ifo Institute for Economic Research and the Centre for European Economic Research indicate that German companies still regard their situation as positive.

Even so, the sharp drop in prices on the stock markets in the final days of June highlights the mood of investors and shows that the long-term effects of the European financial crisis on the currency union remain unclear. Investors with a medium-term orientation, however, have been behaving comparatively calmly recently.

The DAX reached the mid-year point with 10,945 points, an increase of around 12 per cent compared with the beginning of the year. The TecDAX closed with 1,642 points, almost 20 per cent higher than six months before.

## The freenet share

In the second quarter, too, the freenet share price continued with its upward trend from the previous quarter. The share commenced the second quarter with a daily closing price of 28.26 euros on the electronic trading platform Xetra and continued to make dynamic progress. On 19 May – shortly before the Annual General Meeting – the share reached its quarterly and half-year high of 32.34 euros. Following a slight price markdown in the wake of the dividend payment, the share remained at around the 30 euro mark until the end of the quarter and closed on 30 June at 30.22 euros. The average Xetra daily closing price in the reporting period was 30.08 euros.

In the second quarter, 36.3 million freenet shares were traded on Xetra compared with 37.1 million in the first quarter of 2015 and 38.1 million in the second quarter of 2014. The proportion of shares traded via alternative trading venues (“dark pools”) decreased to 38 per cent of the entire trading volume in the second quarter (previous quarter: 41 per cent). The average daily Xetra trading volume in the

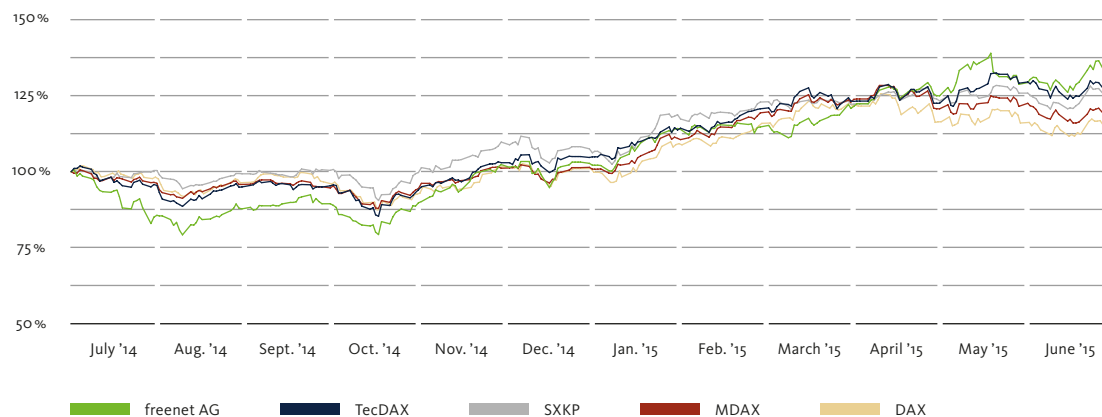
reporting period amounted to some 595 thousand shares, compared to around 588 thousand in the previous quarter and around 605 thousand in the corresponding quarter last year.

The freenet share price increased by 7.6 per cent in the second quarter, outperforming the benchmark index TecDAX, which only increased by 1.7 per cent in the same period. The SXKP Index, in which the European telecoms shares are contained, remained at its previous level.

In the 12-months comparison, the freenet share price rose by 30.1 per cent, thereby acting rather more dynamically than the TecDAX, which was up by 25.5 per cent in the same period. The SXKP Index increased by 22.7 per cent.

At the end of the second quarter of 2015, the freenet share occupied fourth place in the TecDAX in terms of market capitalisation and fifth place with regard to trading volume.

Figure 1: 12-months performance of the freenet share  
(Indexed; 100 = Xetra closing price on 30 June 2014)



## Analyst recommendations

Table 1: Current recommendations for the freenet share\*

Bankhaus Lampe	Hold	25.00 Euro	HSBC Global Research	Hold	30.00 Euro
Berenberg	Hold	21.00 Euro	Independent Research	Hold	31.00 Euro
Citi Research	Sell	21.00 Euro	Landesbank Baden-Württemberg	Buy	32.00 Euro
Commerzbank	Buy	33.00 Euro	Metzler Equity Research	Buy	27.00 Euro
Deutsche Bank	Hold	32.00 Euro	Oddo Seydler	Buy	34.00 Euro
DZ-Bank Research	Buy	31.00 Euro	UBS Investment Research	Hold	27.80 Euro
equinet-Bank	Buy	35.00 Euro	Warburg Research	Hold	28.00 Euro
Hauck & Aufhäuser	Hold	30.00 Euro			

\*As of: 30 June 2015.

## Dividend

Subsequent to the Annual General Meeting on 21 May 2015, the agreed dividend of 1.50 euros for each share entitled to dividends was paid out. This corresponds

to a dividend payout ratio of 72.1 per cent of the free cash flow in 2014.

## 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:

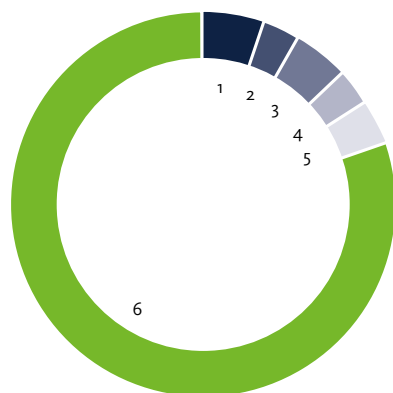
- In April, BlackRock (USA) informed us that it had exceeded the 3 per cent reporting threshold. Its share of the voting rights in freenet AG on 14 April amounted to 3.01 per cent (3,851,546 voting rights).
- In April, BlackRock (USA) informed us that it had fallen below the 3 per cent reporting threshold. Its share of the voting rights in freenet AG on 16 April amounted to 2.98 per cent (3,821,543 voting rights).
- In May, Capital Group (USA) informed us that it had exceeded the 3 per cent reporting threshold.

Its share of the voting rights in freenet AG on 15 May amounted to 3.70 per cent (4,741,076 voting rights).

- In May, Flossbach von Storch (Germany) informed us that it had fallen below the 3 per cent reporting threshold. Its share of the voting rights in freenet AG on 19 May amounted to 2.63 per cent (3,365,500 voting rights).
- In May, Capital Income Builder (USA) informed us that it had exceeded the 3 per cent reporting threshold. Its share of the voting rights in freenet AG on 19 May amounted to 3.26 per cent (4,180,133 voting rights).
- In June, BlackRock (USA) informed us that it had exceeded the 3 per cent reporting threshold. Its share of the voting rights in freenet AG on 10 June amounted to 3.08 per cent (3,940,155 voting rights).

As a result, the shareholder structure of freenet AG on 30 June 2015 was as follows:

Figure 2: Current shareholder structure



- |   |         |  |
|---|---------|--|
| 1 | 5.16 %  | Allianz Global Investors GmbH*           |
| 2 | 3.08 %  | Black Rock, Inc.*                        |
| 3 | 4.65 %  | Deutsche Asset & Wealth Investment GmbH* |
| 4 | 3.04 %  | Flossbach von Storch AG*                 |
| 5 | 3.70 %  | The Capital Group Companies, Inc.*       |
| 6 | 80.37 % | Other shareholders / free float**        |

\* Including attributions according to German Securities Trading Act.

\*\* The free float according to Deutsche Börse AG amounts to 94.84%.

Based on the voting rights disclosures received during the quarter under review, free float has decreased from 87.15 per cent by 6.78 percentage points to 80.37 percent.



A woman with dark hair tied back, wearing a white short-sleeved button-down shirt, stands with her arms crossed. She is looking upwards and to the right. Above her head, a yellow cone-shaped object with a handle at the top is suspended by a red string. In the background, there is a vase with pink and white flowers and a framed portrait of a man.

# INTERIM GROUP MANAGEMENT REPORT



# ECONOMIC REPORT

## Business performance

As an independent mobile service provider, freenet AG serves the growing digital lifestyle market with integrated product environments, customer-oriented services and affordable mobile tariffs for all of Germany's mobile communications 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 home automation and security, health, data security, entertainment and infotainment – including the latest smartphones, tablets and notebooks as terminals and attractive accessories.

Private customers make up their key target group as an integral 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 cover the no-frills field.

In the second quarter of 2015, the company continued to pursue its successful strategy in the fields of digital lifestyle, mobile communications and mobile internet, and further enhanced its products, services and activities in these areas.

### Expansion of the digital-lifestyle spectrum

"Pocket Liga" has been one of freenet's most successful apps for years – and in the meantime has gathered around a million downloads and numerous top rankings in independent tests. Since April, on the occasion of its marketing launch, users have now also been able to get their hands on a suitably enhanced

version for the new Apple Watch. It offers a complete overview of all results, goal scorers and tables in the most important leagues and international competitions. With the help of a live ticker and a vibration alarm, a wrist display shows where and by whom goals were scored and what impact this has on the current league tables. The user's guidance on using the watch and the needs of football fans are taken optimally into account and brought together.

Since this spring, a version of the smartpen "Livescribe 3" for smartphones and tablets with an android system has likewise been available. The smartpen can be used to digitalise, search and share handwritten notes, as well as to create "pencasts" – interactive PDF files that synchronise audio recordings with the digital handwriting. For digitalised handwritten notes, special paper formats with tiny printed points or notebooks from Moleskine developed especially for this purpose are required. The GRAVIS stores offer the Livescribe 3 in two different versions – and on favourable terms at 150 euros and 200 euros respectively.

mobilcom-debitel for its part has been offering access to around 30,000 audio books since mid-June for the first time with its "AudioBooks" service. It is also open to customers without a linked mobilcom-debitel mobile communications contract for a monthly charge of 9.99 euros; for mobilcom debitel contract customers, the price is reduced to 5.99 euros per month. The service will be available free of charge in a test phase scheduled to run until the end of August 2015, and thereafter it can be cancelled on a monthly basis. Its users can choose from 10,000 German audio books and a further 20,000 foreign-language titles in e.g. English, Spanish or Turkish.

The Audiobook Flat complements the portfolio of existing digital-lifestyle flats from mobilcom-debitel, which can now likewise be booked without a mobilcom-debitel mobile communications contract. These include:

- the video option provided by the supplier maxdome which offers unlimited access to more than 50,000 films and series and can be played on a tablet, smartphone or PC,
- The music option from JUKE with more than 30 million songs, a search and suggest function and playlists that can be created separately and also listened to offline.

The Video Flat costs 7.99 euros per month, the Music Flat 9.49 euros; both options can likewise be used free of charge until the end of August and can therefore be thoroughly tested and without any risk for the user.

## Special campaigns for tariffs

In the second quarter, as in the previous months, freenet highlighted its digital-lifestyle product offensive with particularly favourable tariff offers in association with its main and discount brands. In general, these can be booked on a short-term and time-limited basis via the company's own trading platform [www.crash-tarife.de](http://www.crash-tarife.de) or comparable platforms.

- April began with the Allnet Flat from mobilcom-debitel – with telephone and SMS Flat and 1 GB data volume in the D1 network. The monthly charge of 14.85 euros in the first contractual year and 29.85 euros in the second without any further non-recurring costs is considerably lower than the comparable network operator's tariff. In addition, for example, the data tariff Internet Flat 5000 was reduced – with 5 GB unrestricted inclusive volume and a special bonus of 1 GB for high-speed LTE bandwidth up to 50 Mbit/s – by 10 euros per month to 19.99 euros. Furthermore, the Internet Flat 3000 with 3 GB high-speed volume was reduced to 9.99 euros per month in the first contractual year and to 19.99 euros in the second contractual year. For frequent internet users who do not use the phone much, the Smart Surf was reduced to 3.99 euros per month. The tariff offers 1 GB data volume and 50 free call minutes and text messages respectively per month in the O2 network.
- May was shaped by a number of promotions featuring the discount subsidiary klarmobil. The

Allnet Starter, for example, was on offer for 3.95 euros instead of the regular 9.95 euros per month. It offers 100 call minutes, 100 text messages and 400 MB of unlimited data volume in the Vodafone network; in the D1 variant the monthly charge is 6.95 euros. And the AllNet Spar Flat – with free calls into all the national networks, 3,000 text messages and 1,000 MB data volume with maximum bandwidth – was halved to 14.85 euros per month.

- In June, klarmobil then optimised its offers again with the AllNet Spar Flat in the D1 network; the tariff contains free calls and text messages into all of the German networks and a doubled data volume of 500 MB.

