

**INTERIM REPORT**  
**AS OF 31 MARCH 2016**

**Q1  
2016**



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# KEY FINANCIALS:

## GROUP OVERVIEW

### Result

In EUR million / as indicated	Q1/2016	Q1/2015	Q4/2015
Revenue	749.2	748.5	826.8
Gross profit	192.2	191.4	215.6
EBITDA	89.1	86.0	97.8
EBIT	67.3	70.6	78.9
EBT	55.5	61.0	64.0
Group result	51.3	56.2	48.4
Earnings per share in EUR (diluted and undiluted)	0.41	0.44	0.38

### Balance Sheet

In EUR million / as indicated	31.3.2016	31.3.2015	31.12.2015
Balance sheet total	4,608.3	2,512.1	2,724.0
Shareholders' equity	1,426.9	1,346.0	1,379.0
Equity ratio in %	31.0	53.6	50.6

### Finances and investments

In EUR million	Q1/2016	Q1/2015	Q4/2015
Free cash flow <sup>1</sup>	64.9	62.2	67.1
Depreciation and amortisation	21.7	15.5	18.8
Net investments (CAPEX)	7.0	8.3	10.7
Net debt <sup>2</sup>	1,411.3	373.6	369.2

### Share

	31.3.2016	31.3.2015	31.12.2015
Closing price Xetra in EUR	26.29	28.08	31.32
Number of issued shares in '000s	128,061	128,061	128,061
Market capitalisation in EUR '000s	3,366.7	3,595.3	4,010.2

### Employees

	31.3.2016	31.3.2015	31.12.2015
Employees	4,990	4,713	4,367

# KEY FINANCIALS: OVERVIEW MOBILE COMMUNICATIONS SEGMENT

## Customer Development

In million	Q1/2016	Q1/2015	Q4/2015
Mobile Communications customers/cards <sup>2</sup>	12.15	12.54	12.24
Thereof Customer Ownership	9.37	9.04	9.30
Thereof Postpaid	6.36	6.10	6.31
Thereof No-frills	3.01	2.94	2.99
Thereof Prepaid	2.79	3.50	2.94
Gross new customers/cards	0.64	0.71	0.78
Net change	-0.08	-0.19	-0.04

## Result

In EUR million	Q1/2016	Q1/2015	Q4/2015
Revenue	727.4	734.6	811.6
Gross profit	176.7	178.9	203.6
EBITDA	90.7	91.3	99.1
EBIT	76.0	78.6	83.2

## Monthly average revenue per user (ARPU)

In EUR	Q1/2016	Q1/2015	Q4/2015
Postpaid	21.5	21.1	21.3
No-frills	2.4	2.4	2.4
Prepaid	2.9	2.6	3.1

<sup>1</sup> 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 and equipment and intangible assets.

<sup>2</sup> At the end of period.



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

# LETTER TO SHAREHOLDERS

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

In addition to its traditional mobile communications activities, freenet AG has recently created a second significant source of revenues for itself in the attractive digital lifestyle market segment. We have achieved this primarily by way of organic growth – with innovative products and customer-oriented services particularly in the fields of smart home and security, entertainment and health/fitness with corresponding accessories. In general, we aim to use appropriate partnerships with first class established providers, e.g. GRAVIS, as authorised Apple resellers in Germany.

The main events of the initial months of the current financial year were two very fundamental new acquisitions or equity participations of freenet AG: With the acquisition of all shares of Media Broadcast Group as well as almost 25 per cent of the shares of EXARING AG, we are entering the TV business and are thus taking a further major step in the direction of becoming the leading digital lifestyle provider in Germany.

All this is happening in the context of a paradigm change taking place at present in this segment with the increasing significance of streaming services and media libraries – the television in the home is thus being given a new dimension. Current figures of the consumer electronics association GFU are confirming this radical change: There is considerable growth in the numbers of high resolution UHD devices sold in Germany, the TV is increasingly becoming the central device for moving image entertainment and home automation, and the average German spends approximately four hours every day in front of the television. According to a study of the market research company Nielsen, 16 per cent of the surveyed German internet users now pay for a video-on-demand service in the internet, although major providers have not yet been operating in this market for a very long time. And according to forecasts of the management consultant PricewaterhouseCoopers, the revenues generated with online video services in Germany will increase from 81 million euros last year to 410 million euros in 2019.

Media Broadcast and EXARING will be able to make a major contribution to this paradigm change:

- As the sole commercial provider of the DVB-T2-HD standard which is due to start in the near future and with the second generation terrestrial aerial broadcasting starting in the first quarter of 2017, the Media Broadcast Group will then provide the entire range of channels in full HD quality – with the added attraction of access to on-demand services such as the media libraries of the various stations.

- EXARING AG in turn has its own fibre optic network which, in technical terms, reaches approximately 23 million German households with a transmission bandwidth of up to 8K. Our investment secures us the distribution rights to this closed IP platform – and thus also the implementation of future moving image innovations such as virtual reality or holography/3D. Combined with the EXARING app, all services including add-on functions, such as video-on-demand, film recordings, online games, streaming and PC services are to be moved to the cloud in future. This will be an uncomplicated way to use them at home or as a mobile function via an app on a smartphone or tablet in the resolutions HD, 4K and 8K. Set-top boxes, hard discs, remote controls and unsightly cables will thus disappear from our living rooms.

We are convinced that we will be able to encourage new users to take advantage of this unique service of flexible digital TV on the basis of our familiar subscription model. With our sales and service strength across all channels, our many years of experience in the mobile communications and DSL segment and also as a result of our existing client base of approximately 12.2 million at present. There are plans to start marketing corresponding products in the course of the current financial year.

At the same time, despite these fascinating prospects, we will not neglect our traditional mobile communications business or the organic growth which we are seeing in the digital lifestyle field. In the first quarter, we started a further new product family under the heading "SmartCare", namely for the E-health sector. It comprises a range of digital services for the prevention of illnesses and also for physical and mental well-being. This service includes the following:

- A digital wellness oasis with individually controllable light and sound options for a relaxed method of falling asleep and waking up with sensor-controlled sleep monitoring
- App-controlled multifunction scales which monitor weight, body-mass index, body fat content or heart rate
- An online training function with more than 20 programmes and 250 courses which upgrade the user's home into a digital sports studio, or
- "NeuroNation" for the analysis and customised training of mental performance and concentration.

In addition, in the first quarter, as was the case last year, our individual Group brands continued their product offensives in the various segments with temporary special actions. In general, they were backed by separate marketing measures, which again also used our popular slogan "Costa Fast Gar Nix" in the course of the spring campaign – and which also boosted the market awareness and perception of mobilcom-debitel as a digital lifestyle provider to new heights. In the field of mobile communications, our main brand mobilcom-debitel again concentrated on high quality contract relations for signing up new customers and also for managing existing customers, whereas the discount brands of freenet cover the no-frills sector.

This strategy has once again demonstrated its worth for freenet AG, as confirmed by the figures for the first quarter of 2016:

- The customer ownership as an important control parameter continues to expand. The number of postpaid and no-frills customers increased in the first three months by 70,000 to the current figure of 9.37 million; compared with the beginning of the year, the number of particularly valuable postpaid customers with two-year contracts included in the above figure has increased by 45,000 to 6.36 million.
- The positive stabilisation of postpaid ARPU has also continued, with the current figure of 21.5 euros; this is equivalent to an increase of 0.2 euros compared with the previous quarter and an increase of 0.4 euros compared with the previous year quarter.
- Despite these developments and also despite further growth in valuable digital lifestyle revenues, overall revenues totalling 749.2 million euros are on the same level as in the corresponding quarter of the previous year.
- Gross profit of 192.2 million euros is on the same level compared to the figure reported for the first quarter of 2015, in conjunction with a gross profit margin of 25.7 per cent.
- EBITDA of 89.1 million euros is above by 3.1 million euros compared to the corresponding previous year quarter.
- Free cash flow appears positive as well with 64.9 million euros compared with the previous year quarter.

This means that we have successfully completed the first stage for a successful financial year 2016; we have now set our sights somewhat higher as a result of the recent acquisitions. We now aim to achieve an EBITDA of somewhat more than 400 million euros and a free cash flow of approximately 300 million euros – in conjunction with rising Group revenue, continued customer growth in customer ownership and also further stabilisation of postpaid ARPU.

As before, we expect a contribution to EBITDA of approximately 10 million euros and to free cash flow of approximately 30 million euros resulting from our latest investment: In mid-March, freenet AG signed an agreement for the acquisition of a up to 24.56 per cent in Sunrise Communications Group AG. We have been observing the largest private telecommunications provider in Switzerland for quite some time; it has more than three million customers in the fields of mobile communications, landline, internet and digital TV, and we have identified strong parallels with our company in terms of the business model, cash orientation and financial profile – and accordingly we consider that the acquisition is an exciting opportunity for freenet.

At the same time, we have taken advantage of the favourable interest rate climate in the first quarter, and raised borrowings up to 1.7 billion euros. In order to finance the transaction which was communicated in the reporting quarter and also for refinancing the corporate bond which is due to mature in April, we have issued a promissory note and have raised a syndicated bank loan. We were able to successfully place the promissory note of 560.0 million

euros with German and international institutional investors in the end of February – with a total of five tranches with maturities of between five and ten years and for an average coupon of 1.12 per cent per annum over these maturities. The syndicated bank loan has a total volume of 1.14 billion euros and enables the company to access three different tranches to draw down funds for possible acquisitions and current operations. The first two tranches serve to provide bridge financing for possible acquisitions, and provide the necessary funds for the respective acquisition. The first tranche has a term of 12 plus 6 months and has been provided with a variable interest rate with an initial margin of 0.8 per cent. The second tranche has a term of three years and has been provided with a variable interest rate with an initial margin of 2.1 per cent. The third tranche with a volume of 100.0 million euros has also been provided with a variable interest rate with an initial margin of 1.8 per cent, and has been designed specifically as a revolving credit facility. This means that the funds can be drawn down and repaid at any time during the five-year period.

Despite the higher levels of debt, we have not made any changes to the overall objectives of our financial strategy in principle: We intend to return to our self-imposed framework in terms of debt in the foreseeable future (i.e. 1 to 2.5 times EBITDA), we also aim to maintain the liquidity reserve at min. 100 million euros and to again boost the equity ratio to 50 per cent. In addition, for acquisitions, we only pay an earnings multiple related to EBITDA which is lower than that of freenet, namely 10. For example, this applied to the recent acquisition of Media Broadcast Group; and of course, we will continue to maintain our sustainable shareholder-oriented dividend distribution policy.

As a result of this financial policy, our tried-and-tested strategy relating to mobile communications, mobile internet and digital lifestyle and also as a result of the current acquisitions, the scene has now been set for a promising future for our company. We – namely management and the employees of freenet AG – will take up the associated new challenges with full commitment and enthusiasm in the course of the coming months and quarters.



Christoph Vilanek



Joachim Preisig



Stephan Esch

# FREENET AG AND THE CAPITAL MARKETS

## Capital market environment

Following the heavy losses seen on international markets at the beginning of the year, most share indices reported a turnaround starting in mid-February, with a slight recovery in share prices in March.

The international crises in the Ukraine and Syria and the resultant flow of refugees continued to influence the capital markets at the geo-political level. Differing views of the EU member states with regard to the solutions for distributing the refugees over the various EU countries continue to pose problems with regard to finding a common European solution. The capital market environment was also affected by economic and financial factors, such as the continuing decline in the price of oil, which is affecting producer countries, emerging countries and oil multinationals to the same extent, as well as the significant slowdown in the economy particularly in China and the USA.

The first quarter was also somewhat disappointing for the German stock market. In the first six weeks, the DAX posted continuous losses, peaking at around 17

per cent. The continuing policy of low interest rates in Europe meant that the main losers were banks and insurers. However, the shares of German automotive groups also suffered considerable losses in the first quarter. Although prices recovered slightly starting in mid-February, the German Index is overall looking back on an extremely weak first quarter: The DAX fell by more than 7 per cent, closing just below the ten thousand level on 31 March 2016 (namely 9,966 points). The TecDAX fell by approximately 11 per cent, closing the first quarter at 1,626 points.

