# INTERIM REPORT AS OF 30 JUNE 2016

# Q2 2016

freenet GROUP

MOBILCOM-DEBITEL / KLARMOBIL.DE / GRAVIS / FREENET.DE / FREENET DIGITAL / MEDIA BROADCAST / MFE ENERGIE / MOTION TM

# CONTENTS

# OVERVIEW KEY FINANCIALS: GROUP

## Result

| In EUR million/as indicated | 1st half 2016 | 1st half 2015 | Q2/2016 | Q1/2016 | Q2/2015 |
|---|---|---|---|---|---|
| Revenue | 1,556.9 | 1,501.0 | 807.7 | 749.2 | 752.5 |
| Gross profit[1] | 412.1 | 377.8 | 219.9 | 192.2 | 186.4 |
| EBITDA[2] | 194.0 | 175.1 | 104.8 | 89.1 | 89.1 |
| EBIT[3] | 131.6 | 140.9 | 64.4 | 67.3 | 70.3 |
| EBT | 98.6 | 121.6 | 43.0 | 55.5 | 60.6 |
| Group result | 101.0 | 111.1 | 49.6 | 51.3 | 54.9 |
| Earnings per share in EUR (diluted and undiluted) | 0.81 | 0.86 | 0.40 | 0.41 | 0.42 |

## Balance Sheet

| In EUR million/as indicated | 30.6.2016 | 30.6.2015 | 30.6.2016 | 31.3.2016 | 30.6.2015 |
|---|---|---|---|---|---|
| Balance sheet total | 4,278.9 | 2,464.7 | 4,278.9 | 4,608.3 | 2,464.7 |
| Shareholders' equity | 1,273.9 | 1,217.3 | 1,273.9 | 1,426.9 | 1,217.3 |
| Equity ratio in % | 29.8 | 49.4 | 29.8 | 31.0 | 49.4 |

## Finances und investments

| In EUR million | 1st half 2016 | 1st half 2015 | Q2/2016 | Q1/2016 | Q2/2015 |
|---|---|---|---|---|---|
| Free cash flow[4] | 180.8 | 136.3 | 115.9 | 64.9 | 74.1 |
| Depreciation and amortisation | 56.8 | 34.2 | 35.1 | 21.7 | 18.8 |
| Net investments[5] (CAPEX) | 24.7 | 14.9 | 17.7 | 7.0 | 6.6 |
| Net debt[6] | 898.0 | 500.3 | 898.0 | 805.0 | 500.3 |
| Pro forma net debt[7] | 1,526.9 | 500.3 | 1,526.9 | 1,411.3 | 500.3 |

## Share

| | 30.6.2016 | 30.6.2015 | 30.6.2016 | 31.3.2016 | 30.6.2015 |
|---|---|---|---|---|---|
| Closing price Xetra in EUR | 23.08 | 30.22 | 23.08 | 26.29 | 30.22 |
| Number of issued shares in '000s | 128,061 | 128,061 | 128,061 | 128,061 | 128,061 |
| Market capitalisation in EUR '000s | 2,955.0 | 3,869.4 | 2,955.0 | 3,366.7 | 3,869.4 |

## Employees

| | 30.6.2016 | 30.6.2015 | 30.6.2016 | 31.3.2016 | 30.6.2015 |
|---|---|---|---|---|---|
| Employees | 4,879 | 4,611 | 4,879 | 4,990 | 4,611 |

# OVERVIEW KEY FINANCIALS: MOBILE COMMUNICATIONS SEGMENT

## Customer development

| In million | 1st half 2016 | 1st half 2015 | Q2/2016 | Q1/2016 | Q2/2015 |
|---|---|---|---|---|---|
| Mobile Communications customers/cards[8] | 12.09 | 12.38 | 12.09 | 12.15 | 12.38 |
| Thereof Customer Ownership | 9.42 | 9.11 | 9.42 | 9.37 | 9.11 |
| Thereof Postpaid | 6.39 | 6.16 | 6.39 | 6.36 | 6.16 |
| Thereof No-frills | 3.02 | 2.94 | 3.02 | 3.01 | 2.94 |
| Thereof Prepaid | 2.67 | 3.27 | 2.67 | 2.79 | 3.27 |
| Gross new customers/cards | 1.31 | 1.39 | 0.67 | 0.64 | 0.68 |
| Net change | -0.14 | -0.35 | -0.06 | -0.08 | -0.16 |