## Individualised service offers

For a mobile service provider, the best possible customer care is one of the essential elements of business operations. In providing this, freenet AG utilises a whole range of interfaces, such as the Group's approximately 570 mobilcom-debitel shops and 45 GRAVIS stores, together with around 6,000 retail and sales partners including large-scale consumer electronics outlets, but also – needless to say – online channels, social networks and direct dialogue via apps, chats, telephone or letter.

This framework includes, for example, interactive advisory solutions in the company's own shops in the form of video walls or "solution desks", where customers can test functional product samples and have them explained for their particular requirements by way of radio frequency identification (RFID tags) and reading devices.

In addition, GRAVIS launched further personal training sessions in its stores in the second quarter for the "Generation 55plus" – i.e. for customers whose dealings with digital lifestyle lack the automatic ease and lightness of touch customary among younger users. The courses, which are geared towards customers' individual wishes, cover, among other things, e-mail, office and photo programs, and questions about Skype and iTunes, the app store and/or cloud solutions. In a separate April special, iPad and MacBook buyers received 60 minutes of free personal training.

Also in April, mobilcom-debitel published a free "spring cleaning" guide for the PC and laptop and for data hygiene on the hard disk and in the cloud.

This concerns, first of all, the cleaning of hardware, i.e. casing, keyboard, mouse and screen. A particularly crucial aspect, additionally, is “tidying up” the hard disk, i.e. obvious waste, junk and clutter data in the form of duplicated or obsolete data can be deleted manually, while tools such as WinOptimizer or CCleaner do the same for software that is no longer required. Windows also offers special data-carrier cleaning, thereby creating additional storage space, while the regular defragmentation of files shortens the data access process. In addition, the “Smart Organizer” on the mobilcom-debitel cloud structures all of the respective user’s data and documents from the outset – which simplifies the annual spring clean and data clean-up quite substantially.

### Relaunch of the freenet.de portal

Another step towards the best possible service for customers was made by the relaunch of the freenet.de portal in April. Its focal point was improved user guidance, a process that the portal’s users were integrated into from the start. Based on surveys by the consumer research organisation GfK, freenet developed a prototype that users tested time and again up until the actual start and devised their own suggestions for. As a result, the new portal now attaches even greater importance to topicality and dependability and its news area contains more topical information than before from the fields of news, sport, finance, business politics, motor-ing, entertainment, lifestyle, digital and games. A navigation function guides users with precision into the various channels’ magazine environments.

All of the programs, moreover, are designed optimally and prepared comprehensively for both stationary and mobile use. Above all, the mobile e-mail service was improved again, anyone who uses the freenet e-mail mailbox can now also send and receive smart-phone-optimised e-mails while on the move and access his or her contacts in the process. E-mails sent through other providers, moreover, can simply be integrated via a POP3 collection function.

### Continuation of the mobilcom-debitel truck tour ...

At the beginning of June, mobilcom-debitel again went on its well-established tour of Germany – already on its fifth tour in a row. Two 15-metre trucks – equipped with a large-scale LED wall, flat-screen

TV, touchscreen, a lounge area and integrated screen – are heading for 77 German towns and cities and seven large-scale events by way of various routes until 6 September; highlights of the tour will be the Out4Fame music festival near Bottrop, Bochum Total, the Gamescom in Cologne, the IFA in Berlin and the Urbanathlon in Hamburg. The trucks are accompanied by two VW minibuses branded in mobilcom-debitel green – so-called “Bullis”, which in the meantime have acquired real cult status.

As in the previous years, the truck tour is designed to make digital lifestyle immediate and tangible in the localities with the help of the relevant products. Under this year’s motto “Macht was ihr wollt. Wir machen’s möglich” (“Do what you like. We make it possible.”), the latest devices and gadgets such as smartphones, wearables and apps can be tried out on the trucks, while the stage provides space for presentations and for competitions and games with instant prizes. As the product experience is in the foreground, anyone who is interested can also borrow sets containing the latest smartphones, headphones, fitness tools or selfie sticks and test them alone to their heart’s content.

Parallel to that, the promotion teams in their VW “Bullis” carry out guerilla marketing activities as well as further games – for example a sound recognition contest by app for which instant prizes again beckon. A highlight of these promotions is provided by drone-selfies – user-generated content from an extraordinary perspective that is furnished with hashtags and shown via mobilcom-debitel’s social channels. In addition, the promoters by the vehicles and in the immediate surroundings of adjacent mobilcom-debitel-shops hand out tickets for more prizes such as the Sony Xperia Z2; these must be redeemed directly on-site and thereby provide the shops with additional frequency.

### ... and the start of the “Summer Weeks”

At the end of the second quarter, mobilcom-debitel launched a clearance sale. The sale of hardware products is the primary concern of the “Summer Weeks”, which are scheduled to last until the end of August 2015. At the beginning of the last week in June, for example, the Samsung Galaxy Grand Prime was on sale at a preferential price of 149 euros. The slim smartphone has a 5-megapixel front camera with a wide-angle lens for high-resolution selfies or group self-portraits, an 8-megapixel camera plus LED

flash on the reverse side for video recordings or snapshots, a brilliant 5-inch qHD touchscreen display and a 1.2 GHz quad-core processor.

The “Summer Weeks” campaign with a gross volume of more than 15 million euros encompasses classical marketing activities such as TV commercials, comprehensive online communication and a variety of activities at the POS. Within the scope of the campaign, all of the shops and business partners of mobilcom-debitel who are involved receive, among other things, suitable practical aids such as offer-related leaflets, stand-up displays and shop-window stickers aimed primarily at new customers.

## Streamlining the sales structure

mobilcom-debitel is going to intensify its future cooperation with particularly efficient and loyal specialist trading partners – known as the LPP-plus partners. The objective of this is to remove the separation that has prevailed until now between these traders and the company’s own and/or directly controllable shops, with the result that both sales channels benefit equally from tried-and-tested best-practice solutions in the Group. They are now looked after by the same field sales force. In the form of the “partner agencies”, mobilcom-debitel is introducing a distribution level that is located between the just over 200 franchise shops and the LPP-plus partners.

# Key drivers of the business development

## Customer development

Table 2: Development of Mobile Communications customers

In million	30.6.2015	31.3.2015	31.12.2014	30.9.2014	30.6.2014
Mobile Communications customers/cards	12.38	12.54	12.73	12.83	12.99
Thereof Customer Ownership	9.11	9.04	8.92	8.90	8.84
Thereof Postpaid	6.16	6.10	6.01	5.97	5.90
Thereof No-frills	2.94	2.94	2.91	2.93	2.94
Thereof Prepaid	3.27	3.50	3.81	3.93	4.14

In the interests of its strategic commercial alignment as a digital lifestyle provider, freenet continues to focus on high-quality customer relationships when acquiring new customers and managing existing customers. Despite a market environment characterised by persistently fierce competition, the sustainable success of this strategy is manifesting itself in another increase in the non-financial key performance indicator customer ownership. Compared to 30 June 2014, this increased by 264 thousand participants or 3.0 per cent to its current level of 9.11 million. Compared to 31 March 2015, this constitutes an increase of around 68 thousand participants or 0.8 per cent.

The upward trend originates primarily from the increase in the postpaid customer portfolio, in which all of the mobile communications contracts with a term of 24 months that are marketed in the Group are consolidated. In the year-on-year comparison, this strategically significant customer group showed disproportionately robust growth of 261 thousand

participants or 4.4 per cent, taking its total to 6.16 million. Compared to 31 March 2015, this constitutes an increase of around 67 thousand participants or 1.1 per cent.

In the no-frills field, which encompasses all other of the mobile communications tariffs sold through Group’s discount brands, the customer portfolio increased slightly year-on-year by 3 thousand participants or 0.1 per cent. Compared to 31 March 2015, the customer portfolio has remained constant at 2.94 million participants.

The number of prepaid SIM cards in circulations that were to be marketed via the main brand mobilcom-debitel declined further to a final total of 3.27 million during the quarter under review. This further decrease is the result of inactive SIM cards being deactivated by the network operators (technical churn).

## Monthly average revenue per user (ARPU)

Table 3: Development of ARPU

In EUR	Q2/2015	Q1/2015	Q4/2014	Q3/2014	Q2/2014
Postpaid	21.4	21.1	21.1	21.7	21.5
No-frills	2.6	2.4	2.5	2.9	3.0
Prepaid	3.0	2.6	2.8	3.1	3.0

The average monthly revenue per customer in the postpaid customer field grew to 21.4 euros in the second quarter of 2015, 0.3 euros higher than in the previous quarter. In comparison with the previous year, postpaid ARPU remained virtually stable. The development of ARPU in recent quarters clearly demonstrates the positive effects that have emerged from the acquisition of high-value customers and consequently from this strategic business orientation in the mobile communications segment.

The average monthly revenue of 2.6 euros generated in the no-frills customer field is 0.2 euros above the previous quarter's level. No-frills ARPU is reported at 0.4 euros lower than in the second quarter of 2014.

Prepaid ARPU increased by 0.4 euros to 3.0 euros in the second quarter of 2015, thereby returning to its level of the corresponding quarter last year.

## Management system

### Financial and non-financial performance indicators

In its strategic alignment, the Executive Board of freenet AG orients itself towards the interests of all stakeholders. To implement this, a standardised management system is used at the highest Group level and in the freenet Group's individual companies, where it draws on financial and non-financial control parameters. These financial performance indicators are of particular relevance for the control function:

- Revenue,
- EBITDA,
- Free cash flow,
- Postpaid ARPU.

Furthermore, the Executive Board has defined this non-financial performance indicator:

- Customer Ownership.

Taking account of the continuous expansion of our digital lifestyle activities in line with our key corporate strategy, we constantly check the composition of all our internal control parameters and will adjust these whenever a relevant necessity is identified. Compared to the previous year, only clarifying adjustments were carried out, with the performance indicator "customer ownership" being reported

henceforth as a non-financial performance indicator. This did not lead to an adjustment in the management system.

### Other control parameters

As well as key financial and non-financial performance indicators, other control parameters are used in the Group's management. These other control parameters are of minor significance compared with the financial and non-financial performance indicators. The following other control parameters, in particular, are used as indicators for controlling purposes and as benchmarks for the further development of the freenet Group:

- Product brands, new products,
- Sales activities,
- Partnerships,
- Research and development,
- Employees.

As at the end of the second quarter 2015, the number of employees declined to 4,611 compared to 4,713 at the end of the first quarter 2015 and to 4,904 at the end of the second quarter 2014. The decline results mainly from structural measures to optimise business performance processes.

# Assets, earnings and financial position

## Revenue and earnings position

Table 4: The Group's key performance indicators

In EUR '000s	Q2/2015	Q2/2014	Change
Revenue	752,537	727,222	25,315
Gross profit	186,359	190,533	-4,174
Overhead costs	-97,271	-102,899	5,628
EBITDA	89,088	87,634	1,454
EBIT	70,332	71,192	-860
EBT	60,618	60,501	117
<b>Group result</b>	<b>54,910</b>	<b>57,074</b>	<b>-2,164</b>

**GROUP REVENUE** increased by 3.5 per cent in the second quarter of 2015 compared with the same period of the previous year. This was achieved first and foremost as a result of the significant growth in the customer ownership base (9.11 million customers as at the end of June 2015 compared with 8.84 million customers as at the end of June 2014) accompanied by almost constant postpaid ARPU (21.4 euros in Q2 2015 compared with 21.5 euros in Q2 2014), and as a consequence of higher revenue in the digital lifestyle field.

The **GROSS PROFIT MARGIN** declined by 1.4 percentage points compared with Q2 2014 and totalled 24.8 per cent. **GROSS PROFIT** was 4.2 million euros lower than in the same quarter last year at 186.4 million euros – mainly as a result of the higher activation numbers that caused the increase in subscriber acquisition costs.

**OVERHEAD EXPENSES** – which constitute 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 SHARE OF RESULTS OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD** fell by 5.6 million euros compared with Q2 2014, mainly as a result of increased efficiency in overhead expenses management.

The Group result from continued operations before interest, taxes, depreciation and amortisation (**EBITDA**) in the quarter under review 2015 came to 89.1 million euros, 1.5 million euros above the level in the comparative quarter last year.

**DEPRECIATION AND AMORTISATION** increased by 2.3 million euros to 18.8 million euros compared with the second quarter of 2014. As in the previous year, these were accounted for primarily by distribution rights, intangible assets in relation to purchase price allocations from corporate acquisitions, and internally generated software.

The **INTEREST RESULT** as the balance of interest income and interest expenses improved in the quarter under review by 1.0 million euros compared with the comparative quarter last year to -9.7 million euros. As in the previous year, net interest expenses largely comprised the corporate bond with a nominal value of 400.0 million euros.