Nevertheless, the sentiment of institutional investors has improved somewhat – the sentiment index for the Frankfurt stock market was previously moving around the neutral zero line. Sentiment among private shareholders is slightly different; the sentiment index for these investors declined somewhat. This means that institutional investor sentiment and private investor sentiment have converged, whereas previously there had been a considerable difference between the two sentiment indices.

## The freenet share

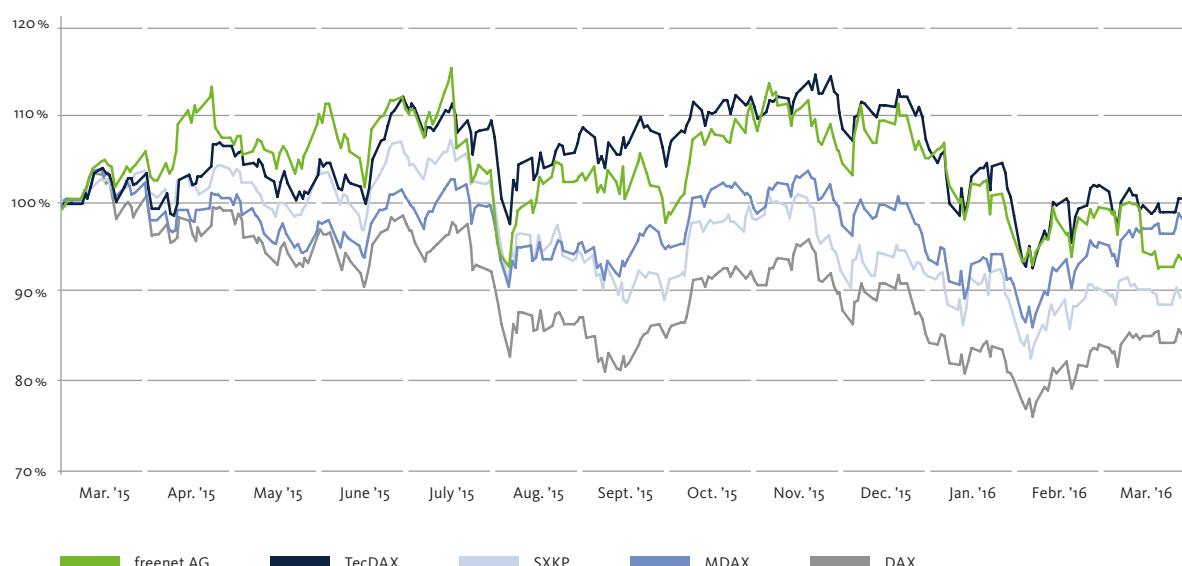
The positive performance of freenet shares during the financial year 2015 did not continue in the first quarter of 2016. Starting the new year on 2 January 2016 with a price of 31.32 euros, the shares fell to their low for the quarter at 26.00 euros on 23 March 2016. The average Xetra daily closing rate during the period under review was 27.92 euros. The shares closed the quarter trading at a rate of 26.29 euros per share.

Last quarter, approximately 33.7 million freenet shares were traded in total via the Xetra electronic trading system, compared with 24.7 million in the previous quarter and 37.1 million in the first quarter of 2015. This is equivalent to an average trading volume of approximately 519 thousand shares per day (previous quarter: approximately 375 thousand shares). The percentage of shares traded via alternative trading platforms („dark pools“) increased in the first quarter by 1 per cent to approximately 46 per cent of the total trading volume (previous year quarter: 41 per cent).

In the first three months of the year, freenet shares fell by a total of 16 per cent in a very volatile market. It thus underperformed the benchmark index TecDAX, which fell by 11 per cent. The SXKP index, a European index for telecommunications stocks, in which freenet AG is also listed, fell by 6 per cent in this period. Over a 12-month period, the decline in the price of freenet shares was lower than the decline reported by the SXKP index (namely approximately 6 per cent compared with -11 per cent). The TecDAX reported a gain of 1 per cent compared with the previous year.

With a market capitalisation of approximately 3.4 billion euros, the freenet Group was again one of the top five most valuable TecDAX companies at the end of the quarter.

**Figure 1: 12-month's performance of the freenet share**  
(Indexed; 100 = Xetra closing price on 31 March 2015)

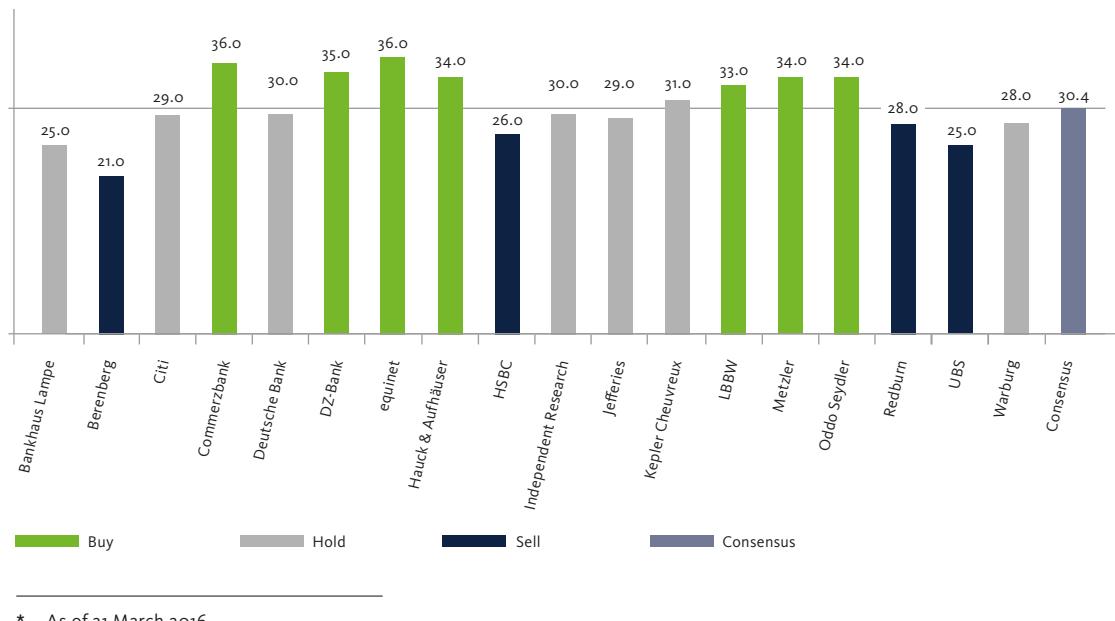


## Analysts' recommendations

In the first quarter of 2016, the business development of freenet AG was rated by a total of 18 analyst houses. Seven analysts issued a buy recommendation, a further seven analysts issued a "hold"

recommendation for the shares, and four analysts recommended that the shares should be sold. The average price target for freenet shares was 30.4 euros at the end of the quarter.

Figure 2: Current recommendations for the freenet share (target prices in euro)\*



## Dividend

The Executive Board and Supervisory Board will submit a proposal to the annual general meeting to be held on 12 May 2016 for a dividend of 1.55 euros to be paid for each dividend-bearing share for the financial year 2015. This is equivalent to an

increase of 0.05 euros compared with the previous year. The distribution rate of approximately 70 per cent of free cash flow is in line with our dividend policy, which aims to pay out between 50 and 75 per cent of the free cash flow which is generated.

## Shareholder structure

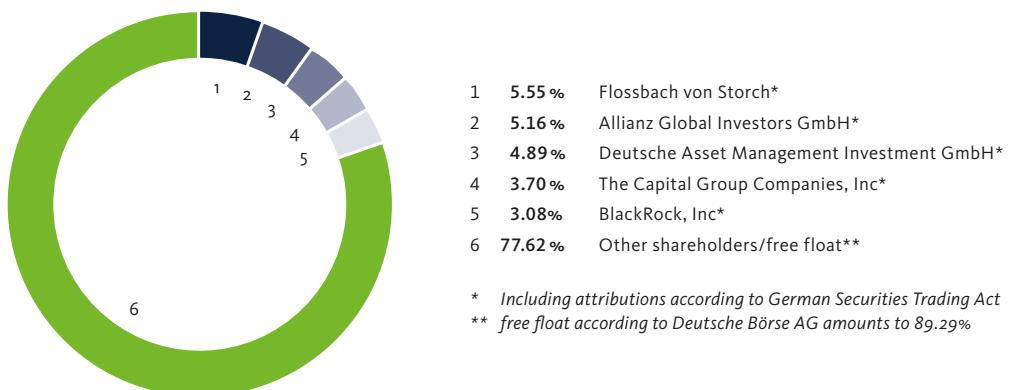
freenet AG's share capital totals 128,061,016 euros and is divided into 128,061,016 registered no-par-value shares. Each share represents 1.00 euro of the share capital.

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 February, Flossbach von Storch (Germany) informed us that it had exceeded the 3 per cent reporting threshold. On 8 February its share of the voting rights in freenet AG amounted to 3.033 per cent (3,873,898 voting rights)
- In February, Allianz Global Investors Fund (Luxembourg) informed us that it had exceeded the 3 per cent reporting threshold. On 20 April 2015 its share of the voting rights in freenet AG amounted to 3.07 per cent (3,936,052 voting rights)
- In February, Flossbach von Storch SICAV (Luxembourg) informed us that it had exceeded the 3 per cent reporting threshold. On 22 February its share of the voting rights in freenet AG amounted to 3.06 per cent (3,927,881 voting rights)
- In March, BNP Paribas Asset Management (France) informed us that it had exceeded the 3 per cent reporting threshold. On 5 February its share of the voting rights in freenet AG amounted to 3.01 per cent (3,850,077 voting rights)
- In March, Capital Income Builder (USA) informed us that it had fallen below the 3 per cent reporting threshold. On 11 March its share of the voting rights in freenet AG amounted to 2.93 per cent (3,751,148 voting rights)
- In March, BNP Paribas Asset Management (France) informed us that it had fallen below the 3 per cent reporting threshold. On 22 March its share of the voting rights in freenet AG amounted to 2.985 per cent (3,882,430 voting rights)
- In March, Flossbach von Storch (Germany) informed us that it had exceeded the 5 per cent reporting threshold. On 21 March its share of the voting rights in freenet AG amounted to 5.004 per cent (6,398,624 voting rights)
- In March, Deutsche Asset Management Investment (Germany) informed us that it had exceeded the 5 per cent reporting threshold. On 23 March its share of the voting rights in freenet AG amounted to 4.89 per cent (6,261,015 voting rights)
- In March, Flossbach von Storch (Germany) informed us that it had exceeded the 5 per cent reporting threshold. On 23 March its share of the voting rights in freenet AG amounted to 5.55 per cent (7,111,663 voting rights)

As a result, the shareholder structure of freenet AG on 31 March 2016 was as follows:

Figure 3: Current shareholder structure



Based on the voting rights disclosures received during the quarter under review, free float has decreased from 79.82 per cent by 2.21 percentage points to 77.62 per cent compared with the end of 2015.



INTERIM

GROUP MANAGEMENT REPORT



# ECONOMIC REPORT

## Business performance

As an independent service provider, freenet AG serves the digital lifestyle growth market with integrated product worlds, customer-oriented services and attractive mobile tariffs for all German mobile networks. The company's portfolio comprises its own tariffs and services as well as corresponding offerings of the network operators in Germany in the traditional mobile communication/mobile internet business segment. The company also offers innovative digital applications relating to home automation and security, health, data security, entertainment and info-tainment – incl. the current smartphones, tablets and notebooks as devices plus attractive accessories.

The main target group are private customers, addressed within the framework of a multi-brand strategy: In view of the fierce competition within the sector, the primary brand mobilcom-debitel focuses primarily on high quality contract relations with regard to signing up new customers and managing existing customers; in addition, the discount brands of freenet cover the no-frills sector.

In the first quarter of 2016, freenet AG consistently continued its successful strategy relating to digital lifestyle, mobile communications and mobile internet, and further expanded its offerings and activities in these segments. At the same time, with major investments/acquisitions, the company concluded a further strategic step in the direction of becoming the leading digital lifestyle provider.