## Result

| In EUR million | 1st half 2016 | 1st half 2015 | Q2/2016 | Q1/2016 | Q2/2015 |
|---|---|---|---|---|---|
| Revenue | 1,465.2 | 1,473.6 | 737.8 | 727.4 | 739.0 |
| Gross profit[1] | 353.6 | 353.2 | 176.9 | 176.7 | 174.3 |
| EBITDA[2] | 189.4 | 183.5 | 98.6 | 90.7 | 92.1 |

## Monthly average revenue per user (ARPU)

| In EUR | 1st half 2016 | 1st half 2015 | Q2/2016 | Q1/2016 | Q2/2015 |
|---|---|---|---|---|---|
| Postpaid | 21.4 | 21.2 | 21.4 | 21.5 | 21.4 |
| No-frills | 2.4 | 2.5 | 2.4 | 2.4 | 2.6 |
| Prepaid | 3.0 | 2.8 | 3.1 | 2.9 | 3.0 |

# TV AND MEDIA SEGMENT

## Result

| In EUR million | 1st half 2016 | 1st half 2015 | Q2/2016 | Q1/2016 | Q2/2015 |
|---|---|---|---|---|---|
| Revenue | 78.0 | 0.0 | 67.6 | 10.4 | 0.0 |
| Gross profit[1] | 37.3 | 0.0 | 32.5 | 4.8 | 0.0 |
| EBITDA[2] | 10.5 | 0.0 | 9.5 | 1.0 | 0.0 |

1 Revenue less cost of material.
2 Group result before interest, taxes on income, depreciation and impairment write-downs, including shares of associates accounted for using the equity method, excluding depreciation and deferred taxes from the subsequent accounting regarding shadow purchase price allocation (element of the result of associates accounted for using the equity method).
3 Group result before interest and taxes on income.
4 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.
5 Investments in property, plant and equipment and intangible assets less proceeds from the disposal of intangible assets and property, plant and equipment.
6 Financial debt less liquid assets, less Sunrise Communications Group AG share of market value as of 31 March 2016 respectively as of 30 June 2016 (closing price on the Frankfurt am Main stock exchange).
7 Financial debt less liquid assets.
8 At the end of period.

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,**

31 May 2016 was a milestone in the history of digital TV reception in the Federal Republic of Germany. Accompanied by much media attention, that date saw the start of pilot operation of the new DVB-T2 HD in several densely populated urban areas. This means that viewers in these areas will now be able to receive ultrahigh resolution TV images via antenna – initially limited to ARD and ZDF (public sector stations) as well as the private stations RTL, Sat.1, ProSieben and VOX.

A further milestone will then follow with the end of the test phase on 29 March of next year: Up to 18 public broadcasters will from then on broadcast their programmes free and via terrestrial means, whereas approximately 20 private broadcasters will then also change over to ultra HD quality and such broadcasts will be encrypted and be received in return for a corresponding fee. The programmes which are included will in the medium term cover at least 96 per cent of the audience market, and by no later than 2019, DVB-T2 HD will provide terrestrial coverage for more than 80 per cent of the German population.

This will also be the beginning of a new era for freenet AG. In the context of the current paradigm change which is currently being seen in the TV landscape and also the rapidly expanding internet-based use of TV formats, streaming and catch-up services, we completed two fundamental transactions (acquisitions and investments) at the beginning of the year: Namely the Media Broadcast Group and EXARING AG. The history of our company has always been very dynamic, and this represents a further very exciting chapter – namely the entry into TV business and home entertainment of the future.