As a result of the effects outlined above, the **GROUP'S PRE-TAX EARNINGS (EBT)** totalled 60.6 million euros, a slight increase of 0.1 million euros compared to the previous year.

**INCOME TAX** expenses totalling 5.7 million euros were reported for Q2 2015 (Q2 2014: 3.4 million euros). This figure resulted from the offsetting of current income tax expenses in the amount of 8.0 million euros (previous year: 7.2 million euros) against deferred tax income, primarily from the write-up of deferred tax assets from tax loss carryforwards totalling 2.3 million euros (previous year: 3.8 million euros).

The **GROUP PROFIT** reported for the second quarter of 2015 resulted solely from continuing operations, as in the corresponding quarter last year, and amounted to 54.9 million euros. This represents a slight fall of 2.2 million euros compared with the 57.1 million euros earned during the comparative quarter in 2014.

## Assets and financial position

Table 5: Selected Group balance sheet figures

### Assets

In EUR million	30.6.2015
Non-current assets	1,867.0
Current assets	597.6
<b>Total assets</b>	<b>2,464.7</b>
In EUR million	31.3.2015
Non-current assets	1,881.6
Current assets	630.5
<b>Total assets</b>	<b>2,512.1</b>

As at 30 June 2015, the **BALANCE SHEET TOTAL** amounted to 2,464.7 million euros, having decreased by 47.4 million euros (1.9 per cent) since 31 March 2015 (2,512.1 million euros).

On the **ASSET SIDE**, **NON-CURRENT ASSETS** decreased by 14.6 million euros. This was due largely to a decrease of 11.2 million euros in intangible assets to 385.7 million euros, which in turn resulted primarily from a combination of ongoing amortisation and a low level of new investment.

Within **CURRENT ASSETS**, there was a notable 26.3 million euros increase in trade accounts receivables to 373.3 million euros. This increase can be associated on the one hand with the lower factoring volume for mobile option receivables compared to 31 March 2015, in connection with which we refer to note 3 in the selected explanatory notes in accordance with IAS 34. On the other hand, the increase results partly from the well-known seasonal effect of the annual bonuses accruals vis-a-vis network operators and retailers.

The decrease of 48.9 million euros in cash and cash equivalents to 124.1 million euros is primarily the result of the dividend payout amounting to 192.0 million euros as well as the annual payment of interest on the corporate bond amounting to 28.5 million euros, while the cash flow generated from operating activities in the amount of 80.7 million euros and the taking up of the promissory note loan amounting to 99.4 million euros had a positive effect on cash and cash equivalents.

### Shareholders' equity and liabilities

In EUR million	30.6.2015
Shareholders' equity	1,217.3
Non-current and current liabilities	1,247.3
<b>Total equity and liabilities</b>	<b>2,464.7</b>
In EUR million	31.3.2015
Shareholders' equity	1,346.0
Non-current and current liabilities	1,166.1
<b>Total equity and liabilities</b>	<b>2,512.1</b>

On the **EQUITY AND LIABILITIES SIDE**, gross borrowing increased by 77.8 million euros to 624.4 million euros compared with 31 March 2015, a development which resulted largely from the taking up of a promissory note loan of 99.4 million euros in the quarter under review. On the other hand, the financial liabilities arising from the corporate bond were reduced primarily by the company's annual interest payment on that bond in April. The corporate bond, which is due in April 2016, will be reported under current liabilities as at the end of June 2015 in the amount of 404.6 million euros.

The decrease of 11.8 million euros to 53.5 million euros in pension provisions is connected with the increase of 0.9 percentage points in the actuarial interest rate since 31 March 2015.

Trade accounts payable increased by 18.7 million euros to 373.2 million euros – the main reason for this were higher liabilities to network operators as at the reporting date.

Due to payments for previous years, current income tax liabilities decreased by 9.8 million euros.

The **EQUITY RATIO** declined from 53.6 per cent as at the end of March 2015 to 49.4 per cent as at the end of June 2015, mainly due to the dividend payout in the second quarter. This was also the main reason for the increase in **NET DEBT**, which as at 30 June 2015 totalled 500.3 million euros (31 March 2015: 373.6 million euros).

## Cash flow

Table 6: The Group's key cash flow indicators

In EUR million	Q2/2015	Q2/2014	Change
Cash flow from operating activities	80.7	78.8	1.8
Cash flow from investing activities	-6.5	-4.3	-2.2
Cash flow from financing activities	-123.1	-215.9	92.8
<b>Change in cash and cash equivalents</b>	<b>-48.9</b>	<b>-141.4</b>	<b>92.5</b>
<b>Free cash flow<sup>1</sup></b>	<b>74.1</b>	<b>74.2</b>	<b>-0.1</b>

In the second quarter of 2015, **CASH FLOW FROM OPERATING ACTIVITIES** is reported as 80.7 million euros, which equates to a year-on-year increase of 1.8 million euros. As well as a slight increase in EBITDA, the decrease of 10.0 million euros in net working capital had a positive impact on cash flow from operating activities, while in the comparative quarter last year net working capital increased by 2.7 million euros – which explains the overall effect of 12.6 million euros. A contrary effect arises from the fact that tax payments have increased compared to Q2 2014 by 12.3 million euros to 18.3 million euros.

**CASH FLOW FROM INVESTING ACTIVITIES** amounted to -6.5 million euros in Q2 2015, compared to -4.3 million euros in the second quarter of 2014; it consisted mainly of investments in internally developed software and office equipment.

In the quarter under review, **CASH FLOW FROM FINANCING ACTIVITIES** totalled -123.1 million euros compared with -215.9 million euros in the same period last year. The dividend payout increased by 6.4 million euros from 185.6 million euros in the second quarter of 2014 to 192.0 million euros in the reporting period. On the other hand, the Group received 99.4 million euros in the second quarter of 2015 from the taking up of a promissory note loan.

As a consequence of the effects described above, **FREE CASH FLOW** totalling 74.1 million euros was generated in the second quarter of 2015 – an amount similar to that of the comparative period last year (74.2 million euros).

<sup>1</sup> Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.

## Financial Management

Strategic corporate management is underpinned by focused financial management, with the capital structure and liquidity development being performance indicators. The strategy is implemented operationally by means of a comprehensive treasury management system based on established controlling structures.

The capital structure is managed primarily via financial KPIs comprising debt factor, the interest cover and the equity ratio. Debt factor 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 cover is the ratio of EBITDA to the interest balance.

In the following overview, the financial management KPIs are depicted as currently constituted and compared with the corresponding period last year. For period-related variables such as EBITDA and net interest result, the last 12 months (i.e. July 2014 to June 2015 and, for the previous year, July 2013 to June 2014) were taken into account in each case.

Table 7: Key figures of financial management

	Q2/2014	Target 2014/15	Q2/2015	Target 2015/16
Debt factor	1.5	1.0 – 2.5	1.4	1.0 – 2.5
Interest Cover	8.4	> 5	9.3	> 5
Equity ratio (in per cent)	47.3	> 50	49.4	> 50

At 1.4, debt factor remains in the lower portion of the strategic range of 1.0 to 2.5. Borrowings are dominated by the corporate bond with a nominal value of 400.0 million euros due in April 2016.

At 9.3, interest cover is slightly higher than in Q2 2014 (8.4) as a result of the twelve month comparison increase in EBITDA, accompanied by a slight decrease in the interest burden, and therefore remains well above the target.

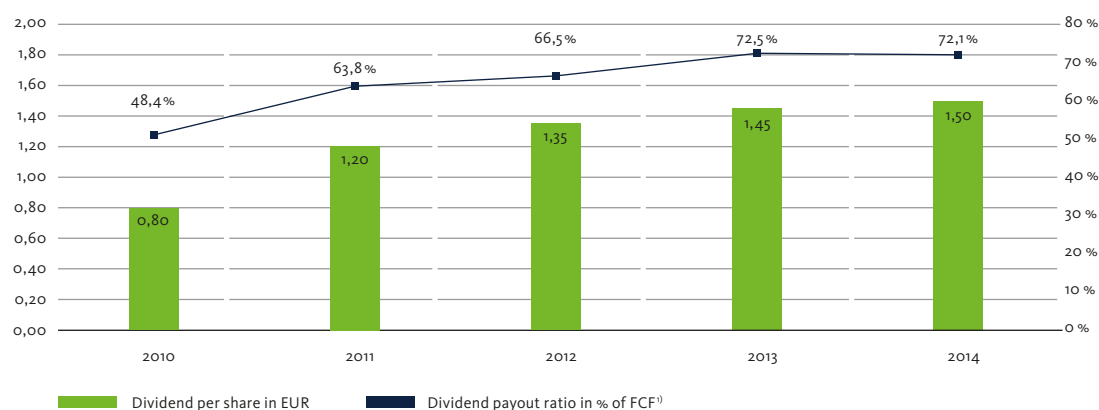
The equity ratio as at 30 June 2015 is just slightly below the target level of 50 per cent. The increase compared with the previous year's cut-off date stemmed primarily from the Group's positive results situation. It must be noted that the equity ratio generally reaches its lowest level in the quarterly comparison after the dividend payout is made in the second quarter, with the result that in the subsequent quarters, we work on the assumption that this indicator will increase until the next dividend payout.

## Dividend policy

freenet AG is continuing successfully with the current dividend policy that was agreed with the Supervisory Board at the beginning of the financial year 2013 and is distributing 72.1 per cent of the free cash flow reported for the financial year 2014. The dividend payout is therefore again within the scope of the 50 to 75 per cent ratio of the company's free cash inflow that is provided for. The dividend amounting to 1.50 euros per share entitled to dividends (previous year: 1.45 euros) was paid out on 22 May 2015.

In the future, too, freenet AG would like to let its shareholders share in the company's success in accordance with a sustainable development of business and with effective continuity of dividends. With this in mind, the financial strategy has been structured in such a way that on the basis of strong cash flow, it provides shareholders with an attractive dividend and outside creditors with investment conditions of lasting solidity – as well as financing of the company's strategic goals.

Figure 3: Key figures of dividend policy



## SIGNIFICANT EVENTS AFTER THE REPORTING DATE

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

<sup>1</sup> Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.

# OPPORTUNITIES AND RISK REPORT

## Opportunities

In order to manage and monitor its ongoing business activities, the Executive Board has established an extensive monthly reporting system that covers both the financial and non-financial performance indicators in the Group. In regular meetings with all of the relevant business segments and units, the Executive Board informs itself in a timely manner about operational developments. At these meetings, not only current themes, but also future internal and external developments, measures and potential opportunities are discussed. The identification, analysis and communication of the opportunities, as well as their exploitation, is a commercial (management) task that is performed by the Executive Board, the responsible managers in the individual business segments and units, and the relevant decision-makers in a process of permanent communication.

In 2015, freenet AG and its subsidiaries continued systematically with their strategy as a digital lifestyle provider by focusing on mobile voice and data services and on the marketing of digital lifestyle products. In the marketing of smartphones and flat-rate tariffs, the focus of commercial activity was mainly on customer quality and the stabilisation of the contract customer base. Over and above this, a great deal of emphasis continued to be put on the digital lifestyle business. In addition to the integration of freenet digital into the freenet Group, the marketing of SmartHome products and digital lifestyle options, such as md Cloud, mload Plus or Norton Mobile Security, was strengthened. As the largest network-independent mobile service provider with focus on digital lifestyle, the freenet Group is going to continue along this successful path and make use of opportunities against the backdrop of a strict orientation towards stakeholder value.

freenet AG sees external opportunities particularly in the following market trends:

- Increasing readiness of customers to pay for mobile communications terminals
- Trend towards mobile internet and data usage via smartphones and tablet PCs
- Trend towards more expensive terminals (smartphones) and concomitant increased use, and/or associated selling of flat-rate products
- Trend towards the interconnection of products ("Internet of Things", "integrated product landscapes")

Due to the continuing trend towards paying for mobile communications terminals and the expansion of mobile internet and data usage, the increasing prevalence of smartphones, and the interconnection of products – this could have a positive impact on the anticipated development of revenue, EBITDA and the free cash flow. Furthermore, the effects of the trend towards mobile internet and data usage and the associated trend towards expensive flat-rate products could lead to a more positive increase in customer ownership than expected, although overall, the latter tends to be regarded as rather improbable.

Internal opportunities for freenet AG could emerge in particular from:

- the assessment and implementation of strategic options in the field of mobile communications and digital lifestyle,
- the continuous intensification of business relationships with suppliers for the stabilisation of existing and the development of new condition models,
- the consolidation and further development of IT systems to achieve a further improvement in customer satisfaction,

- the enhancement of our selling power through the expansion of existing sales channels (multichannel approach) and the use of existing and new sales collaborations and partnerships,
- a further improvement in shop performance, also by marketing additional products,
- the implementation and marketing of new products in the digital lifestyle field,
- the intensified establishment of the brands klarmobil, freenetmobile, callmobile and debitel light in the steadily growing discount market, with the aim of participating even more actively in this growth market,
- and the continuous improvement of processes and quality for a lasting reduction in cost structures.