### Acquisitions to complement strategic direction

In the first quarter of 2016, freenet AG succeeded in breaking into digital TV business with two fundamental acquisitions/investments.

- All shares of the Media Broadcast Group have been acquired. The Cologne-based company is the sole commercial provider of DVB-T and

DVB-T2-HD which is due to start in Germany in the course of the coming months. This new standard permits the terrestrial broadcasting of what will then be a complete package of stations in full-HD quality without cables and sockets, and addresses millions of German TV households which are currently already using DVB-T. This service will be complemented by access to the media libraries of the stations. The package which has been acquired also includes radio (VHF and DAB) as well as the network service for TV production; the satellite activities of Media Broadcast were spun off before the acquisition.

- freenet has acquired a 24.99 per cent stake in EXARING AG, and has secured the rights to that company's closed IP platform for innovative entertainment services. The company, which is based in Munich, has its own fibre-optic network and uses this as the basis for providing moving image entertainment for 23 million German households with transmissions of up to 8K – and thus also future innovations such as virtual reality and holography/3D. The current stake in EXARING AG is to be considered as an initial investment which is planned to be increased step by step. According to this freenet AG has secured the option to purchase further 25.02 per cent in EXARING AG on equal terms until the end of 2016. This would result in a possible increase of the company's stake in EXARING AG to 50.01 per cent. EXARING AG is included as fully consolidated company as of 31 December 2015, this means already with the 24.99 per cent stake. The background for that are contractual rights that entitle freenet to exercise control of this subsidiary any time by occupying the majority of the EXARING AG executive bodies.

In this way, freenet AG has laid the foundation for marketing, in the course of this financial year, TV to private customers in excellent image quality with its considerable retail expertise. With the EXARING investment, freenet also addresses the rapidly

expanding market of streaming and video-on-demand services in Germany.

In mid-March, freenet AG signed an agreement for acquiring up to 11,051,578 shares of Sunrise Communications Group AG, Zurich; this is equivalent to a 24.56 per cent stake in the company. Sunrise is the largest private telecommunications provider in Switzerland, with more than 3 million customers in the fields of mobile communications, landline, internet and digital TV.

## New offerings extending the digital lifestyle portfolio

In the recent financial years, mobilcom-debitel has set new accents in the market segments of energy and security with innovative smart home solutions. The first quarter of 2016 saw the start of e-health, a further area of activity with a range of products: Under the heading of "SmartCare", digital technologies for preventing illness as well as for physical and mental well-being are now available from [www.md.de/smartcare](http://www.md.de/smartcare).

The well-being offerings comprise "Withings Aura" – a digital wellness oasis with individually controllable light and sound options enabling users to fall asleep and wake up in a relaxed manner – as well as additional paid options of sensor-controlled sleep monitoring. And also the "Withings Smart Body Analyser": These multi-function scales control by app the weight, body mass index as well as body fat content, and the offering is rounded off by differentiated information for different body types, automatic measurement of heart rate as well as additional features such as room air quality or daily weather report.

In the field of fitness, "Gymondo" (the leading portal for online training) offers more than 20 programmes and more than 250 courses which enable the user's own four walls to be turned into a sport studio. The subscription which can be terminated on a monthly basis costs 8.99 euros; if a two-year contract is taken out, this figure falls to 4.99 euros per month. The fitness tracker Jawbone UP2 is an ideal addition in this respect: The sleek wrist band checks the fitness of its user, suggests activity plans, provides support for balanced nutrition and features the further benefits of a long battery time and an integrated alarm function with a vibration alarm. And for a monthly charge starting at 8 euros per month, "NeuroNation" can be

used for analysing brain fitness, creating customised exercise programmes and improving concentration and cognitive performance by means of specific memory training.

The subject of electro-mobility is becoming increasingly important in public discussions. This is the reason why freenet.de GmbH started the new internet platform [www.stromschnell.de](http://www.stromschnell.de) at the end of January. This information portal which is optimised for all display sizes offers up-to-the-minute articles relating to sustainable mobility which have been researched by the company's own editing staff, with messages and background relating to technology and sustainability, with model overviews and cost analyses.

In November of last year, mobilcom-debitel started the "Sunday Block Buster" campaign for the acquisition of attractively priced devices. In the course of these weekly bargain actions, the company for instance offered the 32GB version of the Samsung Galaxy S6 for approximately 400 euros in February – a saving of 150 euros compared with the official selling price. A further highlight followed in mid-March, in the form of the Galaxy Tab A LTE 9.7 for around 235 euros instead of the official 340 euros. And as the "Easter Sunday Block Buster", there were the online scales Medisana BS 444 connect for approximately 25 euros instead of the recommended retail price of 70 euros. Using highly sensitive stainless steel electrodes, the Bluetooth body analysis scales measure not only weight, muscle mass, body fat and water, but also the body-mass index as well as daily calorie requirement, and transmits the figures by app for up to eight different persons.

In addition, since the beginning of February, the company has been offering its mobile communications' customers "Save.TV" with flexible contract terms for prices starting at 4.99 euros per month. Thanks to numerous apps for IOS, Android, Windows, KindleFire and SmartTV, the completely browser-based online video recorder can be used for streaming or programming recordings from more than 45 TV stations after they have been broadcast in free-TV; without an existing mobile contract, Save.TV is available for prices starting at 9.99 euros per month.

A further new offering of mobilcom-debitel ("pocket-story") started at the end of the quarter. With this online kiosk virtually for the user's pocket, the customer is able to access carefully selected articles, reports, essays and analyses of the main newspapers and magazines as well as access to individual

chapters of books; they are all optimised for mobile reading on a smartphone or tablet. Further features such as search, filter and offline read function, adjustment to preferences, saving and sharing are also available. The media flat rate is available in two versions for approximately 5 or 8 euros per month.

And finally, at the end of January, GRAVIS reduced the iPad Pro by up to 120 euros compared with the RRP of Apple depending on the specific version. At the same time, the freenet subsidiary also reduced the Apple wireless keyboard by more than 25 per cent compared with other low-cost dealers, to approximately 50 euros. And in February, the Bowers & Wilkins P3 headphones were for instance available for approximately 70 euros – approximately 20 per cent lower than the current internet price comparison.

### Special tariff actions contribute towards sustainable customer growth

As was the case last year, freenet carried out further attractive tariff actions for its main and discount brands in the first quarter of 2016, and was again very well received in the various market segments. These very attractive offers were generally available at short notice and for a limited period via the company's own trading platform [www.crash-tarife.de](http://www.crash-tarife.de) or comparable platforms. A selection is set out in the following:

- At the end of January, mobilcom-debitel offered the Smart Surf in the Vodafone network for a price of 9.99 euros per month – a price which, including two credit notes for a total of 144 euros, was reduced even further to 3.99 euros per month over the two years of the contract. This offer provided the user with 1GB of data with a speed of 14.4 mbps and additional 50 free minutes and 50 free text messages into all German networks.
- In mid-February, the subsidiary klarmobil reduced the price of the AllNet-Spar-Flat offer by 10 euros to 14.85 euros – also with the best D-network quality. This flat rate comprises unlimited free calls into all German networks, 1 GB of data with maximum bandwidth of up to 28 mbps, text messages for a price of 9 cent and an Amazon voucher for 20 euros.
- At the beginning of March, klarmobil reduced this flat rate offer in the Telekom network by a further 5 euros to 9.85 euros in the first year of the contract – with a data volume of 500 MB; the maximum surf speed of 14 mbps is throttled to

the GPRS level after the volume limit has been attained.

- In mid-march, mobilcom-debitel halved the Comfort Allnet price to the theoretically same level, in this case with the aid of an initial credit of 120 euros. The tariff in the o2 network comprises a mobile internet flat rate with an unthrottled inclusive volume of 1GB with a maximum bandwidth of 21.6 mbps as well as a flat rate for calls into all German networks.

### mobilcom-debitel is starting a spring campaign

In the financial year 2015, the “Costa Fast Gar Nix” or “Costa Gans Wenig” offers provided a provocative face to the summer and Christmas campaign of mobilcom-debitel. With the extremely emotional material, the campaigns became one of the most effective of recent years – all relevant measurement criteria and the number of new customers in the shops which were involved subsequently increased. The campaigns comprised traditional marketing measures such as TV spots, online communication and numerous activities at the PoS – including flyers detailing the offer, displays and shop window stickers.

In the course of the spring campaign, “Costa Fast Gar Nix” presented attractive digital lifestyle and mobile offers. It started at the beginning of February for three months, and comprised two four-week TV flights with more than 2,000 spots on private stations with a strong reach, online advertising, a wide range of PoS measures, extensive promotions, direct mailing with circulations of several millions as well as social media and PR. The highlights among the various offers included for instance hardware such as the Samsung Galaxy Grand Prime, the LED Sengled Pulse Solo, various smartphone tariffs and digital lifestyle options of Gymondo, Zattoo, mobilcom-debitel AudioBooks and up to 50 per cent reduced accessories. And Valentine's Day saw regional promotion actions with “Watch-out Flyers” incl. competitions and further games/prizes on the social media channels of mobilcom-debitel.

As a result of the spring campaign, the brand awareness of mobilcom-debitel reached an all-time high since the introduction of regular monthly measurement, with stabilised figures of around 80 per cent. There was also a considerable increase in the perception of the company as a digital lifestyle provider: In the first quarter of 2016, 45 per cent of persons

covered by the survey agreed with the statement: "mobilcom-debitel has innovative products", compared with 13 per cent in Q4/2015; with regard to the statement "mobilcom-debitel offers more than mobile communications", approval improved from 18 per cent Q4/2015 to the current figure of 50 per cent.

### klarmobil relaunches info portal "MIC"

In March, the subsidiary klarmobil GmbH upgraded its information portal with innovative formats and subjects as well as new design and value for the readers: In

addition to the traditional news, tips, tricks and tests of hardware and Apps, "MIC" now offers a virtually established series of "extreme tests" for current gadgets. In addition, the complex offerings are rounded off by moving images, attractive games, reports and an extensive social-media link incl. response modules. Because around 70 per cent of users access the MIC contents by means of a smartphone or tablet, the relaunch additionally focussed on mobile user friendliness; in this way, readers are now guided intuitively through digital worlds, new applications and products.

## Key drivers of the business development

### Customer base development in the Mobile Communications segment

Table 1: Customer development in the Mobile Communications segment

In million	31.3.2016	31.12.2015	30.9.2015	30.6.2015	31.3.2015
Mobile Communications customers/cards	12.15	12.24	12.28	12.38	12.54
Thereof customer ownership	9.37	9.30	9.21	9.11	9.04
Thereof postpaid	6.36	6.31	6.23	6.16	6.10
Thereof no-frills	3.01	2.99	2.97	2.94	2.94
Thereof prepaid	2.79	2.94	3.07	3.27	3.50

In 2016, freenet AG will continue to pursue its policy of focusing on valuable customer relations in the acquisition of new customers and the management of existing customers, in order to further enhance the non-financial performance indicator customer ownership. The results in the period under review are very encouraging. Compared with the previous year, customer ownership numbers increased by approximately 331,000 participants or 3.7 per cent to the current figure of 9.37 million. Compared with the previous quarter, this constitutes an increase of 70,000 participants or 0.8 per cent.

The most significant contributor to the increase in customer ownership is the postpaid customer portfolio which is important for the strategic orientation of business and in which all of the Mobile Communications contracts with a term of 24 months marketed in the Group are pooled. Compared with the previous year, the numbers in this customer group have increased by 260,000 participants or 4.3 per cent to

6.36 million. Compared with 31 December 2015, this constitutes an increase of approximately 45,000 or 0.7 per cent.

All of the Mobile Communications tariffs that are distributed via the Group's discount brands are pooled in the no-frills field. Despite the focus on postpaid customers, the number of customers in this segment also increased by 71,000 participants or 2.4 per cent compared with the previous year. With an increase of approximately 24,500 participants or 0.8 per cent, the number of no-frills customers of the previous quarter was also exceeded.

The number of prepaid SIM cards in circulation that are distributed via the main brand mobilcom-debitel declined further to a final total of 2.79 million cards during the quarter under review. This decline is again attributable to network operators deactivating unused SIM cards (technical churn).

## Monthly average revenue per user in the mobile communications segment (ARPU)

Table 2: Monthly average revenue per user (ARPU)

In EUR	Q1/2016	Q4/2015	Q3/2015	Q2/2015	Q1/2015
Postpaid	21.5	21.3	21.9	21.4	21.1
No-frills	2.4	2.4	2.6	2.6	2.4
Prepaid	2.9	3.1	3.2	3.0	2.6

The positive development in postpaid ARPU which was evident last year continued in the first quarter of 2016. Compared with the previous year, the average monthly revenue per customer increased by 0.4 euros from 21.1 euros to the current figure of 21.5 euros in the reporting quarter. There was also an increase of 0.2 euros compared with the previous quarter. This development has again confirmed our strategy of focusing on valuable customer relations in the acquisition of new customers and the management of existing customers.

The average monthly revenue of 2.4 euros generated in the no-frills customer segment is in line with the previous quarter and also in line with the previous year quarter.

In the prepaid sector, ARPU in the first quarter of 2016 amounted to 2.9 euros, representing an increase of 0.3 euros compared with the previous year quarter. Compared with the previous quarter, there was a slight decline of 0.2 euros.

## Management system

### Financial and non-financial performance indicators

With regard to the strategic alignment of the freenet Group, the Executive Board of freenet focuses on the interests of all stakeholders. To implement this policy, the Executive Board uses a standardised management system at the Group level and the individual subsidiaries, focusing on financial and non-financial control parameters. The following financial performance indicators are of particular relevance for control purposes:

- Revenue
- EBITDA
- Free cash flow
- Postpaid ARPU

The Executive Board has also defined the following non-financial performance indicators:

- Customer ownership

Taking account of the ongoing expansion of our digital lifestyle activities and in view of the planned development of a new area of TV operations in connection with the acquisition of the Media Broadcast Group and our equity participation in EXARING AG, we constantly monitor the composition of all internal control parameters. If a corresponding need for adjustment is

identified, we may adjust our internal control parameters. In the first quarter of 2016, no adjustments were made compared with the previous year.

### 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

At the end of the first quarter, the number of employees had increased to 4,990, compared with 4,367 at the end of 2015 and 4,713 at the end of the first quarter of 2015.

This increase is mainly attributable to the acquisition of the Media Broadcast Group.

# Assets, earnings and financial position

## Revenue and earnings position

Table 3: The Group's key performance indicators

In EUR '000s	Q1/2016	Q1/2015	Change
Revenue	749,183	748,474	709
Gross profit	192,227	191,391	836
Overhead costs	-103,100	-105,362	2,262
EBITDA	89,127	86,029	3,098
EBIT	67,273	70,574	-3,301
EBT	55,532	61,028	-5,496
<b>Group result</b>	<b>51,320</b>	<b>56,214</b>	<b>-4,894</b>

**GROUP REVENUE** in the first quarter of 2016 amounted to 749.2 million euros, and was in line with the corresponding figure for the previous year. The considerable increase in customer ownership numbers (9.37 million customers at the end of March 2016 compared with 9.04 million customers at the end of March 2015) in conjunction with higher postpaid ARPU (21.5 euros in Q1/2016 compared with 21.1 euros in Q1/2015) and revenue of the Media Broadcast Group which was included for the first time (10.4 million euros for the 14 days from 18 to 31 March 2016) were opposed by lower fees for premiums and commissions as a result of lower gross activation figures.

The **GROSS PROFIT MARGIN** increased by 0.1 percentage points to 25.7 per cent, and was thus in line with the corresponding figure for the previous year quarter. This is equivalent to an increase in gross profit of 0.4 per cent to 192.2 million euros compared to the first quarter of 2015.

**OVERHEAD EXPENSES**, which form the difference between gross profit and EBITDA, and which include the items other **OPERATING INCOME, OTHER OWN WORK CAPITALISED, PERSONNEL EXPENSES, OTHER OPERATING EXPENSES, AND THE RESULTS OF COMPANIES RECOGNISED USING THE EQUITY METHOD (ONLY ELEMENTS OF RESULTS)** declined by 2.3 million euros compared with Q1/2015. On the one hand, lower personnel expenses in conjunction with increased efficiency of operating processes as well as one-off income generated by the disposal of „mds Repair/Service“ assets of 3.3 million euros resulted in a decline in overhead costs. On the other hand, there has been an increase in overhead costs as a result of the rise in other operating expenses, mainly in connection with the acquisitions and an increase in the percentage of

insourced services in line with the reduction in personnel expenses.

The Group earnings from continued operations before interest, taxes, depreciation and amortisation (**EBITDA**) in the reporting quarter 2016 are stated at 89.1 million euros, an increase of 3.1 million euros compared with the corresponding previous year quarter.

**DEPRECIATION AND IMPAIRMENT WRITE-DOWNS** increased by 6.2 million euros compared with the previous year, namely to 21.7 million euros, mainly as a result of the increased inventories of software, licences and similar rights in connection with purchase price allocations from acquisitions (EXARING AG, Media Broadcast Group).

The **NET INTEREST INCOME**, i.e. the balance between interest income and interest expenses, is disclosed as -11.7 million euros in the reporting period (Q1/2015: -9.5 million euros). The net interest expenses mainly related to the corporate bond which is due upon final maturity in April 2016. The increase in net interest expenses compared with the first quarter of 2015 is mainly attributable to the refinancing in connection with the acquisitions.

As a result of the effects explained above, the **EARNINGS BEFORE TAXES ON INCOME (EBT)** amounted to 55.5 million euros, representing a decline of 5.5 million euros compared with the previous year.

**INCOME TAX** expenses of 4.2 million euros were reported for the period under review in 2016 (Q1/2015: 4.8 million euros). Current tax expenses of 5.8 million euros (Q1/2015: 8.2 million euros) were netted with

deferred tax income of 1.6 million euros (Q1/2015: 3.4 million euros), mainly as a result of the write-up of deferred tax assets from tax loss carry-forwards.

As was the case in the corresponding period of the previous year, **GROUP EARNINGS** reported in the first

quarter of 2016 was exclusively attributable to continued operations, and amounted to a total of 51.3 million euros; compared with the figure of 56.2 million euros reported for the previous year comparison quarter, this represents a decline of 4.9 million euros.

## Assets and financial position

Table 4: Selected Group balance sheet figures

### Assets

In EUR million	31.3.2016
Non-current assets	3,583.9
Current assets	1,024.5
<b>Total assets</b>	<b>4,608.3</b>

In EUR million	31.12.2015
Non-current assets	1,916.7
Current assets	807.3
<b>Total assets</b>	<b>2,724.0</b>

As of 31 March 2016, the **BALANCE SHEET TOTAL** amounted to 4,608.3 million euros, having increased by 1,884.3 million euros (69.2 per cent) compared with 31 December 2015 (2,724.0 million euros) as a result of the acquisitions of the shares in the Media Broadcast Group, Cologne, and Sunrise Communications Group AG, Zurich, Switzerland (referred to in the following as „Sunrise“).

On the **ASSETS SIDE** of the balance sheet, **NON-CURRENT ASSETS** increased by 1,667.2 million euros to 3,583.9 million euros. This is due to various factors, including the acquisition of 23.83 per cent of shares in Sunrise. As an associated company, the holding in Sunrise is disclosed under the item „Companies included using the equity method“ with a carrying amount of 718.0 million euros. As a result of the provisional purchase price allocation as part of the acquisition of 100 per cent of the shares in the Media Broadcast Group, Cologne, intangible assets increased by 548.2 million euros, goodwill increased by 220.3 million euros and property, plant and equipment increased by 191.1 million euros. In this connection, please refer to point 4 of the selected explanatory disclosures in the notes to the financial statements in accordance with IAS 34.

Within **CURRENT ASSETS**, liquid assets increased by 233.7 million euros to 503.4 million euros. This increase is attributable to inflows of 1,266.4 million

### Shareholders' equity and liabilities

In EUR million	31.3.2016
Shareholders' equity	1,426.9
Non-current and current liabilities	3,181.4
<b>Total equity and liabilities</b>	<b>4,608.3</b>

In EUR million	31.12.2015
Shareholders' equity	1,379.0
Non-current and current liabilities	1,345.0
<b>Total equity and liabilities</b>	<b>2,724.0</b>

euros from the raising of debt, due to the promissory note issued in February 2016 as well as the facilities agreement signed in March 2016, and also reflects outflows of 716.1 million euros for the acquisition of the shares in Sunrise and outflows of 297.2 million euros for repaying bank and shareholder loans of the Media Broadcast Group. Please refer to points 4, 5 and 7 of the selected explanatory disclosures in the notes to the financial statements.

On the **LIABILITIES' SIDE**, borrowing continued to be the main item within long-term and short-term debt, and increased at the end of March 2016. The increase of 1,266.5 million euros in non-current financial liabilities to 1,484.9 million euros is mainly attributable to the promissory note with a nominal amount of 560.0 million euros (carrying amount: 556.7 million euros) which was placed in February 2016 and the loan with a nominal value of 720.0 million euros which was taken out in March 2016 and which is disclosed with a carrying amount of 709.8 million euros. The corporate bond of 426.8 million euros which is due upon final maturity in April 2016 (including cumulative interest) is disclosed under current financial liabilities.

The considerable increase in various other items within the non-current and current liabilities, such as the 404.3 million euros increase in the other liabilities and deferred items, the 55.0 million euros

increase in other provisions, the 51.4 million euros increase in trade accounts payable as well as the 36.5 million euros increase in pension provisions are mainly attributable to the initial integration of the Media Broadcast Group. In this connection, please refer to point 4 of the selected explanatory disclosures in the notes to the financial statements.

The **EQUITY RATIO** declined from 50.6 per cent at the end of December 2015 to 31.0 per cent at the end of March 2016, mainly as a result of the refinancing in the first quarter. The **NET FINANCIAL DEBT** amounted to 1,411.3 million euros as of 31 March 2016, representing an increase of 1,042.1 million euros compared with the figure disclosed as of 31 December 2015.

## Cash flow

Table 5: The Group's key cash flow indicators

In EUR million	Q1/2016	Q1/2015	Change
Cash flow from operating activities	71.9	70.5	1.4
Cash flow from investing activities	-799.3	-8.0	-791.3
Cash flow from financing activities	961.1	-1.5	962.6
<b>Change in cash and cash equivalents</b>	<b>233.7</b>	<b>61.0</b>	<b>172.6</b>
<b>Free cash flow<sup>1</sup></b>	<b>64.9</b>	<b>62.2</b>	<b>2.6</b>

<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.

In the first quarter of 2016, the **CASH FLOW FROM OPERATING ACTIVITIES** is reported at 71.9 million euros, equivalent to a slight increase of 1.4 million euros compared with the previous year quarter. EBITDA increased by 3.1 million euros, and net working capital increased to the same extent as in Q1/2015 (by 5.5 million euros in each case), and the tax payments increased by 1.3 million euros compared with the previous year quarter.

**CASH FLOW FROM INVESTING ACTIVITIES** amounted to -799.3 million euros in the first quarter of 2016, compared with -8.0 million euros in the first quarter of 2015, mainly reflecting the outflows for the acquisition of shares in Sunrise and also the Media Broadcast Group.

The cash outflows for investments in intangible assets and in property, plant and equipment, netted out against the cash inflows from such assets, declined in the first quarter of 2016 compared with the previous year quarter by 1.3 million euros from 8.3 million euros to 7.0 million euros. The investments with an impact on cash flows were financed entirely from our own resources and largely concerned internally generated software in connection with the

further development of our IT systems, the renovation and enhancement of the fittings and furnishings in our mobile communications shops, and investment in IT hardware.

In the period under review, the **CASH FLOW FROM FINANCING ACTIVITIES** developed from -1.5 million euros compared with the corresponding previous year quarter, namely to 961.1 million euros, due to the inflows of 1,266.4 million euros from refinancing in the first quarter of 2016 as well as the repayment of 297.2 million euros in relation to shareholder and bank loans of the Media Broadcast Group. Besides financing interest, the interest payments of 8.1 million euros mainly relate to interest for tax payments.