The internal opportunities outlined above, in particular, result from freenet AG's operational activities as a still network-independent mobile communications service provider and from its strategic commercial orientation towards becoming a genuine digital lifestyle provider.

The assessment and implementation of strategic options in both, the mobile communications and digital lifestyle areas, the implementation and marketing of new, innovative products and the enhancement of our own selling power could have a positive effect on the anticipated revenue, EBITDA and free cash flow and hence exceed our expectations. A greater improvement in our selling power and customer satisfaction could, as it were, lead to a more positive trend in customer ownership than had been forecast. The likelihood of this happening, however, is regarded as probable rather low.

In addition to the established main brand mobilcom-debitel, the discount brands klarmobil, freenetmobile, callmobile and debitel light in particular, as well as others, could establish themselves more firmly on the market, possibly leading to a higher rate of market penetration. If the brands perform stronger than expected on the steadily growing discount market, this could lead to higher revenue and to improved results and higher free cash flow than had been forecast.

The strategic collaboration of mobile communications services and the digital lifestyle business was accelerated further in the first half of 2015. This Group-level orientation of business activities will be pursued consistently in the future as well, as the trend towards the continuing digitalisation and interconnection of products and services will carry on into

the future ("Internet of Things", "integrated product landscapes"). Against this backdrop, growth opportunities, synergy potential and the chance to establish new strategic partnerships are still being discerned in relation to the rendering of services in the digital lifestyle field, especially Home Automation & Security, Data Security and Entertainment. In the future, this could lead to more positive contributions to revenue, EBITDA and free cash flow than had hitherto been expected. The significance of the strategic transformation from a mobile communications specialist pure and simple to a digital lifestyle provider will increase against this background.

If the measures and efficiency improvements for a lasting reduction in cost structures that are resulting from the continuous improvement of processes and quality turn out to be more positive than expected, this might have a more positive impact in the years to come on the level of material overheads and personnel expenses, and hence on EBITDA and free cash flow, than has so far been budgeted for.

## Overall evaluation of the opportunities situation

Thanks to the regular monitoring of the internal and external opportunities by the monthly reporting system and to the communication in the scheduled meetings, the management is in a position to perform the corporate (management) task that is incumbent upon it, and therefore to make a positive contribution to the operating and strategic safeguarding of the company, by taking advantage of opportunities.

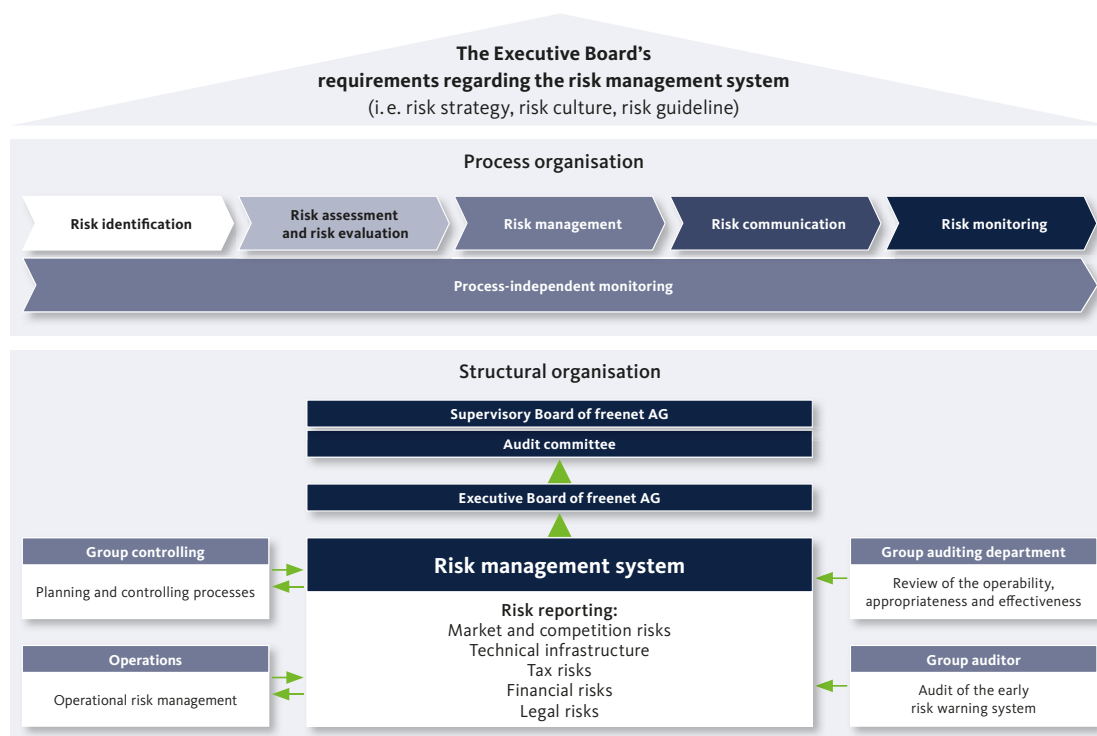
In the first half of 2015, both external and internal opportunities were identified that had basically remained the same since the previous year. The significance of the opportunities shown and the resulting positive effects on the forecast financial and non-financial performance indicators, and therefore on the development of the freenet Group as a whole, are collectively rated as low. It is therefore expected of the company's management, that the positive forecast for the 2015 financial year is not decisively exceeded.

## Risk management system

An effective risk management system is essential for safeguarding the continued existence of freenet AG in the long term. freenet AG's risk management system is applied solely to risks, not opportunities. It is designed to ensure that any risks to the company's future development are identified at an early stage by all of our managers and communicated in a systematic, understandable manner to the responsible decision-makers in the company. The timely communication of risks to the responsible decision-makers is designed to ensure that appropriate steps are taken to deal with the identified risks, thereby averting damage to our company, our employees and our customers.

To this end, the freenet AG Executive Board has set up an efficient early warning, monitoring and management system within the Group that also covers the subsidiaries. As part of the statutory audit assignment for the annual and consolidated financial statements, this system is examined by the auditor for its suitability for identifying at an early stage any developments that endanger the company's continued existence. The early warning system for risks conforms to statutory requirements. The systems and methods of the risk management system are an integral part of the overall organisation of freenet AG's structure and processes.

Figure 4: Process and structural organisation of freenet AG's risk management system

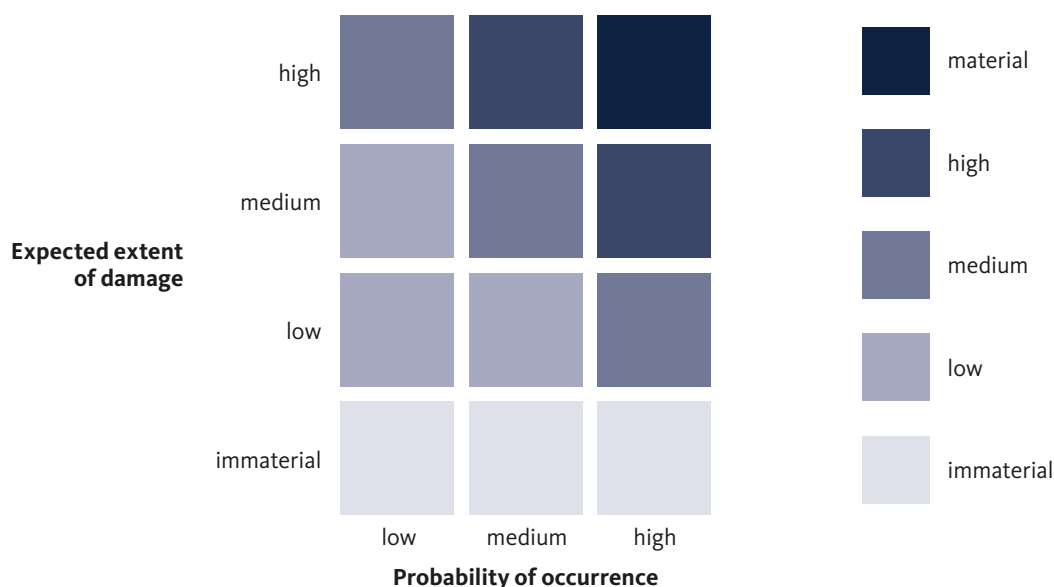


At least every six months, freenet AG's individual departments and subsidiaries identify or update existing and new risks that exceed a defined materiality threshold in formalised risk reports (risk identification). The risk reports describe the specific risks and investigate the probability of their occurrence, as well as their implications for the company, on the basis of standardised criteria (risk analysis and assessment).

The risks within the freenet Group are assessed in accordance with the net principle, by which the risk is observed in conjunction with the reducing influence of any countermeasures that were implemented. The criteria "probability of occurrence" and "anticipated

extent of damage" are used to assess the risks. In the process, risks with an up to low (<50 per cent), medium (50-75 per cent), and high (>75 per cent) probability of occurrence are systematically categorised and differentiated from each other. With regard to the extent of the anticipated damage arising from a risk, distinctions are drawn between immaterial (<1.0 million euros), low (1.0 to 2.5 million euros), medium (2.5 to 10.0 million euros) and high (>10.0 million euros) anticipated damage. The combination of the probability of occurrence and the extent of the anticipated damage results in the classification of the risks' significance as "immaterial", "low", "medium", "high" and "material". These risk categories are shown in the following illustration.

Figure 5: Risk matrix at freenet AG



Based on the results of the risk analysis and assessment that were communicated, various alternatives for action are carried out as part of the company's general management, in order to react appropriately to the identified risks (risk control and risk monitoring). The individual risk reports are consolidated into an overall Group risk report and reported to the Executive Board. Between the standard reporting times, too, risks are recorded, analysed, evaluated and controlled immediately after their identification and, if they are of sufficient magnitude, reported immediately to the Executive Board and the Supervisory Board (risk communication).

In its guidelines, which are continuously being extended and improved, the Executive Board has

defined the significant risk categories for the Group, elaborated a strategy for dealing with these risk categories, and documented the allocation of tasks and areas of responsibility within the risk management system in the Group. These guidelines are familiar to all employees and enhance their risk awareness in a targeted fashion (part of risk communication).

The methods and systems of risk management are continuously being examined, enhanced and adjusted. In the process, freenet AG's internal auditing department plays a supporting role, with the regular audits of the risk reports being the main focus. The Supervisory Board, in particular freenet AG's audit committee, monitors the effectiveness of the risk management system from the standpoint of

German stock corporation law. The Supervisory Board is integrated by means of regular reporting and, if necessary, an up-to-date report by the Executive Board (process-independent risk monitoring).

In addition to the risk management system, the Executive Board has established an extensive monthly reporting system that covers both the financial and

non-financial performance indicators in the Group for the purpose of managing and monitoring its ongoing business activities. In regular meetings with all of the relevant business segments and units, the Executive Board informs itself in a timely manner about operational developments. Current topics and future measures are also discussed at these scheduled meetings (part of risk communication).

## Risks

This section presents the risks that could influence freenet AG's net assets, financial position or results of operations. The risks are categorised as market risks, IT risks, tax risks, financial risks and legal risks. The individual risks are specified in accordance with their ranking in the respective categories.

The mobile communications segment is by far the most significant segment in the freenet Group in terms of both revenue and earnings. Accordingly, the major market risks originate from this segment. The estimation of risk for the other categories basically applies for all segments. Material differences between the segments in relation to the estimation of risk are specified as such separately.

### Market risks

#### Highly competitive markets

The telecommunications markets continue to be characterised by intense competition. This could lead to shortfalls in revenue, loss of market shares and pressure on margins in the respective business segments and/or could make it more difficult to gain market shares.

Vigorous competition could also lead to higher costs for new customer acquisitions, accompanied by falling revenue and a great readiness of customers to switch. As a result, the forecast revenue-based key performance indicators, earnings indicators and free cash flow could develop in a slightly more negative fashion than had previously been expected. In order to prevail against this competition, freenet AG must continue to design its products attractively, market them successfully and carry out customer retention activities. In addition, freenet AG must respond to

the development of the competition's business and anticipate new customer requirements. This involves a medium risk for the achievement of the company's goals.

#### Network operators

A reduction in network operator premiums could lead to a higher capital commitment and marketing risk. Margins in the mobile communications service provider segment, too, are determined to a large extent by the network operators and their structuring of the tariff models. This fact constitutes a medium risk for freenet AG. freenet AG is trying to minimise this risk by negotiating flexible purchasing terms and by continuously monitoring goal attainment for premium payments and renegotiating as and when necessary.