As a result of the effects described above, **FREE CASH FLOW** of 64.9 million euros was generated in the first quarter of 2016 – representing an increase of 2.6 million euros compared with the level reported for the corresponding previous year quarter (62.2 million euros).

## Financial management

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

The capital structure is managed primarily through financial KPIs consisting of the debt ratio, interest cover and the equity ratio. The debt ratio indicates how much of the current operating result (EBITDA)

would be needed to pay off the company's net debt (financial debt less liquid assets). The interest cover describes the ratio between EBITDA and net interest income.

The following overview shows the key indicators of financial management with their current figures compared with the previous year quarter. For all periodic figures such as EBITDA and net interest income, the relevant period is the previous 12 months (i.e. April 2015 to March 2016 and April 2014 to March 2015).

Table 6: Key figures of financial management

	Q1/2015	Target 2015	Q1/2016	Target 2016
Debt ratio	1.0	1.0 – 2.5	3.8	1.0 – 2.5
Interest Cover	9.0	> 5	8.1	> 5
Equity ratio in %	53.6	> 50	31.0	> 50

At 3.8, the debt ratio is higher than the strategic range of between 1.0 and 2.5, due to the refinancing in connection with the acquisitions. Borrowings mainly reflect the corporate bond with a nominal value of 400.0 million euros which falls due upon final maturity in April 2016, the promissory notes for a total nominal value of 780.0 million euros which fall due upon final maturity between 2017 and 2026 as well as the amortising loan (second tranche of the refinancing) with a nominal value of 720.0 million euros which was concluded in March 2016.

At 8.1, the interest cover is somewhat lower than the corresponding figure for Q1/2015 (9.0), mainly as a

result of the increase in net interest expense due to the refinancing in connection with the acquisitions; it therefore remains well above the target.

The equity ratio as at 31 March 2016 is lower than the target level of 50 per cent; this is also due to the refinancing in the first quarter of 2016.

Despite the refinancing in relation to the acquisitions, the Executive Board has not made any changes to its financial strategy and thus continues to be committed to the targets for 2016 and 2017.

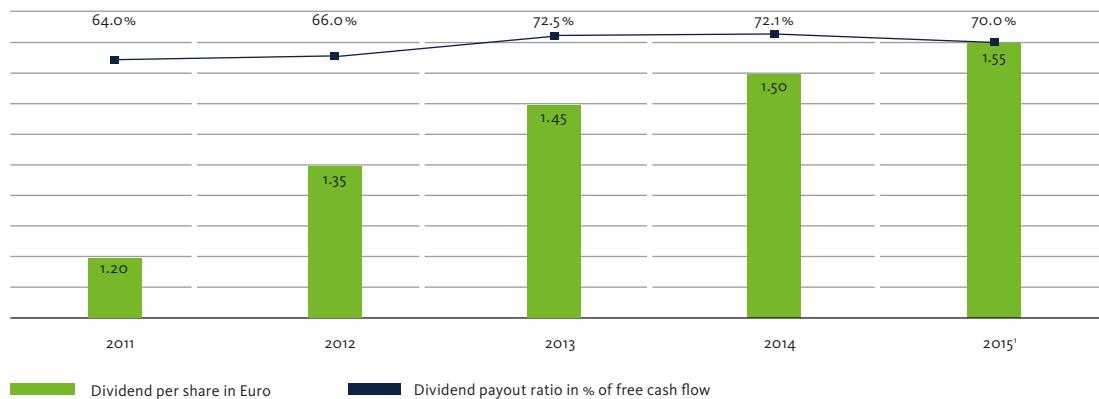
## Dividend policy

The Executive Board's current dividend policy, which was agreed with the Supervisory Board at the beginning of the financial year 2013, provides for a dividend distribution of 50 to 75 per cent of the free cash flow reported for the respective financial year. With this range, the company takes account of the interest of value-oriented shareholders in participating to an appropriate extent in the company's free cash flow. At the same time, further optimisation of the capital structure is intended to sustainably assure the enterprise value. The Executive Board continues to be explicitly committed to its current dividend policy even in view of the acquisition of the Media

Broadcast Group which was carried out in the first quarter of 2016, the equity participation in EXARING AG and the acquisition of shares in Sunrise Communications Group AG.

In view of the positive development seen in the financial year 2015, the Executive Board and the Supervisory Board intend to submit a proposal to the annual general meeting on 12 May 2016 for a dividend of 1.55 euros per dividend-bearing share to be paid out of the cumulative profit for the financial year 2015. This is equivalent to a payout rate of approximately 70 per cent of the free cash flow.

Figure 4: Dividend policy KPIs



<sup>1</sup> As Suggested by the Executive Board and the Supervisory Board.

In order to underline the sustainability of the business model, the Executive Board also intends to submit a proposal to the Supervisory Board and the annual general meeting in 2017 for a dividend of 1.60 euros per dividend-bearing share to be paid for the financial year 2016.

The Executive Board has thus provided the company's shareholders with the prospect of a dividend distribution which represents a continuous increase compared with previous years and compared with the dividend proposal for the financial year 2015.

# SIGNIFICANT EVENTS

## AFTER THE REPORTING DATE

With the closing on 14 April 2016 freenet acquired a further share of 0.73 per cent in the Sunrise share capital. The shares were purchased at a price of 72.95 CHF and are entitled to dividends immediately. For this additional purchase acquisition costs in the amount of 22.1 million euros incurred.

In total, freenet finally owns a stake of 24.56 per cent in the Sunrise share capital.

On 21 April 2016 freenet received a dividend payment in the amount of 30.1 million euros after the

resolution of the Sunrise General Meeting to distribute a dividend of 3.00 CHF per share.

On 20 April 2016 the repayment of the corporate bond at the nominal value of 400.0 million euros plus accrued interest of 28.5 million euros followed.

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

# OPPORTUNITIES AND RISK REPORT

In the first quarter of 2016, the equity participations of freenet AG in EXARING AG and Sunrise Communications Group AG as well as the acquisition of Media Broadcast Group by freenet AG were completed. The companies were integrated directly in the risk management system of freenet AG. From the point of view of the company, the initial review has not identified any major or significant risks.

Compared with the opportunities and risks described in the „Opportunities and risks report“ of our 2015 annual report, there have been no significant changes.

The 2015 annual report is available online at <http://www.freenet-group.de/investor/publications>.

# FORECAST

In view of the positive business results for 2015 and also in view of the acquisition of the Media Broadcast Group and the equity participation in EXARING AG, the Executive Board adjusted the forecast for the financial year 2016 in March of this year. The adjusted forecast of the Executive Board for the financial year 2016 which was communicated in the group management report for the financial year 2015 has been confirmed.

Accordingly, for the financial year 2016, the company aims to achieve moderate growth of group revenue, EBITDA slightly in excess of 400 million euros and free cash flow of approximately 300 million euros. As before, we expect a contribution to EBITDA of approximately 10 million euros and to free cash flow of approximately 30 million euros resulting from our latest investment in Sunrise. The targets for the development of the performance indicators postpaid ARPU and customer ownership in the financial year 2016 remain unchanged: The company continues to

expect that postpaid-ARPU will stabilise at the level seen in 2015 and that there will be a slight increase in the customer ownership numbers compared with the numbers in 2015.

The company continues to attempt to combat the general decline in end user prices and the associated trend towards lower postpaid ARPUs in the mobile communications market with its strategic focusing on maintaining and gaining valuable customer relations. It also takes account of the changed user patterns towards greater mobile data use with more intense marketing of data tariffs and devices such as smartphones and tablets. freenet AG combats the general decline in user numbers in the mobile communications market with various sales measures to an extent equivalent to that seen in 2015. The company also intends to increasingly develop new sources of revenue by way of marketing innovative products and services for mobile digital lifestyle applications including such applications in the new TV segment.

Table 7: Development of the key performance indicators

In EUR million/as indicated	Forecast of 2014 <sup>1</sup>		2015	Since beginning of the year / Q1/2016	Latest forecast
	2015	2016			
<b>Financial performance indicators</b>					
Group revenue	stable	slight increase	3,117.9	749.2	moderate increase
Group EBITDA	370	375	370.2	89.1	slightly above 400 <sup>3</sup>
Free cash flow <sup>2</sup>	280	285	284.5	64.9	around 300 <sup>4</sup>
Postpaid ARPU (in EUR)	stable	stable	21.4	21.5	stable
<b>Non-financial performance indicators</b>					
Customer Ownership (in million)	slight increase	slight increase	9.30	9.37	slight increase

<sup>1</sup> In accordance with the Group management report accompanying the consolidated financial statements for 2014.

<sup>2</sup> 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 and equipment and intangible assets.

<sup>3</sup> Further 10 million euros are expected as a result of the recent acquisition of the Sunrise stake.

<sup>4</sup> Further 30 million euros are expected as a result of the recent acquisition of the Sunrise stake.







**CONDENSED  
INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

# OVERVIEW

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# Consolidated income statement

for the period from 1 January to 31 March 2016

	Q1/2016 1.1.2016- 31.3.2016	Q1/2015 1.1.2015- 31.3.2015
In EUR '000s/as indicated		
Revenue	749,183	748,474
Other operating income	18,031	13,670
Other own work capitalised	2,392	2,566
Cost of material	-556,956	-557,083
Personnel expenses	-44,875	-50,173
Depreciation and impairment write-downs	-21,662	-15,455
Other operating expenses	-78,895	-71,456
<b>Operating result</b>	<b>67,218</b>	<b>70,543</b>
Share of results of associates accounted for using the equity method	55	31
Thereof profit share	247	31
Thereof subsequent accounting from purchase price allocation	-192	0
Interest receivable and similar income	170	250
Interest payable and similar expenses	-11,911	-9,796
<b>Result before taxes on income</b>	<b>55,532</b>	<b>61,028</b>
Taxes on income	-4,212	-4,814
<b>Group result</b>	<b>51,320</b>	<b>56,214</b>
Group result attributable to shareholders of freenet AG	51,964	55,965
Group result attributable to non-controlling interest	-644	249
<b>Earnings per share in EUR (undiluted)</b>	<b>0.41</b>	<b>0.44</b>
<b>Earnings per share in EUR (diluted)</b>	<b>0.41</b>	<b>0.44</b>
Weighted average of shares outstanding in thousand (undiluted)	128,011	128,011
Weighted average of shares outstanding in thousand (diluted)	128,011	128,011

# Consolidated statement of comprehensive income

for the period from 1 January to 31 March 2016

	Q1/2016 1.1.2016- 31.3.2016	Q1/2015 1.1.2015- 31.3.2015
In EUR '000s		
<b>Group result</b>	<b>51,320</b>	<b>56,214</b>
Change in fair value of available-for-sale financial instruments	-23	-32
Currency difference	-69	237
Income tax recognised in other comprehensive income	28	-62
<b>Other comprehensive income / to be reclassified to the income statement in the following periods</b>	<b>-64</b>	<b>143</b>
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. IAS 19 (2011)	-4,804	-5,721
Income tax recognised in other comprehensive income	1,446	1,719
<b>Other comprehensive income / not to be reclassified to the income statement in the following periods</b>	<b>-3,358</b>	<b>-4,002</b>
<b>Other comprehensive income</b>	<b>-3,422</b>	<b>-3,859</b>
<b>Consolidated comprehensive income</b>	<b>47,898</b>	<b>52,355</b>
Consolidated comprehensive income attributable to shareholders of freenet AG	48,542	52,106
Consolidated comprehensive income attributable to non-controlling interest	-644	249

# Consolidated balance sheet as of 31 March 2016

## Assets

In EUR '000s	31.3.2016	31.12.2015
<b>Non-current assets</b>		
Intangible assets	1,006,295	458,089
Goodwill	1,374,273	1,153,985
Property, plant and equipment	223,656	32,542
Investments in associates accounted for using the equity method	719,833	1,760
Other investments	1,575	1,517
Deferred income tax assets	157,760	177,337
Trade accounts receivable	77,311	79,438
Other receivables and other assets	23,179	12,045
	<b>3,583,882</b>	<b>1,916,713</b>
<b>Current assets</b>		
Inventories	78,387	79,468
Current income tax assets	3,054	3,058
Trade accounts receivable	406,205	436,009
Other receivables and other assets	33,396	18,910
Cash and cash equivalents	503,425	269,761
Assets classified as held for sale	0	101
	<b>1,024,467</b>	<b>807,307</b>
	<b>4,608,349</b>	<b>2,724,020</b>

## Shareholders' equity and liabilities

In EUR '000s	31.3.2016	31.12.2015
<b>Shareholders' equity</b>		
Share capital	128,061	128,061
Capital reserve	737,536	737,536
Cumulative other comprehensive income	-18,785	-15,363
Retained earnings	526,541	474,577
<b>Capital and reserves attributable to shareholders of freenet AG</b>	<b>1,373,353</b>	<b>1,342,811</b>
Capital and reserves attributable to non-controlling interest	53,580	54,224
	<b>1,426,933</b>	<b>1,379,035</b>
<b>Non-current liabilities</b>		
Trade accounts payable	26,400	0
Other payables	422,367	42,452
Borrowings	1,484,851	218,382
Deferred income tax liabilities	6	6
Pension provisions	87,691	51,191
Other provisions	56,480	8,044
	<b>2,077,795</b>	<b>320,075</b>
<b>Current liabilities</b>		
Trade accounts payable	468,722	443,718
Other payables	132,382	107,975
Current income tax liabilities	45,831	32,465
Borrowings	429,876	420,532
Other provisions	26,810	20,220
	<b>1,103,621</b>	<b>1,024,910</b>
	<b>4,608,349</b>	<b>2,724,020</b>

# Schedule of changes in equity

for the period from 1 January to 31 March 2016

In EUR '000s	Cumulative other comprehensive income						Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
	Share capital	Capital reserve	Revaluation reserve	Currency difference	Valuation reserve in accordance with IAS 19	Retained earnings			
<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>
Group result	0	0	0	0	0	55,965	55,965	249	56,214
Recognition of actuarial gains and losses acc. IAS 19 (2011) <sup>1</sup>	0	0	0	0	-4,002	0	-4,002	0	-4,002
Change in fair value of available-for-sale financial instruments <sup>1</sup>	0	0	-23	0	0	0	-23	0	-23
Foreign currency translation <sup>1</sup>	0	0	0	166	0	0	166	0	166
Sub-total: Consolidated comprehensive income	0	0	-23	166	-4,002	55,965	52,106	249	52,355
<b>As of 31.3.2015</b>	<b>128,061</b>	<b>737,536</b>	<b>-122</b>	<b>413</b>	<b>-25,445</b>	<b>501,590</b>	<b>1,342,033</b>	<b>3,942</b>	<b>1,345,975</b>

In EUR '000s	Cumulative other comprehensive income						Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
	Share capital	Capital reserve	Revaluation reserve	Currency difference	Valuation reserve in accordance with IAS 19	Retained earnings			
<b>As of 1.1.2016</b>	<b>128,061</b>	<b>737,536</b>	<b>-139</b>	<b>364</b>	<b>-15,588</b>	<b>474,577</b>	<b>1,324,811</b>	<b>54,224</b>	<b>1,379,035</b>
Group result	0	0	0	0	0	51,964	51,964	-644	51,320
Recognition of actuarial gains and losses acc. IAS 19 (2011) <sup>1</sup>	0	0	0	0	-3,358	0	-3,358	0	-3,358
Change in fair value of available-for-sale financial instruments <sup>1</sup>	0	0	-16	0	0	0	-16	0	-16
Foreign currency translation <sup>1</sup>	0	0	0	-48	0	0	-48	0	-48
Sub-total: Consolidated comprehensive income	0	0	-16	-48	-3,358	51,964	48,542	-644	47,898
<b>As of 31.3.2016</b>	<b>128,061</b>	<b>737,536</b>	<b>-155</b>	<b>316</b>	<b>-18,946</b>	<b>526,541</b>	<b>1,373,353</b>	<b>53,580</b>	<b>1,426,933</b>

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

# Consolidated statement of cash flows

for the period from 1 January to 31 March 2016

	Q1/2016 1.1.2016- 31.3.2016	Q1/2015 1.1.2015- 31.3.2015
In EUR '000s		
<b>Result before interest and taxes (EBIT)</b>	<b>67,273</b>	<b>70,574</b>
<b>Adjustments</b>		
Depreciation and impairment on items of fixed assets	21,662	15,455
Share of results of associates accounted for using the equity method	-55	-31
Gains on the disposal of fixed assets	-153	-56
Increase in net working capital not attributable to investing or financing activities	-5,545	5,464
Tax payments	-11,297	-9,971
<b>Cash flow from operating activities</b>	<b>71,885</b>	<b>70,507</b>
Investments in property, plant and equipment and intangible assets	-7,321	-8,395
Proceeds from the disposal of property, plant and equipment and intangible assets	317	121
Payments for the acquisition of subsidiaries	-76,633	0
Proceeds from the sale of subsidiaries	0	100
Payments for associates, accounted for using the equity method	-716,107	0
Interest received	416	188
<b>Cash flow from investing activities</b>	<b>-799,328</b>	<b>-7,986</b>
Proceeds from new borrowings	1,266,400	0
Cash repayments of borrowings	-297,231	-98
Interest paid	-8,062	-1,380
<b>Cash flow from financing activities</b>	<b>961,107</b>	<b>-1,478</b>
<b>Cash-effective change in cash and cash equivalents</b>	<b>233,664</b>	<b>61,043</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>269,761</b>	<b>111,944</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>503,425</b>	<b>172,987</b>
<b>Composition of cash and cash equivalents</b>		
In EUR '000s	31.3.2016	31.3.2015
Cash and cash equivalents	503,425	172,987
<b>503,425</b>	<b>172,987</b>	
<b>Composition of free cash flow</b>		
In EUR '000s	31.3.2016	31.3.2015
Cash flow from operating activities	71,885	70,507
Investments in property, plant and equipment and intangible assets	-7,321	-8,395
Proceeds from the disposal of property, plant and equipment and intangible assets	317	121
<b>Free cash flow (FCF)</b>	<b>64,881</b>	<b>62,233</b>

# SELECTED EXPLANATORY NOTES IN ACCORDANCE WITH IAS 34

## Major accounting, valuation and consolidation principles

1. In accordance with the European Parliament and Council Directive 1606/2002, these condensed consolidated interim financial statements have been prepared in line with the international accounting standards adopted by the European Union (the International Financial Reporting Standards; IFRS) in accordance with IAS 34. The Group has taken account of all IFRS which have been adopted by the EU and which are the subject of mandatory adoption. An audit review has not been carried out for these condensed consolidated interim financial statements.

The Group has applied all of the accounting standards which are mandatory as of the reporting date. The accounting standards whose application was mandatory for the first time as of 1 January 2016 have no significant impact on these condensed consolidated interim financial statements of freenet AG. The standards relate to the Annual Improvements Project 2012 to 2014 - Improvements in IFRS (IFRS 5, IFRS 7, IAS 19, IAS 34), the amendments to IFRS 11 (Balancing an acquisition of shares in Joint Operations), IAS 16 and IAS 38 (Clarification of Acceptable Methods of Depreciation and Amortisation), IAS 16 and IAS 41 (Bearer Plants), IFRS 10, IFRS 12 and IAS 28 (Investment Entities: Applying the Consolidation Exception), IAS 27 (Equity Method in Separate Financial Statements) as well as IAS 1 (Disclosure Initiative).

The accounting valuation methods used to prepare the condensed consolidated interim financial statements for the period ending 31 March 2016 and to establish the benchmark figures for the previous year are the same as those used in the consolidated financial statements for the period ending 31 December 2015, taking account of the above-mentioned accounting standards which were applied for the first time as well as the extended break-down of the income statement described in point 2. A detailed description of the accounting and valuation policies of the Group is set out in the notes to the consolidated financial statements as of 31 December 2015 of freenet AG.

2. With the acquisition of shares in the associated company Sunrise Communications Group AG, Zurich, Switzerland (referred to in the following as „Sunrise“), a new situation has arisen for the freenet Group with regard to the presentation of the income statement item „Share of results of associates accounted for using the equity method“: In the past, an associated company has subsequently been recognised at our Group only by way of writing up or writing down the carrying amount of the investment as a result of the interests in current results and also, where appropriate, writing down the carrying amount as a result of impairments. The provisional shadow purchase price allocation for the Sunrise acquisition has resulted in intangible assets which have to be written down and thus a further element of the share of results of associates accounted for using the equity method. Please refer to our comments to point 5 of the selected explanatory disclosures in the notes to the financial statements. In order to achieve better transparency of the share of results of associates accounted for using the equity method, we have therefore included lines for the corresponding „Thereof“ details for this item.

As has been the case in the past, only the profit share from the item „Share of results of associates accounted for using the equity method“ have been used for calculating our key financial performance indicator EBITDA.

The depreciations resulting from the subsequent accounting of the shadow purchase price allocation do not impact Group EBITDA.

## Significant events and transactions

3. The acquisition of 24.99 per cent of the shares and voting rights of EXARING AG, Munich (referred to in the following as „EXARING“) was described in the consolidated financial statements for the period ending 31 December 2015. 31 December 2015 was chosen as the reference date of initial consolidation. Of the final cash price of 25.0 million euros, the Group reported a cash outflow of 5.0 million euros in the fourth quarter of 2015. The acquiring party freenet AG paid the remaining 20.0 million euros in the first quarter of 2016. Because this payment was made by way of a contribution to the capital reserve of the previously fully consolidated EXARING, the cash flow from investing activities of the first quarter in 2016 was not affected from the point of view of the Group. The provisional purchase price allocation detailed under point 36 of the notes to the consolidated financial statements for the period ending 31 December 2015 is identical to the final purchase price allocation which has now been drawn up - accordingly, all disclosures set out in the above-mentioned notes to the consolidated financial statements are valid without any changes.

In the first quarter of 2016, EXARING did not make any contribution to consolidated external revenue, as the company is in the product preparation phase. The contribution of EXARING to the consolidated profit after tax was of minor significance.

4. mobilcom-debitel GmbH, a wholly-owned subsidiary of freenet AG, signed a purchase agreement dated 3 March 2016 with Tyrol Acquisition 1 & Cie S.C.A., Luxembourg (the vendor) for the acquisition of 100 per cent of the shares in the Media Broadcast Group. The Media Broadcast Group consists of two holding companies and the main operating company Media Broadcast GmbH, Cologne, as well as additional subsidiaries and equity participations. The Satellite operations of the Media Broadcast Group (Media Broadcast Satellite GmbH and Media Broadcast Satellite Services GmbH) are not covered by the acquisition. The Media Broadcast Group employs more than 700 employees.

Following the approval of the cartel authorities, the acquisition was completed as of 17 March 2016, which enabled the Group to acquire control over this subsidiary. Since 18 March 2016 (reference date of initial consolidation), the Media Broadcast Group has been included in the consolidated financial statements of freenet AG.

The purchase price for the acquisition of the shares, which is not subject to any adjustments, is stated as 113.0 million euros. Of this figure, the Group has reported a cash outflow of 101.7 million euros. The Group acquired net liabilities for the difference of 11.4 million euros (other receivables of 13.5 million euros as well as other liabilities of 24.9 million euros).

In addition, the Group paid an amount of 195.0 million euros to the vendor for acquiring a loan receivable due from the Media Broadcast Group, and redeemed bank liabilities of the Media Broadcast Group in the amount of 102.2 million euros.

The Media Broadcast Group is the sole commercial provider of DVB-T2 and DAB+ in Germany. DVB-T is currently used in more than seven million TV households; of this figure, approximately three million TV households use DVB-T via mobile devices such as sticks and dongles. It offers the advantage of free availability and greater ease of installation compared with cable and satellite – although with a limited range of channels. This situation is significantly improved by DVB-T2-HD. Following the start of the first phase of DVB-T2-HD in the second quarter of 2016, the terrestrial second-generation aerial transmission will enable users to receive the complete range of channels in full-HD starting in the second quarter of 2017, with the additional advantage of access to on-demand services such as the respective media libraries of the broadcasting stations. Private programmes are offered in return for an access charge, which is changing the market environment for this technology. The acquisition of the Media Broadcast Group, in conjunction with the previously acquired holding in EXARING AG, represents an important addition to the strategic development of freenet AG

towards becoming the leading digital lifestyle provider in Germany. The entry into the new field of linear and internet-based TV is providing the Company with the opportunity of achieving further diversification in the digital lifestyle field and of developing new growth potential and sources of revenue.