In its post-2016 reallocation of the mobile communications frequencies used until now, the German Federal Network Agency could ensure the discontinuation of freedom to discriminate between mobile network operators in the approval of service providers. There is a medium risk that the discontinuation of the obligation regarding equal treatment of service providers might lead to an annual cancellation of the service provider contracts by the mobile communications network operators insofar as no long-term contracts have yet been concluded with the network operator in question. Without a service provider contract, marketing mobile communications products as a service provider for this mobile communications network operator would no longer be possible. freenet AG counters this risk by concluding long-term service provider contracts with the respective mobile communications network operators and by participating actively in the ongoing frequency allocation procedures with the objective of

benefiting from the obligation regarding equal treatment of service providers.

The network operators are increasingly marketing their products themselves and forcing the mobile communications service providers out of the market ("shift to direct"). Also, due to their business structure as regards sales, the network operators are sometimes able to offer better rates than the mobile communications service providers. This, in turn, could lead to a loss of distribution channels and customers.

As a counter-measure, freenet AG concludes long-term contracts with key distribution partners and offers them attractive incentive systems (e.g. airtime models). Acquiring additional franchise partners is another possible way of gaining and/or expanding distribution channels, and therefore of keeping the risk low.

The recent merger of the two network operators o2 and E-Plus can lead to a reduction in competition between the remaining mobile communications network operators (MNOs) and a consequent weakening of the service-provider model. This could manifest itself in, among other things, a decrease in the margin. There is also the danger of coordinated behaviour between the three remaining MNOs at the expense of all service providers. The network capacity ceded by Telefónica S.A. to another market participant without a network is likely to be marketed fairly aggressively. On the credit side, existing contracts were extended until 2025, thus providing a certain safeguarding effect for the freenet Group. In the event of market-wide curtailments in conditions, the sales partners' conditions will be adjusted.

The network operator risks, either individually or in combination with one another, could affect the forecast earnings indicators and free cash flow more negatively than has so far been anticipated.

### Acquisition of companies

Quite recently, freenet AG has made corporate acquisitions. In connection with this, there is a medium risk that the operating activities of these new investments will not develop as expected and that consequently, growth will remain below expectations and therefore below the forecast results and free cash flows. In the management report, the company's development is monitored regularly with the

objective of initiating countermeasures immediately whenever there is a deviation from the plan.

### Termination charges

If the Federal Network Agency lowers the "termination charges" any further, this could reduce revenue per customer on the market more sharply than expected. Based on past reductions of these charges, however, this risk is low. freenet AG monitors the regulatory environment on a permanent basis.

### Laws and regulation

Legislative changes, interventions by regulators or even landmark judicial decisions could have repercussions for the tariff structure and for the possibility of claiming receivables from customers. This could have a negative impact on the forecast revenue and on the amount of free cash flows. The effects of individual decisions or legislative changes cannot be significant in themselves, with the result that the associated risk can be classified as low overall. freenet AG counters this risk by regularly monitoring regulatory developments and following the outcomes of legal judgements.

### IT risks

The operational availability and efficiency of the technical infrastructure, including the company's computing centres and billing systems are of major importance for the company's successful operation and continued existence. There is a low risk that network failures or service problems caused by system malfunctions or breakdowns might lead to a loss of customers. Apart from the decline in revenue that results from a loss of customers, a system breakdown means that freenet AG cannot provide any services and is therefore unable to generate any revenue or make any positive contribution to the anticipated earnings or free cash flow. Technical early warning systems are used to prevent such breakdown and failure risks. Continuous maintenance and updates keep the security precautions up to date at all times. To prevent the loss of sensitive data, a backup is generated every 24 hours and is relocated when saved.

## Tax risks

### Loss carryforwards

If, within five years, 25 per cent or more of the shares or voting rights in the company came to be held directly or indirectly by a single shareholder or by several shareholders with parallel interests (harmful acquisition of shares), any negative income (corporation and trade tax loss carryforwards) of the company not settled or deducted by the time of the harmful acquisition could be lost in whole or in part, in accordance with section 8c of the German Corporation Tax Act (KStG). Shares are considered to be united in a single shareholder if they are transferred to a buyer, to persons close to the buyer, or to a group of buyers with parallel interests.

The company has no influence on the occurrence of this risk, as the (perhaps partial) elimination of any negative income (corporation and trade tax loss carryforwards) not settled or deducted by the time of the harmful acquisition is brought about by measures and transactions at shareholder level. Against this backdrop, it cannot be ruled out that as a result of a sale or additional purchase of shares by the company's shareholders, 25 per cent or more of the shares could be united under a single shareholder. The same medium risk exists if 25 per cent or more of the shares or voting rights are first united through other measures under a single shareholder or several shareholders with parallel interests. The legal consequences described above apply correspondingly.

### VAT risk on "remuneration of a third party"

In a letter from the Federal Ministry of Finance dated 4 December 2014 and a simultaneous addendum to the VAT application decree, the fiscal authority issued the following rule: If the intermediary in a mobile communications contract supplies the customer in the intermediary's own name with a mobile communications device or some other electronic article, and if the mobile communications company grants the intermediary a commission dependent on the supply of the mobile communications device or other electronic articles on the basis of a contractual agreement, or part of a commission dependent on the above, such a commission or part of a commission shall not be regarded as remuneration for an intermediary brokering role vis-a-vis the mobile communications company, but rather as remuneration from

a third party as defined by section 10 (1) sentence 3 of the German VAT Act (UStG) for the supply of the mobile communications device or the other electronic article. This applies irrespective of the amount of any additional payment to be made by the customer. The application of this rule as from 1 January 2015 will not involve any reportable risks for the company. As for the revenue generated before 1 January 2015, the company regards it as very likely indeed that the rule specified above will have no significant negative effects for freenet AG under VAT law. However, a low risk remains for the revenue generated before 1 January 2015 for assessment periods that have not been audited conclusively, as a result of which freenet AG would have to refund some of its input tax to the tax authorities.

### Other tax risks

In the case of assessment periods that have not been audited conclusively, there might in principle be changes that result in subsequent tax payments or changes in the loss carryforwards if the tax authorities, within the framework of external tax audits, come to divergent interpretations of tax regulations or divergent assessments of the respective underlying circumstances. The same applies for types of official charges which in part have yet to be audited, in particular because they are usually not subject to external tax audits.

The risk of divergent interpretations and assessments of circumstances applies in particular to corporate restructuring processes under company law. It cannot therefore be ruled out entirely that as a result of contributions of assets, other conversion procedures, new capital injections and changes in the shareholding structure, the corporate income and trade tax carryforwards declared by the corporations in the freenet Group and hitherto ascertained separately by the tax authorities might be reduced or discontinued. All in all, this is regarded as a low risk.

## Financial risks

The objective of financial risk management is to limit risks by means of the company's ongoing operating and financing activities. In this area the company is essentially subject to the risks described below in respect of its financial instruments, financial assets and financial liabilities.

### Bad debt losses

A risk of bad debt losses is the unexpected loss of funds or revenue as a result of the partial or complete default on receivables owed. There is a medium default risk with regard to the trade receivables reported in the balance sheet and other assets.

The assessment of the risk of default on receivables in the freenet Group is focused primarily on trade receivables owed by end customers. Here, particular attention is devoted to the credit standing of customers and sales partners in our Group's large-scale business activities. For important contract customer segments, credit assessments are carried out for the customers before the contract is signed. In the ongoing contractual relationship, the implementation of a swift and regular reminder and debt collection process involving a number of debt collection companies in the benchmarking area, together with long-term debt collection monitoring and high spender monitoring, are essential measures for the minimisation of the default risk in our Group. An ongoing reminder and debt collection process is likewise used for receivables owed by retailers and franchise partners. In a similar vein, credit limits are established and monitored. Commercial credit insurance, moreover, safeguards us against significant default risks vis-a-vis major customers (traders and distributors in the mobile communications segment). The risks associated with uninsured traders and distributors are restricted by an internal limit system – generally, customers with a poor credit standing must pay cash in advance or the commercial relationship will not come into being. Finally, the appropriate formation of valuation allowances takes the risks of default on receivables into account.

Between the Group and a bank there is a factoring agreement on the sale of receivables from mobile options. The relevant risks, such as the risk of default in particular, and opportunities are transferred to the bank. Although of minor significance, the late

payment risk shall be completely retained by the freenet Group.

### Impairment of assets

In freenet AG's consolidated balance sheet, both goodwill and intangible assets such as customer relationships and trademark rights are reported in their material amounts. There is a medium risk that impairment tests in the subsequent periods might lead to substantial impairment of value.

freenet AG's assets are checked both regularly and otherwise as and when appropriate if there are potential indicators of lasting impairment. Such an indicator could be, for example, changes in the economic or regulatory environment. A diminution in value that might result from an impairment test has no effect on the cash flows and therefore remains without impact on the financial performance indicators.

### Cash

The Group's general liquidity risk, which is classified as a medium risk, resides in the possibility that the company might potentially be unable to meet its financial obligations, for example the repayment of financial debts, the payment of purchasing obligations and the obligations from lease agreements.

Extensive financial planning instruments are used throughout the Group to monitor and control liquidity. The Group also controls its liquidity risk by holding appropriate bank balances and credit lines at banks, and by monitoring continuously the forecast and actual cash flows. The need for and investment of liquid funds in the Group is controlled centrally on the basis of several existing internal Group cash pooling agreements in which the significant companies in the freenet Group participate.

The group uses a variety of financing instruments to reduce the general liquidity risk. The liabilities to banks shown under borrowings result from a fixed-interest corporate bond (reported as at 30 June 2015: 404.6 million euros) which was issued as part of the refinancing in April 2011, and from the promissory note bond signed in December 2012 and May 2015 (reported as at 30 June 2015 with a balance totalling 219.5 million euros – comprising 79.8 million euros in three separate variable-interest tranches and 139.7

million euros in four separate fixed-interest tranches). The Group also has a revolving credit line amounting to 300.0 million euros that had not been drawn on by the end of the half-year.

The credit agreements that were concluded bring about another low liquidity risk because the restrictions agreed therein (undertakings and covenants) restrict freenet AG's financial and operational leeway. The agreements impose restrictions on the company, for example regarding changes in the Group's business operations, the implementation of internal Group measures to change its structure under company law, the provision of collateral, and any acquisitions or disposals of assets, especially shareholdings. There are stringent restrictions on the company raising loans outside of these credit agreements, e.g. in order to finance future strategic investments. In view of the aforementioned liquidity reserves, however, the covenants represent only a minor restriction for freenet AG.

### Capital risk management

The Group's capital risk management is related to the shareholders' equity as shown in the consolidated balance sheet and to ratios derived therefrom. The primary objective of the Group's capital risk management is to guarantee compliance with the financial covenants contained within the credit agreements. The main financial covenants are defined in relation to the Group's equity ratio and the debt factor (ratio of Group net debt to Group EBITDA). If the macro-economic conditions were to deteriorate, this might under certain circumstances lead to a situation where the freenet Group can no longer deliver on its agreements with the financing banks. There is a medium risk of the financing banks being entitled to declare

the loans due and payable. freenet AG minimises the risk by monitoring the financial ratios continuously.

### Interest rate risk

As regards variable-interest financial debt, our company is subject to interest rate risks related largely to the EURIBOR. The company counters these minor risks by having a mix of fixed- and variable-interest financial debt. Although the interest rate risks are not explicitly secured, the cash holdings, which are invested mainly at variable interest rates based on EONIA or EURIBOR, serve as a natural hedge and accordingly mitigate interest rate risks arising from the variable-interest financial debts.

Funds are usually invested as call money or time deposits at commercial banks with high credit ratings.

The company continuously monitors the various opportunities available for investing the liquid assets on the basis of the day-to-day liquidity planning at its disposal as well as the various options available for scheduling the debt. Changes in market interest rates could have an impact on the net interest result from originally variable-interest financial instruments and are included in the calculation process for results-related sensitivities.

### Other financial risks

The company feels that other financial risks, such as those relating to foreign currency or changes in exchange rates, can be classified as immaterial and need not be mentioned separately in this interim Group management report.

## Legal risks

### Mediation proceedings

Former shareholders of mobilcom AG and freenet.de AG have applied for a judicial review, in accordance with section 15 of the German Reorganisation Act (UmwG), of the share exchange ratio applied in the 2007 merger of mobilcom AG and freenet.de AG into what is now freenet AG. In a recognised inadequacy of the exchange rate, this could have resulted in cash payments to all affected shareholders, even if they were not among the plaintiffs in the compensation proceedings.