The purchase price allocation carried out in accordance with IFRS 3 for the acquisition of the Media Broadcast Group is of a preliminary nature. The acquired assets and liabilities of the Media Broadcast Group have not yet been completely identified and valued in view of the size and complex nature of the acquisition as well as the close proximity of the completion of the transaction to the date of preparing these condensed consolidated interim financial statements. Accordingly, all figures in relation to the acquisition in these condensed consolidated interim financial statements have to be considered to be provisional.

The following overview provides information concerning the assets and liabilities of the Media Broadcast Group acquired at fair values at the time of initial consolidation:

### Assets and liabilities of the Media Broadcast Group measured at fair values as of 17 March 2016

<b>Assets</b>		<b>Shareholders' equity and liabilities</b>	
	In EUR '000s		17.3.2016
<b>Non-current assets</b>		<b>Non-current liabilities</b>	
Intangible assets	562,252	Trade accounts payable	27,660
Goodwill	220,288	Other payables	395,750
Property, plant and equipment	191,573	Borrowings	297,193
Other investments	64	Deferred income tax liabilities	22,635
Trade accounts receivable	469	Pension provisions	31,731
	<b>974,646</b>	Other provisions	47,898
<b>Current assets</b>			<b>822,867</b>
Trade accounts receivable	17,858	<b>Current liabilities</b>	
Other receivables and other assets	33,180	Trade accounts payable	66,261
Cash and cash equivalents	25,036	Other payables	13,170
	<b>76,074</b>	Current income tax liabilities	26,989
	<b>1.050,720</b>	Other provisions	8,397
			<b>114,817</b>
			<b>937,684</b>

The purchase price is reflected by the difference between the assets and liabilities of 113.0 million euros for the acquired shares. On the basis of the provisional determination of the acquired assets and liabilities, goodwill of approximately 220 million euros and intangible assets of approximately 100 million euros have been disclosed. In addition, a corresponding asset of approximately 460 million euros and a corresponding liability of the same amount have been derived from a framework tenancy agreement. The goodwill is based in particular on the cash flow from the process of establishing the new B2C field.

In the segment reporting of the freenet Group, the Media Broadcast Group was initially allocated to the „Other/holding“ segment in these condensed consolidated interim financial statements, because, at the time at which these condensed consolidated interim financial statements were prepared, the main decision-makers of the Group were not yet in possession of a report structure which had been amended in comparison with the previous published consolidated financial statements.

During the 14 days after the time of its initial consolidation (18 March to 31 March 2016), the Media Broadcast Group contributed a total of 10.4 million euros to Group revenue with third parties. If the transaction had

taken place as of 1 January 2016, the contribution to the consolidated revenue for the first three months of 2016 would have been 69.0 million euros. The contribution to the result of the Group after tax was of minor significance. This would still have been the case had the transaction taken place on 1 January 2016.

5. With the agreement dated 17 March 2016, freenet acquired a 23.83 per cent stake in the share capital of Sunrise. This transaction was completed on 23 March 2016. The shares were acquired for a price of 72.95 CHF, and are immediately entitled to receive dividends. Overall, purchasing costs including incidental purchasing costs amounted to 718.0 million euros.

Sunrise has been included in the consolidated financial statements of freenet AG since 24 March 2016. By way of two seats on the Administrative Board of Sunrise and with more than 20 per cent of voting rights, freenet AG is able to exert a significant influence.

Sunrise is the largest private telecommunications provider in Switzerland, with more than three million customers in the fields of mobile communications, landline, internet and digital TV.

The most recent financial information published by Sunrise relates to the financial year 2015. A brief overview is provided in the following.

### Balance sheet

In CHF '000s	31.12.2015
Non-current assets	3,520,536
Thereof intangible assets	2,521,090
Current assets	629,190
Thereof cash and cash equivalents	244,388
<b>Total assets</b>	<b>4,149,726</b>
Non-current liabilities	2,350,965
Thereof non-current borrowings	1,831,128
Current liabilities	630,225
Thereof trade accounts payable and other payables	553,655
<b>Total liabilities</b>	<b>2,981,190</b>

### Income statement

In CHF '000s	1.1.2015 - 31.12.2015
Revenue	1,976,131
Gross profit	1,243,604
EBITDA	616,099
<b>Group result</b>	<b>-112,921</b>

In view of the close proximity between the point at which the transaction was completed and the time at which these condensed consolidated interim financial statements were prepared, the shadow purchase price allocation prepared in accordance with IAS 28 is of a provisional nature; accordingly, the figures recognised in these financial statements have to be considered to be provisional. The term „shadow purchase price allocation“ is used because the purchase price allocation for an associated company is not directly included in the consolidated balance sheet of freenet AG; instead, it is only recognised via subsequent accounting. In this relation hidden reserves on intangible assets and property, plant and equipment of approximately 103 million euros (holding of freenet AG) were revealed within the purchase price allocation.

For the eight days between the point at which the transaction was completed and the reference date of the quarter (24 March to 31 March 2016), the income statement has disclosed a result of 29 thousand euros for the companies included using the equity method in relation to the shares in Sunrise; of this figure, 221 thousand euros relates to interests in the consolidated net income of Sunrise after tax (which were determined on the basis of the expectations for the full year in the amount of 10 million euros) and -192 thousand euros relates to the subsequent depreciation from the provisional purchase price allocation.

In segment reporting of the freenet Group, Sunrise is allocated to the segment „Mobile Communications“.

6. On 11 December 2015, the freenet Group and ProPartner IT GmbH, Osnabrück, concluded an agreement regarding the sale of assets from the „mds Repair/Service“ sector. The business of „mds Repair/Service“ mainly comprises repair services for mobile telephones which are accepted for repair in shops of mobilcom-debitel Shop GmbH.

A final cash purchase price of 3.5 million euros was agreed for the sale; this figure was actually paid in the course of the financial year 2015. Because this transaction was completed on 1 January 2016 and because control over the assets which were sold was only transferred to the purchaser at that time, the profit of 3.3 million euros resulting from the transaction (cash purchase price less the residual carrying amounts at the time of the sale) was recognised under the item „Other operating income“ in the first quarter of 2016.

7. At the end of February 2016, freenet AG issued a promissory note for a total volume of 560.0 million euros. This financing instrument, which is due upon final maturity, consists of a five-year fixed tranche of 264.0 million euros, a five-year variable tranche of 179.0 million euros, a seven-year fixed tranche for 78.5 million euros, a seven-year variable tranche for 15.0 million euros and a ten-year fixed tranche for 23.5 million euros. The entire volume was taken up at the lower end of the respective marketing range with a fixed coupon of 1.03 per cent for the five-year tranche, a variable coupon which is expected to be 1.00 per cent for the first six months of the variable five-year tranche, a fixed coupon of 1.45 per cent for the fixed seven-year tranche, a variable coupon which is expected to be 1.20 per cent for the first six months of the variable seven-year tranche and a fixed coupon of 1.95 per cent for the fixed ten-year tranche. On average, this is equivalent to an interest rate of 1.12 per cent p.a. over the specified maturities.

In addition, at the beginning of March 2016, freenet AG and mobilcom-debitel GmbH signed a facilities agreement with a syndicate of banks for a total amount of up to 1,140.0 million euros. This credit agreement was concluded in connection with the acquisition of the Media Broadcast Group and the shares in Sunrise. Secondly, the final maturity of the corporate bond for a nominal amount of 400.0 million euros in April 2016 has to be taken into consideration. Thirdly the revolving facility which amounted to max. 300.0 million euros was replaced under the terms of the new credit agreement.

The third tranche with a volume of 100.0 million euros has been issued with a variable interest rate, an initial margin of 1.8 per cent, and has been specifically designed as a revolving facility, i.e. the funds can be drawn down and repaid at any time during the five-year term of the tranche. This tranche had not been utilised as of 31 March 2016. The first two tranches serve as bridge financing for possible acquisitions, and provide the funds required for the respective transactions. The first tranche has a term of 12 plus 6 months and has been provided with a variable interest rate with an initial margin of 0.8 per cent. It was made available in the form of a credit line of up to 240.0 million euros, and has so far not yet been utilised. The second tranche, which has a term of 3 years and provides for max. 800.0 million euros, has so far been utilised to the extent of 720.0 million euros (nominal) for the acquisition of Sunrise. The second tranche has been issued with a variable interest rate and an initial margin of 2.1 per cent as of 31 March 2016.

The promissory note raised in February 2016 and the credit agreement concluded in March 2016 are jointly described as „new financing“.

The item „borrowings“ in the consolidated balance sheet as of 31 March 2016 discloses promissory notes with nominal values totalling 780.0 million euros (loans of 220.0 million euros and 560.0 million euros),

amortising loans (second tranche of the refinancing described above) with a nominal value of 720.0 million euros as well as the corporate bond with a nominal amount of 400.0 million euros - in total, representing financing of 1,900.0 million euros nominal). After deduction of the one-off charges incurred in connection with issuing this financing arrangement (including cumulative interest using the effective-interest-rate method) and also after the addition of cumulative interest, the borrowings recognised as of 31 March 2016 amounted to a total of 1,914.7 million euros.

As a result of the new financing and the acquisitions of the Media Broadcast Group as well as the shares in Sunrise, the net borrowings at the end of the first quarter 2016 had increased by 1,042.1 million euros compared with 31 December 2015, namely to 1,411.3 million euros.

8. As of 31 March 2016, receivables of 61.4 million euros (31 December 2015: 58.5 million euros) relating to the existing agreement for the factoring of mobile phone option receivables had been sold and derecognised, but the corresponding payment had not yet been received.
9. The following major transactions took place between the Group and related parties:

In EUR '000s	1.1.2016 - 31.3.2016	1.1.2015 - 31.3.2015
<b>Sales of services</b>		
Joint ventures		
FunDorado GmbH, Hamburg	84	53
<b>Total</b>	<b>84</b>	<b>53</b>

As of 31 March 2016, there were the following major receivables due from related parties:

In EUR '000s	31.3.2016	31.3.2015
<b>Receivables from related parties</b>		
Joint ventures		
FunDorado GmbH, Hamburg	21	47
<b>Total</b>	<b>21</b>	<b>47</b>

All transactions were at market rates.

## Other disclosures

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

Calculating the underlying figure for the consolidated cash flow statement

In EUR '000s	1.1.2016- 31.3.2016	1.1.2015- 31.3.2015
Earnings before taxes	55,532	61,028
Interest payable and similar expenses	11,911	9,796
Interest receivable and similar income	-170	-250
<b>Earnings before interest and taxes (EBIT)</b>	<b>67,273</b>	<b>70,574</b>

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

The following overview „Fair value hierarchy as of 31 March 2016“ sets out the key parameters used as the basis for calculating the value of the financial instruments recognised at fair value as well as those instruments recognised at amortised cost of purchase for which a fair value has been established. With regard to the definition of the individual levels in accordance with IFRS 13, please refer to the notes to the consolidated financial statements of freenet AG for the period ending 31 December 2015.

### Financial instruments according to classes as of 31 March 2016

In EUR '000s	Valuation category according to IAS 39	Value approach					Fair value financial assets 31.3.2016
		Carrying amount balance sheet 31.3.2016	Amortised cost	Cost	Fair value recognised in profit or loss	Fair value recognised in equity	
<b>Assets</b>							
Cash and cash equivalents	LR	503,425	503,425				-*
<b>Other financial assets</b>	<b>AFS</b>	<b>1,575</b>					
Other financial assets (measured at cost)	AFS	566		566			
Other financial assets (measured at fair value)	AFS	1,009			1,009		1,009
Trade accounts receivable	LR	483,516	483,516				483,825
Other receivables and other assets		56,575				15,889	
Other non-derivative financial assets	LR	37,901	37,901				37,901
Available-for-sale financial assets	AFS	2,785			2,785		2,785
<b>Liabilities</b>							
Trade accounts payable	FLAC	495,122	495,122				-*
Borrowings	FLAC	1,914,727	1,914,727				1,926,573
Other payables		554,747				82,377	
Other non-derivative financial liabilities	FLAC	472,370	472,370				472,370
<b>Thereof aggregated by valuation categories acc. to IAS 39</b>							
Available-for-sale financial instruments	AFS	4,360		566	3,794		3,794
Loans and receivables	LR	1,024,842	1,024,842				521,726*
Financial liabilities (measured at amortised cost)	FLAC	2,882,219	2,882,219				2,398,943*

\* No fair value has been established for the positions „Cash and cash equivalents/liquid assets“ and „Trade accounts payable“; however, the carrying amount is a reasonable approximation of the fair value. This means that the aggregate fair value for the valuation categories LR and FLAC are considerably lower than the corresponding aggregate carrying amounts in the balance sheet.

**Fair-Value hierarchy as of 31 March 2016**

In EUR '000s	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Available-for-sale financial assets	2,785	2,785	0	0
Other financial assets	1,009	1,009	0	0
Trade accounts receivable	77,329	0	0	77,329
<b>Liabilities</b>				
Borrowings	1,186,772	401,184	0	785,588

There have not been any shifts with regard to the levels.

In the first three months, the borrowings classified under level three of the hierarchy have increased by 561.6 million euros mainly as a result of the raising of the new promissory note.

Other financial assets are measured at fair value. If it is not possible for the fair value to be reliably determined, the other financial assets are measured at cost of purchase. The shares which are measured at cost of purchase are not listed on a stock exchange, and no active market exists for them. Furthermore, a sale is not currently planned. If there are indications that fair values are lower, these are used.

12. Compared with the consolidated financial statements for the period ending 31 December 2015, the above-mentioned acquisitions have extended the consolidation group in the first three months of 2016 to include the following companies:

**Fully consolidated companies**

Taunus Beteiligungs GmbH, Cologne  
 Taunus Verwaltungs GmbH, Cologne  
 MEDIA BROADCAST GmbH, Cologne  
 MEDIA BROADCAST Services GmbH, Cologne  
 Media Broadcast TV Services GmbH, Cologne

**Companies recognised at equity**

Sunrise Communications Group AG, Zurich (Switzerland)

13. The increase in the pension provisions as of 31 March 2016 is mainly attributable to the transfer of pension obligations of 31.7 million euros as part of the acquisition of the Media Broadcast Group.

In addition, the fact that the discount rate has declined to 2.2 per cent (31 December 2015: 2.6 per cent) has resulted in an increase in the pension obligations for the freenet programme and the debitel programmes. The actuarial loss of 4.8 million euros resulting from the reduced level of discounting as well as the opposite increase of 1.4 million euros in deferred tax assets has been recognised in the statement of comprehensive income. This has resulted in net negative other comprehensive income of 3.4 million euros from items which do not have to be reclassified to the income statement.

14. As was the case in the consolidated financial statements 2015, an average tax rate of 30.10 per cent (previous year comparison period: 30.05 per cent) was used as the basis for calculating the current and deferred taxes on income.

15. With regard to the consolidated cash flow statement for the first quarter of 2016, we have made the following comments:

The outflows of 76.6 million euros for the acquisition of subsidiaries relate to the acquisition of the Media Broadcast Group: the cash outflow of 101.7 million euros for the acquisition of the shares were opposed by

liquid assets of 25.0 million euros of the Media Broadcast Group acquired on the date on which the transaction was completed.

The inflows of 1,266.4 million euros from raising borrowings relates to the promissory note (nominal amount 560.0 million euros) as well as the second tranche of the new credit agreement (nominal amount 720.0 million euros) - please refer to point 7 of these selected disclosures in the notes to the financial statements.

The outflows of 297.2 million euros for the redemption of borrowings were incurred in conjunction with the acquisition of the Media Broadcast Group; of this figure, 195.0 million euros relates to the price paid for the acquisition of a loan receivable due from the Media Broadcast Group, and 102.2 million euros related to the repayment of bank borrowings of the Media Broadcast Group.

16. We wish to comment as follows with regard to significant events after the reference date 31 March 2016.

With the completion of the transaction on 14 April 2016, freenet acquired a further stake of 0.73 per cent in the share capital of Sunrise. The shares were acquired for a price of 72.95 CHF, and are immediately entitled to receive dividends. This additional acquisition resulted in purchase costs of 22.1 million euros.

Overall, freenet AG now holds a stake of 24.56 per cent in the share capital of Sunrise.

On 21 April 2016, freenet AG received a dividend payment of 30.1 million euros as a result of the dividend payment of 3.00 CHF per share adopted in the annual general meeting of Sunrise on 15 April 2016.

On 20 April 2016, the corporate bond with a nominal value of 400.0 million euros plus cumulative interest of 28.5 million euros was repaid.

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

17. 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 three months of 2016:

- 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 and Telefónica Deutschland in Germany
  - Based on the network operator agreements 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 devices as well as additional services in the fields of mobile data communications and digital lifestyle
  - Rendering of sales services
  - Activity of Sunrise (areas of activity of Sunrise: mobile communications, landline, internet and digital TV)

■ Other/Holding:

- Rendering of portal services such as e-commerce/advertising services (these essentially comprise the offer of online shopping and the marketing of advertising space on websites), of payment services for end customers as well as various digital products and entertainment formats for downloading and displaying and use on mobile devices
- 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
- Rendering of TV and radio 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 30.6 million euros (previous year: 21.9 million euros) reported for the “Other/Holding” segment for Q1/2016 is attributable to operating activities (29.9 million euros; previous year: 19.8 million euros) and other business activities (0.7 million euros; previous year: 2.1 million euros). Of the figure of 17.3 million euros (previous year: 14.2 million euros) reported for gross profit for the „Other/Holding“ segment for Q1/2016, 17.6 million euros (previous year: 14.4 million euros) is attributable to the operating activities and -0.3 million euros (previous year: -0.2 million euros) is attributable to the other business activities. The EBITDA of -1.6 million euros reported for the “Other/Holding” segment for Q1/2016 (previous year: -5.3 million euros) was accounted for by operating activities to the extent of 3.4 million euros (previous year: 0.7 million euros) and by other business activities (-5.0 million euros; previous year: -6.0 million euros). The EBIT of -8.7 million euros reported for the “Other/Holding” segment for Q1/2016 (previous year: -8.0 million euros) is accounted for by operating activities to the extent of -3.5 million euros (previous year: -1.8 million euros) and by other business activities in the amount of -5.2 million euros (previous year: -6.2 million euros).

## Segment report for the period from 1 January to 31 March 2016

In EUR '000s	Mobile communications	Other/ Holding	Elimination of intersegment revenue and costs	Total
<b>Third-party revenue</b>	<b>723,860</b>	<b>25,323</b>	<b>0</b>	<b>749,183</b>
Intersegment revenue	3,537	5,280	-8,817	0
Total revenue	727,397	30,603	-8,817	749,183
<b>Cost of materials, third party</b>	<b>-546,993</b>	<b>-9,963</b>	<b>0</b>	<b>-556,956</b>
Intersegment cost of materials	-3,692	-3,353	7,045	0
Total cost of materials	-550,685	-13,316	7,045	-556,956
<b>Segment gross profit</b>	<b>176,712</b>	<b>17,287</b>	<b>-1,772</b>	<b>192,227</b>
Other operating income	16,844	2,223	-1,036	18,031
Other own work capitalised	1,954	438	0	2,392
Personnel expenses	-33,610	-11,265	0	-44,875
Other operating expenses	-71,392	-10,311	2,808	-78,895
Profit share of result in associates accounted for using the equity method	221	26	0	247
<b>Segment EBITDA</b>	<b>90,729</b>	<b>-1,602</b>	<b>0</b>	<b>89,127</b>
Depreciation and impairment write-downs	-14,585	-7,077	0	-21,662
Subsequent accounting for associates accounted for using the equity method	-192	0	0	-192
<b>Segment EBIT</b>	<b>75,952</b>	<b>-8,679</b>	<b>0</b>	<b>67,273</b>
Group financial result				-11,741
Taxes on income				-4,212
<b>Group result</b>				<b>51,320</b>
Group result attributable to shareholders of freenet AG				51,964
Group result attributable to non-controlling interest				-644
<b>Investments</b>	<b>3,054</b>	<b>4,267</b>		<b>7,321</b>

## Segment report for the period from 1 January to 31 March 2015

In EUR '000s	Mobile communications	Other/ Holding	Elimination of intersegment revenue and costs	Total
<b>Third-party revenue</b>	<b>731,694</b>	<b>16,780</b>	<b>0</b>	<b>748,474</b>
Intersegment revenue	2,935	5,132	-8,067	0
Total revenue	734,629	21,912	-8,067	748,474
<b>Cost of materials, third party</b>	<b>-552,135</b>	<b>-4,948</b>	<b>0</b>	<b>-557,083</b>
Intersegment cost of materials	-3,584	-2,740	6,324	0
Total cost of materials	-555,719	-7,688	6,324	-557,083
<b>Segment gross profit</b>	<b>178,910</b>	<b>14,224</b>	<b>-1,743</b>	<b>191,391</b>
Other operating income	13,512	1,168	-1,010	13,670
Other own work capitalised	1,993	573	0	2,566
Personnel expenses	-38,715	-11,458	0	-50,173
Other operating expenses	-64,376	-9,833	2,753	-71,456
Profit share of result in associates accounted for using the equity method	0	31	0	31
<b>Segment EBITDA</b>	<b>91,324</b>	<b>-5,295</b>	<b>0</b>	<b>86,029</b>
Depreciation and impairment write-downs	-12,734	-2,721	0	-15,455
<b>Segment EBIT</b>	<b>78,590</b>	<b>-8,016</b>	<b>0</b>	<b>70,574</b>
Group financial result				-9,546
Taxes on income				-4,814
<b>Group result</b>				<b>56,214</b>
Group result attributable to shareholders of freenet AG				55,965
Group result attributable to non-controlling interest				249
<b>Investments</b>	<b>7,384</b>	<b>1,011</b>		<b>8,395</b>

# FINANCIAL CALENDAR

<b>4 May 2016</b>	Publication of interim report as of 31 March 2016 – 1st quarter 2016
<b>12 May 2016</b>	Annual General Meeting
<b>24 and 25 May 2016<sup>1</sup></b>	Berenberg European Conference, New York, USA
<b>11 August 2016<sup>1</sup></b>	Publication of interim report as of 30 June 2016 – 2nd quarter 2016
<b>8 September 2016<sup>1</sup></b>	dbAccess European TMT Conference, Deutsche Bank, London, Great Britain
<b>9 September 2015<sup>1</sup></b>	Commerzbank TMT and Consumer Conference, Frankfurt, Germany
<b>21 September 2016<sup>1</sup></b>	5th German Corporate Conference, Berenberg / Goldman Sachs, Munich, Germany
<b>10 November 2016<sup>1</sup></b>	Publication of interim report as of 30 September 2016 – 3rd quarter 2016

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

# IMPRINT, CONTACT, PUBLICATIONS

## **freenet AG**

Hollerstraße 126  
24782 Büdelsdorf  
Germany

Phone: +49 (0) 43 31/69-10 00  
Internet: [www.freenet-group.de](http://www.freenet-group.de)

## **freenet AG**

**Investor Relations**  
Deelbögenkamp 4c  
22297 Hamburg  
Germany

Phone: +49 (0) 40/5 13 06-7 78  
Fax: +49 (0) 40/5 13 06-9 70  
E-Mail: [investor.relations@freenet.ag](mailto:investor.relations@freenet.ag)

The annual report and our interim reports are also available for download at:  
[www.freenet-group.de/investor/publications](http://www.freenet-group.de/investor/publications)

This interim report is a convenient translation of the German version.  
In case of doubt, the German version shall prevail.

Current information regarding freenet AG and the freenet shares is available on our homepage at:  
[www.freenet-group.de/en](http://www.freenet-group.de/en).



If you have installed a QR-Code recognition software on your smartphone,  
you will be directed to the freenet Group homepage by scanning this code.

**freenet** GROUP

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