The company is assuming, however, that the share exchange ratio was appropriate and that there will be no cash adjustments, as the exchange ratio was determined with care and was audited and confirmed by the court-appointed merger auditors.

The company regards its assessment as validated by Kiel District Court ("Landgericht Kiel"), which rejected the lawsuits filed by both groups of shareholders. Some applicants have appealed against this decision at Schleswig-Holstein Higher Regional Court ("OLG Schleswig"); however by resolution of 29 January 2015 the objections of the applicants were dismissed.

### Settlement agreement with France Telecom

mobilcom AG, as the company's legal predecessor, and a number of other former mobilcom group

companies signed a settlement agreement with France Telecom and associated companies in November 2002. The validity of this settlement agreement is being challenged by a number of individual shareholders.

The company regards the settlement in question as valid and has not received any indication that France Telecom does not feel bound by it. Should the opinion of these shareholders be legally upheld, however, there would be a medium risk for freenet AG that France Telecom will claim from the company the sum of 7.1 billion euros, which it had waived as part of the settlement agreement, and will contest the grounds and amounts of any counterclaims the company might put forward.

### Capital increase through contribution in kind

Some shareholders take the view that the capital increase through contribution in kind by mobilcom AG, the company's legal predecessor, in November 2000 was flawed and/or that the contribution in kind rendered was not of any value, with the consequence that on the one hand the company would still be entitled to compensation claims against France Telecom running into billions and, furthermore, that the shares issued to France Telecom would have had no voting rights. freenet AG regards these circumstances as a medium risk and is assuming that the capital increase through contribution in kind was carried out in a valid manner.

## Overall assessment of the risk position

The risks for freenet AG that are outlined above are summarised in the overview below.

Risks	Probability of occurrence	Expected extent of damage	Risk	Tendency
<b>Market risks</b>				
Highly competitive markets	medium	medium	medium	►
Network operator				
Bonuses and margins	medium	medium	medium	►
Service provider obligation	low	high	medium	►
Shift to direct	medium	low	low	►
O <sub>2</sub> and E-Plus	low	immaterial	immaterial	▲
Acquisition of companies	medium	medium	medium	►
Termination charges	low	medium	low	►
Laws and regulation	low	low	low	►
<b>IT risks</b>				
	low	medium	low	►
<b>Tax risks</b>				
Loss carryforwards	low	high	medium	►
VAT risk on "remuneration of a third party"	low	medium	low	▲
Other tax risks	low	medium	low	►
<b>Financial risks</b>				
Bad debt losses	high	low	medium	►
Impairment of the assets	low	high	medium	►
Liquidity				
General liquidity risk	low	high	medium	►
Constraint of financial leeway	low	medium	low	►
Capital risk management	low	high	medium	►
Interest rate risk	medium	low	low	►
Other financial risks	low	immaterial	immaterial	►
<b>Legal risks</b>				
Settlement agreement with France Telecom	low	high	medium	►
Capital increase by way of contribution in kind	low	high	medium	►

Thanks to the risk management process that has been implemented and the monthly reporting system, the Executive Board has a good overall view of the risk situation presented here. Individual risks have changed only slightly compared with the previous year as far as their probability of occurrence or their impact is concerned. All in all, it can be assumed that the risks have no impact on the continued existence of the freenet Group. The Executive Board is convinced that if the risk management approach used to date is continued with, freenet AG will again be in a position to identify relevant risks in a timely manner and initiate suitable countermeasures to tackle them in the coming financial year.

Market risks, IT risks and tax risks, financial risks as well as legal risks were identified at 30 June 2015. Their potential effects on the general future development of the freenet Group and its financial and non-financial performance indicators are classified by the management in overall terms as low. The management is therefore expecting that the positive trend forecast will not be compromised significantly short of as a result of the aforementioned risks.

## Key features of the internal control and risk management system in relation to the Group accounting process (section 315 (2) no. 5 HGB)

### Definition and elements of the freenet Group's internal control system

The freenet Group's internal control system follows the internationally recognised COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework. It comprises all processes and measures to secure effective, economical and proper accounting, in particular to ensure compliance with the pertinent legal provisions.

freenet AG's Executive Board has instructed all areas of the Group to manage their monitoring and control processes in accordance with standardised principles.

The departments analyse their processes continuously, also with regard to new legal requirements and other standards to be observed, develop internal standards based on the above and train the responsible employees.

The key elements of the freenet Group's internal control system are based on automated IT control processes with alarm thresholds on the one hand, and on manual process controls to check the plausibility of the automatically aggregated results on the other. The risk management system is linked to the internal control system and covers not only operational risk management, but also the systematic early identification, control and monitoring of risks throughout the Group. For further explanatory notes about the risk management system, please refer to the "Risk management system" section of the risk report.

### Structure of the Group accounting process

The accounting processes for the individual financial statements of freenet AG's subsidiaries are basically recorded by local accounting systems manufactured by SAP. freenet AG uses SAP's "EC-CS" module as its consolidation system at the uppermost Group level. For the preparation of the consolidated balance sheet, the consolidated income statement, the consolidated statement of cash flows, and the execution of the capital, debt, and expenses and income consolidation, etc., the data reported by the subsidiaries is entered into the consolidation

system in a variety of ways—mostly automatically using the SAP module "FI", and in isolated cases also manually by entering the reported data. The individual disclosures in the Group management report and the notes to the consolidated financial statements are each generated from standardised reporting packages and institutionalised coordination processes as part of the internal control system; these processes are handled using MS Excel among others. The aforementioned information for the notes, too, is consolidated using MS Excel.

freenet AG's Group internal auditing department reviews the accuracy and access authorisations of the SAP EC-CS consolidation system at regular intervals. freenet AG's Group auditor regularly inspects the interface between SAP-FI and the consolidation system SAP EC-CS, as well as the reconciliation from the subsidiaries' standardised reporting packages and freenet AG's consolidated financial statements.

### Key regulatory and controlling activities to ensure proper and reliable Group accounting

The internal control activities aimed at ensuring proper and reliable Group accounting make sure that business transactions are recorded fully, in good time and in accordance with the statutory provisions and the articles of association.

The regular elements in the Group's internal control system are aimed at achieving the extensive automation of the formation and cross-checking of all relevant data, from raw accounting data and customer invoicing to valuation allowances, accruals, depreciation and amortisation. These automated controls are supplemented by manual plausibility checks of all relevant interim results and random checks of the underlying detailed data. This ensures proper inventory management and the accurate recognition, measurement and disclosure of assets and liabilities in the consolidated financial statements. In addition to this, there are extraordinary control elements including process-independent reviews by freenet AG's internal Group audit department on behalf of the Supervisory Board, in particular under the supervision of freenet AG's Supervisory Board audit committee.

The Group internal audit department's annual review of the internal control system in 2014 showed that

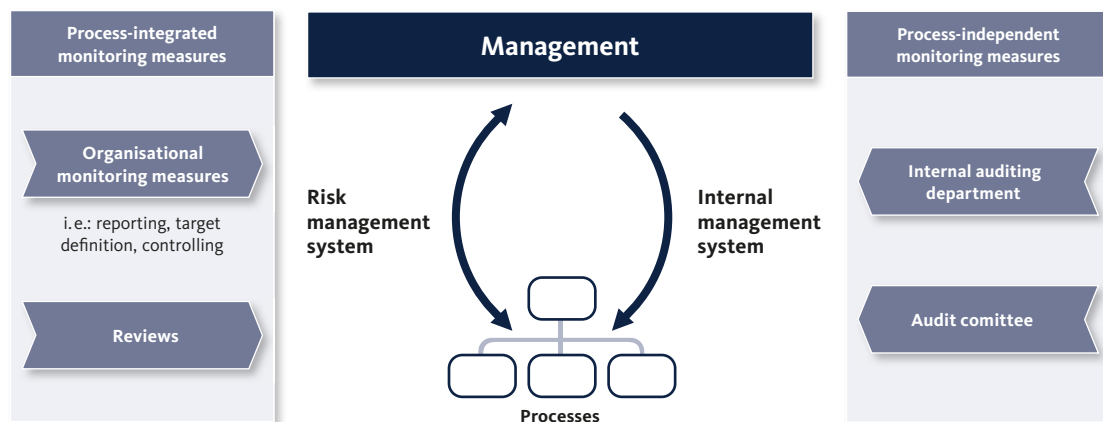
potential improvements ascertained in the departments audited in previous years have been implemented. On the one hand, the department has intensified its proven controlling activities continuously and increased the frequency of internal audits, and on the other hand, it has increased the level of automation within the controlling activities. The results are used to systematically derive measures and monitor their success.

The Group auditor and other review bodies are likewise involved in the freenet Group's control

environment with process-independent review activities.

The audit of consolidated financial statements by the Group auditor and the audit of the individual financial statements from Group companies included in the consolidated financial statements, in particular, constitute the final non-process-related monitoring measure with regard to Group accounting.

Figure 6: Key features of the internal control system at freenet AG



# FORECAST

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

freenet AG expects to see a stabilisation in Group revenue in the financial year 2015 and a slight increase in the financial year 2016. The company's optimism

is not only based on a slightly increasing number of customers in the customer ownership base (postpaid and no-frills) and a stabilisation of postpaid ARPU in the core business segment of mobile communications, but also on the increasing cultivation of revenue sources from the sale of devices, accessories and services for mobile applications covering various aspects of digital lifestyle.

Table 8: Development of the key performance indicators

		Year-to-date/	Forecast	
In EUR million/as indicated	2014	1st half 2015	2015	2016
Financial performance indicators				
Group revenue	3,040.6	1,501.0	stable	slight increase
Group EBITDA	365.6	175.1	370	375
Group free cash flow <sup>1)</sup>	266.6	136.3	280	285
Postpaid ARPU (in EUR)	21.4	21.2	stable	stable
Non-financial performance indicator				
Customer Ownership (in mio.) <sup>2)</sup>	8.92	9.11	slight increase	slight increase

In line with the developments described above, freenet AG aims to achieve a Group EBITDA of around 370 million euros for the 2015 financial year and around 375 million euros for the 2016 financial year.

freenet AG also aims to achieve free cash flow for the freenet Group, defined as cash flow from

current operating activities, less investments in property, plant and equipment and intangible assets, plus the cash inflows from disposals of intangible assets and property, plant and equipment in the amount of approx. 280 million euros in the 2015 financial year and approx. 285 million euros in the 2016 financial year.

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

2) At the end of period.





CONDENSED INTERIM  
CONSOLIDATED  
FINANCIAL STATEMENTS



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# Consolidated income statement

for the period from 1 January to 30 June 2015

In EUR '000s/as indicated	1st half 2015 1.1.2015- 30.6.2015	1st half 2014 1.1.2014- 30.6.2014	Q2/2015 1.4.2015- 30.6.2015	Q2/2014 1.4.2014- 30.6.2014
Revenue	1,501,011	1,444,746	752,537	727,222
Other operating income	31,431	31,896	17,761	16,663
Other own work capitalised	6,351	5,164	3,785	2,766
Cost of material	-1,123,261	-1,071,707	-566,178	-536,689
Personnel expenses	-99,762	-94,802	-49,589	-48,507
Depreciation and impairment write-downs	-34,211	-32,399	-18,756	-16,442
Other operating expenses	-140,710	-142,362	-69,254	-73,899
<b>Operating result</b>	<b>140,849</b>	<b>140,536</b>	<b>70,306</b>	<b>71,114</b>
Share of results of associates accounted for using the equity method	57	148	26	78
Interest receivable and similar income	457	681	207	389
Interest payable and similar expenses	-19,717	-20,840	-9,921	-11,080
<b>Result before taxes on income</b>	<b>121,646</b>	<b>120,525</b>	<b>60,618</b>	<b>60,501</b>
Taxes on income	-10,522	-6,023	-5,708	-3,427
<b>Group result from continued operations</b>	<b>111,124</b>	<b>114,502</b>	<b>54,910</b>	<b>57,074</b>
<b>Group result from discontinued operations</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Group result</b>	<b>111,124</b>	<b>114,502</b>	<b>54,910</b>	<b>57,074</b>
Group result attributable to shareholders of freenet AG	110,616	113,978	54,651	56,647
Group result attributable to non-controlling interest	508	524	259	427
<b>Earnings per share in EUR (undiluted)</b>	<b>0.86</b>	<b>0.89</b>	<b>0.42</b>	<b>0.44</b>
<b>Earnings per share in EUR (diluted)</b>	<b>0.86</b>	<b>0.89</b>	<b>0.42</b>	<b>0.44</b>
Earnings per share from continued operations in EUR (undiluted)	0.86	0.89	0.42	0.44
Earnings per share from continued operations in EUR (diluted)	0.86	0.89	0.42	0.44
Earnings per share from discontinued operations in EUR (undiluted)	0.00	0.00	0.00	0.00
Earnings per share from discontinued operations in EUR (diluted)	0.00	0.00	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)	128,011	128,011	128,011	128,011
Weighted average of shares outstanding in thousand (diluted)	128,011	128,011	128,011	128,011

# Consolidated statement of comprehensive income

for the period from 1 January to 30 June 2015

In EUR '000s	1st half 2015 1.1.2015- 30.6.2015	1st half 2014 1.1.2014- 30.6.2014	Q2/2015 1.4.2015- 30.6.2015	Q2/2014 1.4.2014- 30.6.2014
<b>Group result</b>	<b>111,124</b>	<b>114,502</b>	<b>54,910</b>	<b>57,074</b>
Change in fair value of available-for-sale financial assets	-43	-31	-11	1
Currency difference	169	56	-68	55
Income tax recognised in other comprehensive income	-38	-7	24	-16
<b>Other comprehensive income/to be reclassified to the income statement in the following periods</b>	<b>88</b>	<b>18</b>	<b>-55</b>	<b>40</b>
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. IAS 19 (2011)	6,454	0	12,175	0
Income tax recognised in other comprehensive income	-1,939	0	-3,658	0
<b>Other comprehensive income/not to be reclassified to the income statement in the following periods</b>	<b>4,515</b>	<b>0</b>	<b>8,517</b>	<b>0</b>
<b>Other comprehensive income</b>	<b>4,603</b>	<b>18</b>	<b>8,462</b>	<b>40</b>
<b>Consolidated comprehensive income</b>	<b>115,727</b>	<b>114,520</b>	<b>63,372</b>	<b>57,114</b>
Consolidated comprehensive income attributable to shareholders of freenet AG	115,219	113,996	63,113	56,687
Consolidated comprehensive income attributable to non-controlling interest	508	524	259	427

# Consolidated balance sheet as of 30 June 2015

## Assets

In EUR '000s	30.6.2015	31.3.2015	31.12.2014
<b>Non-current assets</b>			
Intangible assets	385,684	396,870	390,137
Goodwill	1,153,298	1,153,298	1,153,298
Property, plant and equipment	33,032	33,974	34,307
Investments in associates accounted for using the equity method	1,577	1,550	1,519
Other investments	1,526	1,531	1,534
Deferred income tax assets	203,499	204,877	199,853
Trade accounts receivable	78,861	79,921	79,581
Other receivables and other assets	9,541	9,575	11,950
	<b>1,867,018</b>	<b>1,881,596</b>	<b>1,872,179</b>
<b>Current assets</b>			
Inventories	67,879	81,954	79,996
Current income tax assets	2,139	2,066	1,826
Trade accounts receivable	373,320	347,056	408,482
Other receivables and other assets	30,221	26,462	23,879
Cash and cash equivalents	124,086	172,987	111,944
	<b>597,645</b>	<b>630,525</b>	<b>626,127</b>
	<b>2,464,663</b>	<b>2,512,121</b>	<b>2,498,306</b>

## Shareholders' equity and liabilities

In EUR '000s	30.6.2015	31.3.2015	31.12.2014
<b>Shareholders' equity</b>			
Share capital	128,061	128,061	128,061
Capital reserve	737,536	737,536	737,536
Cumulative other comprehensive income	-16,692	-25,154	-21,295
Retained earnings	364,224	501,590	445,625
<b>Capital and reserves attributable to shareholders of freenet AG</b>	<b>1,213,129</b>	<b>1,342,033</b>	<b>1,289,927</b>
Capital and reserves attributable to non-controlling interest	4,201	3,942	3,693
	<b>1,217,330</b>	<b>1,345,975</b>	<b>1,293,620</b>
<b>Non-current liabilities</b>			
Trade accounts payable	0	544	540
Other payables	23,587	23,333	38,351
Borrowings	218,195	518,504	518,223
Deferred income tax liabilities	113	119	123
Pension provisions	53,523	65,357	59,346
Other provisions	9,490	9,531	9,097
	<b>304,908</b>	<b>617,388</b>	<b>625,680</b>
<b>Current liabilities</b>			
Trade accounts payable	373,248	354,011	369,931
Other payables	110,724	105,011	124,318
Current income tax liabilities	26,998	36,786	38,663
Borrowings	406,201	28,102	20,333
Other provisions	25,254	24,848	25,761
	<b>942,425</b>	<b>548,758</b>	<b>579,006</b>
	<b>2,464,663</b>	<b>2,512,121</b>	<b>2,498,306</b>

# Schedule of changes in equity

for the period from 1 January to 30 June 2015

In EUR '000s	Share capital	Capital reserve	Cumulative other comprehensive income			Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
			Revaluation reserve	Currency difference	Valuation reserve in accordance with IAS 19				
<b>As of 1.1.2014</b>	<b>128,061</b>	<b>737,536</b>	<b>-69</b>	<b>0</b>	<b>-12,717</b>	<b>383,776</b>	<b>1,236,587</b>	<b>2,995</b>	<b>1,239,582</b>
Dividend payment	0	0	0	0	0	-185,616	-185,616	0	-185,616
Group result	0	0	0	0	0	113,978	113,978	524	114,502
Change in fair value of available-for-sale financial instruments <sup>1</sup>	0	0	-22	0	0	0	-22	0	-22
Foreign currency translation <sup>1</sup>	0	0	0	40	0	0	40	0	40
Sub-total: Consolidated comprehensive income	0	0	-22	40	0	113,978	113,996	524	114,520
<b>As of 30.6.2014</b>	<b>128,061</b>	<b>737,536</b>	<b>-91</b>	<b>40</b>	<b>-12,717</b>	<b>312,138</b>	<b>1,164,967</b>	<b>3,519</b>	<b>1,168,486</b>

In EUR '000s	Share capital	Capital reserve	Cumulative other comprehensive income			Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
			Revaluation reserve	Currency difference	Valuation reserve in accordance with IAS 19				
<b>As of 1.1.2015</b>	<b>128,061</b>	<b>737,536</b>	<b>-99</b>	<b>247</b>	<b>-21,443</b>	<b>445,625</b>	<b>1,289,927</b>	<b>3,693</b>	<b>1,293,620</b>
Dividend payment	0	0	0	0	0	-192,017	-192,017	0	-192,017
Group result	0	0	0	0	0	110,616	110,616	508	111,124
Recognition of actuarial gains and losses acc. IAS 19 (2011) <sup>1</sup>	0	0	0	0	4,515	0	4,515	0	4,515
Change in fair value of available-for-sale financial instruments <sup>1</sup>	0	0	-30	0	0	0	-30	0	-30
Foreign currency translation <sup>1</sup>	0	0	0	118	0	0	118	0	118
Sub-total: Consolidated comprehensive income	0	0	-30	118	4,515	110,616	115,219	508	115,727
<b>As of 30.6.2015</b>	<b>128,061</b>	<b>737,536</b>	<b>-129</b>	<b>365</b>	<b>-16,928</b>	<b>364,224</b>	<b>1,213,129</b>	<b>4,201</b>	<b>1,217,330</b>

<sup>1</sup> Figures are balanced with income tax recognised in other comprehensive income.

# Consolidated statement of cash flows

for the period from 1 January to 30 June 2015

	1st half 2015 1.1.2015- 30.6.2015	1st half 2014 1.1.2014- 30.6.2014
In EUR '000s		
<b>Result from continued and discontinued operations before interest and taxes (EBIT)</b>	<b>140,906</b>	<b>140,684</b>
<b>Adjustments</b>		
Depreciation and impairment on items of fixed assets	34,211	32,399
Share of results of associates accounted for using the equity method	-57	-148
Gains on the disposal of fixed assets	-91	-197
Increase in net working capital not attributable to investing or financing activities	4,496	-18,186
Tax payments	-28,303	-12,815
<b>Cash flow from operating activities</b>	<b>151,162</b>	<b>141,737</b>
Investments in property, plant and equipment and intangible assets	-15,068	-10,886
Proceeds from the disposal of property, plant and equipment and intangible assets	196	417
Payments for the acquisition of subsidiaries	0	-46,929
Proceeds from the sale of subsidiaries	100	540
Return on capital from associates, accounted for using the equity method	0	150
Interest received	334	487
<b>Cash flow from investing activities</b>	<b>-14,438</b>	<b>-56,221</b>
Dividend payments to company owners and minority shareholders	-192,017	-185,616
Proceeds from new borrowings	99,400	0
Cash repayments of borrowings	-1,157	-158
Interest paid	-30,808	-30,642
<b>Cash flow from financing activities</b>	<b>-124,582</b>	<b>-216,416</b>
<b>Cash-effective change in cash and cash equivalents</b>	<b>12,142</b>	<b>-130,900</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>111,944</b>	<b>110,766</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>124,086</b>	<b>-20,134</b>
<b>Composition of cash and cash equivalents</b>		
In EUR '000s	30.6.2015	30.6.2014
Cash and cash equivalents of continued operations	124,086	108,866
Liabilities within the scope of short-term financial disposition	0	-129,000
	<b>124,086</b>	<b>-20,134</b>
<b>Composition of free cash flow</b>		
In EUR '000s	30.6.2015	30.6.2014
Cash flow from operating activities	151,162	141,737
Investments in property, plant and equipment and intangible assets	-15,068	-10,886
Proceeds from the disposal of property, plant and equipment and intangible assets	196	417
<b>Free cash flow (FCF)</b>	<b>136,290</b>	<b>131,268</b>

# SELECTED EXPLANATORY NOTES

## IN ACCORDANCE WITH IAS 34

### Major accounting, valuation and consolidation principles

1. These condensed consolidated interim 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 IFRS adopted and mandated by the EU. No review of these condensed consolidated interim financial statements has been carried out.

The Group has applied all of the accounting standards which are mandatory as at the reporting date. The accounting standards whose application has been mandatory for the first time since 1 January 2015 have no appreciable impact on freenet AG's condensed consolidated financial statements. The standards in question concern the Annual Improvements Project 2011-2013 – Improvements in IFRS (IFRS1, IFRS 3, IFRS 13, and IAS 40) and IFRIC 21 (Levies).

The accounting and valuation methods used to prepare the condensed interim report for the period ending 30 June 2015 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 2014. 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 2014.

2. The composition of the cash-generating units (CGU) was adjusted to the internal management control process in these consolidated interim financial statements. The CGU freenet digital (goodwill carrying amount as at 30 June 2015: 29,162 thousand euros) and the CGU Portal (goodwill carrying amount as at 30 June 2015: 588 thousand euros) were merged to form the CGU Online in the first quarter of 2015, as a reorganisation of the areas had been made. For reasons of comparability, the previous year's figure was adjusted.

#### Allocation of goodwill in the balance sheet to CGUs

In EUR '000s	30.6.2015	31.12.2014 adjusted
Mobile Communications	1,119,396	1,119,396
Online	29,750	29,750
Other	4,152	4,152
<b>Total</b>	<b>1,153,298</b>	<b>1,153,298</b>

## Significant events and transactions

3. 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 recognised under non-current and current trade receivables has climbed continuously. For the freenet Group, this means that capital commitment has been increasing 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 customer, cash inflows from the mobile phone upgrade option are spread over the 24 months of the contract with the end customer.

With this in mind, the Group has concluded a factoring agreement with a bank, which was first utilised in the first quarter of 2014. The agreement is a master agreement with an indefinite term. The sale of mobile phone option receivables is possible on a quarterly basis. The bank purchases the receivables with a defined del credere discount and it also bills freenet for interest and fees. The relevant risks (such as the risk of bad debt losses in particular) and opportunities are transferred to the bank, with the result that the receivables sold are derecognised in their entirety. The freenet Group continues to bear the risk of late payment, as well as being responsible for the collection and administration of the receivables sold (known as "servicing").

As at 30 June 2015, receivables in the amount of 54.3 million euros (31 March 2015: 60.2 million euros) have been sold and derecognised, but not yet paid for.

4. In May 2015, a new promissory note loan with a total nominal value of 100.0 million euros was taken out. It consists of three tranches with terms of five to seven years and – to some extent variable – interest rates of between 1.05 and 1.79 per cent.

## Transactions with related parties

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

In EUR '000s	1.1.2015- 30.6.2015	1.1.2014- 30.6.2014
<b>Sales of services</b>		
<b>Joint ventures</b>		
FunDorado GmbH, Hamburg	205	172
<b>Total</b>	<b>205</b>	<b>172</b>

The following major receivables were due from related parties as at 30 June 2015:

In TEUR	30.6.2015	30.6.2014
<b>Receivables from related parties</b>		
<b>Joint ventures</b>		
FunDorado GmbH, Hamburg	81	76
<b>Total</b>	<b>81</b>	<b>76</b>

All transactions were based on market prices.

## Other disclosures

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 table shows the way in which this EBIT figure is derived from the consolidated income statement:

### Calculating the underlying figure for the consolidated cash flow statement

In EUR '000s	1.1.2015- 30.6.2015	1.1.2014- 30.6.2014
Result before taxes on income	121,646	120,525
Interest payable and similar expenses	19,717	20,840
Interest receivable and similar income	-457	-681
<b>Earnings before interest and taxes (EBIT) of continued and discontinued operations</b>	<b>140,906</b>	<b>140,684</b>

7. Our disclosures concerning fair values are as follows:

The following overview, "Fair value hierarchy as at 30 June 2015", provides an explanation as to what significant parameters constitute the basis for the measurement of, firstly, the financial instruments measured at fair value and, secondly, the portion of the financial instruments measured at amortised cost, for which a fair value was able to be calculated. For the definition of the individual levels in accordance with IFRS 13, see the notes to the consolidated financial statements of freenet AG as at 31 December 2014.

## Financial instruments according to classes as of 30 June 2015

			Value approach				
In EUR '000s	Valuation category acc. to IAS 39	Carrying amount 30.6.2015	Amortised cost	Cost	Fair value recognised in profit or loss	Fair value recognised in equity	Fair value 30.6.2015
<b>Assets</b>							
Cash and cash equivalents	LR	124,086	124,086				124,086
<b>Total cash and cash equivalents</b>		<b>124,086</b>	<b>124,086</b>				<b>124,086</b>
Other financial assets (measured at cost)	AFS	503		503			
Other financial assets (measured at fair value)	AFS	1,023				1,023	1,023
<b>Total other financial assets</b>		<b>1,526</b>					
<b>Trade accounts receivable</b>	LR	<b>452,181</b>	<b>452,181</b>				<b>452,619</b>
Other non-derivative financial assets	LR	28,668	28,668				28,668
Available-for-sale financial assets	AFS	2,808				2,808	2,808
Non-financial assets	n/a	8,286					
<b>Total other receivables and other assets</b>		<b>39,762</b>					<b>31,476</b>
<b>Liabilities</b>							
<b>Trade accounts payable</b>	FLAC	<b>373,248</b>	<b>373,248</b>				<b>373,248</b>
Borrowings	FLAC	624,396	624,335				649,774
<b>Total financial debt within the scope of IFRS 7</b>		<b>624,396</b>					<b>649,774</b>
Other non-derivative financial liabilities	FLAC	61,935	61,935				61,935
Non-financial liabilities	n/a	72,376					
<b>Total other liabilities and deferrals</b>		<b>134,311</b>					
<b>Financial instruments not covered by the scope of IFRS 7</b>							
Pension provisions acc. to IAS 19		53,523					53,523
Provisions for employee participation programmes according to IFRS 2		3,190					3,190
<b>Total financial instruments not covered by the scope of IFRS 7</b>		<b>56,713</b>					
<b>Thereof aggregated by valuation categories acc. to IAS 39</b>							
Available-for-sale financial instruments	AFS	4,334		503		3,831	3,831
Loans and receivables	LR	604,935	604,935				605,373
Financial liabilities, measured at amortised cost	FLAC	-1,059,579	-1,059,518				-1,084,957

**Fair value hierarchy as of 30 June 2015**

In EUR'000s	Total	Level 1	Level 2	Level 3
Available-for-sale financial assets	2,808	2,808	0	0
Other financial assets	1,023	1,023	0	0
Trade accounts receivable	79,007	0	0	79,007
Borrowings	-642,484	-418,308	0	-224,176
<b>Total</b>	<b>-559,646</b>	<b>-414,477</b>	<b>0</b>	<b>-145,169</b>

There were no shifts regarding the levels.

Borrowings allocated to level 3 of the hierarchy have increased by 99.2 million euros in the quarter under review primarily as a result of the taking up of the new promissory note loan.

Other financial assets are generally measured at fair value. Wherever a reliable estimate of fair value is not possible, the asset is valued at its acquisition cost. 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. The group of consolidated companies remained unchanged compared with the consolidated financial statements for the period ending 31 December 2014.
9. Based on an updated interest rate of 2.4 per cent (31 December 2014: 1.9 per cent) but with the other premises remaining unchanged, the pension provisions were reassessed as at 30 June 2015. Of the resultant amount of 6.5 million euros, 4.5 million euros were reported in consolidated other comprehensive income and the reduced amount of 1.9 million euros was reported in deferred income tax assets.
10. As was the case in the 2014 consolidated financial statements, an average rate of 30.05 per cent (comparative period last year: 29.85 per cent) was used to calculate the current and deferred income taxes.
11. During the first six months of 2015, net debt increased by 73.7 million euros from 426.6 million euros to 500.3 million euros. The payouts for the dividend distribution totalling 192.0 million euros and the interest payments amounting to 30.8 million euros were the significant factors increasing net debt. A contrary effect was generated primarily by the cash flow from operating activities totalling 151.2 million euros.
12. There were no events of significant importance after the balance sheet date.

## Segment reporting

13. As its main decision-making body, the Executive Board organises and manages the company on the basis of the differences between the individual products and services offered by the company. As the Group performs its business operations almost entirely in Germany, it has no organisation and management based on geographical regions. The Group was active in the following operating segments in the first six months of 2015:

- Mobile Communications:
  - Activities as a mobile communications service provider – marketing of mobile communications services (voice and data services) from the mobile communications network operators T-Mobile, Vodafone, Telefónica Deutschland in Germany
  - Based on the network operator agreement concluded with these network operators, a range of the company's own network-independent services and tariffs as well as a range of network operator tariffs
  - Distribution and sale of mobile communications terminals as well as additional services in the fields of mobile data communications and digital lifestyle
  - Rendering of sales services
  
- Other/Holding:
  - Rendering of portal services such as e-commerce/advertising services (largely comprising the offer of online shopping and the marketing of advertising space on websites), of payment services for end customers, as well as offering a variety of digital products and entertainment formats for download and/or for displaying and using on mobile terminals
  - Development of communication solutions, IT solutions and other services for corporate customers
  - Range of narrowband voice services (call-by-call, Preselection) and data services
  - Rendering of sales services

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 42.2 million euros reported for the “Other/Holding” segment in the first six months of 2015 (previous year: 37.6 million euros) is accounted for in the amount of 39.3 million euros (previous year: 34.4 million euros) by operating activities and in the amount of 2.9 million euros (previous year: 3.2 million euros) by the other business activities. The gross profit of 28.1 million euros reported for the “Other/Holding” segment in the first six months of 2015 (previous year: 25.1 million euros) is attributable to operating activities in the amount of 28.5 million euros (previous year: 25.3 million euros) and to other business activities in the amount of -0.4 million euros (previous year: -0.2 million euros). The EBITDA of -8.3 million euros reported for the “Other/Holding” segment in the first six months of 2015 (previous year: -8.8 million euros) was generated by operating activities to the extent of 3.5 million euros (previous year: 0.2 million euros) and by other business activities with -11.8 million euros (previous year: -9.0 million euros). The EBIT of -13.9 million euros reported for the “Other/Holding” segment in the first six months of 2015 (previous year: -13.7 million euros) is accounted for by operating activities in the amount of -1.7 million euros (previous year: -4.4 million euros) and by other business activities in the amount of -12.2 million euros (previous year: -9.3 million euros).

## Segment report for the period from 1 January to 30 June 2015

In EUR'000s	Mobile Communications	Other/Holding	Elimination of intersegment revenue and costs	Total
<b>Third-party revenue</b>	<b>1,469,126</b>	<b>31,885</b>	<b>0</b>	<b>1,501,011</b>
Intersegment revenue	4,507	10,346	-14,853	0
Total revenue	1,473,633	42,231	-14,853	1,501,011
<b>Cost of materials, third party</b>	<b>-1,113,250</b>	<b>-10,011</b>	<b>0</b>	<b>-1,123,261</b>
Intersegment cost of materials	-7,190	-4,131	11,321	0
Total cost of material	-1,120,440	-14,142	11,321	-1,123,261
<b>Segment gross profit</b>	<b>353,193</b>	<b>28,089</b>	<b>-3,532</b>	<b>377,750</b>
Other operating income	30,944	2,515	-2,028	31,431
Other own work capitalised	4,850	1,501	0	6,351
Personnel expenses	-77,885	-21,877	0	-99,762
Other operating expenses	-127,645	-18,625	5,560	-140,710
Share of results of associates accounted for using the equity method	0	57	0	57
<b>Segment EBITDA</b>	<b>183,457</b>	<b>-8,340</b>	<b>0</b>	<b>175,117</b>
Depreciation and impairment write-downs	-28,639	-5,572	0	-34,211
<b>Segment EBIT</b>	<b>154,818</b>	<b>-13,912</b>	<b>0</b>	<b>140,906</b>
Group financial result				-19,260
Taxes on income				-10,522
<b>Group result from continued operations</b>				<b>111,124</b>
<b>Group result from discontinued operations</b>				<b>0</b>
<b>Group result</b>				<b>111,124</b>
Group result attributable to shareholders of freenet AG				110,616
Group result attributable to non-controlling interest				508
<b>Investments in continued operations</b>	<b>12,685</b>	<b>2,383</b>		<b>15,068</b>

## Segment report for the period from 1 January to 30 June 2014

In EUR'000s	Mobile Communications	Other/Holding	Elimination of intersegment revenue and costs	Total
<b>Third-party revenue</b>	<b>1,413,938</b>	<b>30,808</b>	<b>0</b>	<b>1,444,746</b>
Intersegment revenue	4,527	6,790	-11,317	0
Total revenue	1,418,465	37,598	-11,317	1,444,746
<b>Cost of materials, third party</b>	<b>-1,063,244</b>	<b>-8,463</b>	<b>0</b>	<b>-1,071,707</b>
Intersegment cost of materials	-4,277	-4,080	8,357	0
Total cost of material	-1,067,521	-12,543	8,357	-1,071,707
<b>Segment gross profit</b>	<b>350,944</b>	<b>25,055</b>	<b>-2,960</b>	<b>373,039</b>
Other operating income	30,723	5,548	-4,375	31,896
Other own work capitalised	4,210	954	0	5,164
Personnel expenses	-72,942	-21,860	0	-94,802
Other operating expenses	-131,072	-18,625	7,335	-142,362
Share of results of associates accounted for using the equity method	0	148	0	148
<b>Segment EBITDA</b>	<b>181,863</b>	<b>-8,780</b>	<b>0</b>	<b>173,083</b>
Depreciation and impairment write-downs	-27,456	-4,943	0	-32,399
<b>Segment EBIT</b>	<b>154,407</b>	<b>-13,723</b>	<b>0</b>	<b>140,684</b>
Group financial result				-20,159
Taxes on income				-6,023
<b>Group result from continued operations</b>				<b>114,502</b>
<b>Group result from discontinued operations</b>				<b>0</b>
<b>Group result</b>				<b>114,502</b>
Group result attributable to shareholders of freenet AG				113,978
Group result attributable to non-controlling interest				524
<b>Investments in continued operations</b>	<b>9,117</b>	<b>1,769</b>		<b>10,886</b>

# RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the condensed interim consolidated financial statements give a true and fair view of the assets, financial position and results of the Group, and the interim group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Büdeltsdorf, 5 August 2015  
freenet AG  
The Executive Board



Christoph Vilanek



Joachim Preisig



Stephan Esch

# FINANCIAL CALENDAR

<b>6 August 2015<sup>1</sup></b>	Interim Report as of 30.6.2014 – Second Quarter 2015
<b>3 September 2015<sup>1</sup></b>	dbAccess European TMT Conference, London, Great Britain
<b>9 September 2015<sup>1</sup></b>	Commerzbank TMT and Consumer Conference, Frankfurt, Germany
<b>17 September 2015<sup>1</sup></b>	UBS Best of Germany Conference, New York, USA
<b>22 and 23 September 2015<sup>1</sup></b>	Berenberg and Goldman Sachs German Corporate Conference, Munich, Germany
<b>6 November 2015<sup>1</sup></b>	Interim Report for the period from January to September 2015 – Third Quarter 2015
<b>11 and 12 November 2015<sup>1</sup></b>	Morgan Stanley TMT Conference, Barcelona, Spain
<b>2 December 2015<sup>1</sup></b>	Berenberg European Conference, Surrey Heath; Great Britain

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<sup>1)</sup> All dates are subject to change.

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The annual report and our interim reports are also available at:  
<http://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](http://www.freenet-group.de/en).



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