Media Broadcast is the sole commercial provider of DVB-T2 HD and, with the second generation of terrestrial aerial broadcasting, provides the new broadcaster package described above in full-HD quality; this is available not only as a standard option for the TV at home but also for mobile applications for tablets or smartphones, for instance on a deckchair in the garden, in the train or the car. The package is extended to include access to on-demand services such as the various catch-up options of the broadcaster.

EXARING has a fibre-optic network with a length of more than 11,000 kilometres; it reaches approximately 23 million German households, which already have access to broadband at a speed of more than 16 mbps. Our investment with the option to gradually acquire a majority stake guarantees us the distribution rights for this closed IP platform – and thus also the implementation of future moving-image innovations, such as virtual reality or holography/3D.

As described previously at this point in relation to the current acquisitions, the future prospects in these areas of activity are very promising: According to the consumer electronics association GFU, the TV is increasingly becoming the central device of moving-image entertainment as well as home entertainment/automation, and volume sales of high-resolution UHD TVs in Germany are currently expanding rapidly. In addition, the average German not only spends almost four hours every day in front of the TV; according to the study of the market research company Nielsen, 16 per cent of the surveyed German internet users now also pay for a video-on-demand service in the internet. And this is happening in a market which is still very recent and in which online revenue, according to predictions of Pricewaterhouse-Coopers, will increase in Germany from 81 million euros last year to 410 million euros in 2019.

We are firmly convinced that the technological merger of digital linear HDTV and catch-up services, cloud-based streaming and PC services, online games and video-on-demand services will result in new dimensions of information and entertainment. This process will be app-driven via smartphones or tablets in HD, 4K and 8K resolutions –at home or on mobile devices. We are also firmly convinced that we will be able to transfer our subscription model with currently 12.09 million users for mobile telecommunications/mobile internet (which has been successful over many years) to the new business areas.

However, visions are one matter; the vigorous and successful implementation of such visions is a different matter entirely. Accordingly, recent months have been characterised by extremely intensive preparation work in the freenet Group which has now become much larger. It is our intention that freenet TV – the brandname of our new DVB-T2 product in the private broadcasting field – will make a smooth start; we will be successful in achieving this aim in conjunction with the general switch-over to DVB-T2 and disconnection of the previous free standard DVB-T at the end of March 2017.

For this purpose, we have licensed more than a dozen manufacturers of set-top boxes which are already available on the market and which conventional HD TVs require for receiving Ultra HD programmes, in addition to an internal or external antenna; on the other hand, TVs which have DVB-T2 HD certification require only a small CI+ module of freenet TV. At the same time, parallel to our massive press reporting regarding the new TV standard, we are also strengthening our PR and marketing activities, including our own stand at the IFA and with planned series of TV spots beginning in the autumn. And of course, we are holding specific discussions with the TV broadcasters regarding cooperations in the field of advertising and developing maximum viewing ratings for the new technology. Our clear objective is to replace a maximum number of the currently approximately 4 million set-top boxes using the old DVB-T standard by the switchover date on 29 March 2017.

Further progress has been made by the preparations for our second innovative product in the sequence of our recent acquisitions. Based on the EXARING infrastructure and technology, waipu.tv – a further innovative freenet brand in the media segment – is expected to set new standards in the growth market for IPTV in Germany in the fourth quarter of 2016.

For this purpose, in April we selected 100 participants for extensive initial tests on this IP platform, and increased this figure to 500 in May. By way of continuous surveys, they provide us with valuable feedback regarding linear TV, video-on-demand, online games and streaming services – with individual use profiles, differentiated user groups and suggestions for improvement, which are then included in the configuration of the end product.

At the same time, we are currently intensively considering further questions regarding the most efficient commercial form of waipu.tv. These include the following:

- Addressing specific user groups in the B2B field
- Optimum combination of traditional TV and synchronous online advertising
- Integration of specific “special-interest broadcaster”, special-interest issues
- Alternative video portals.

Of course, we will also offer waipu.tv, and also freenet TV next year, in particular via our own stationary sales channels. For this purpose, since the end of July 2016, we have been gradually installing the new TV issues in approximately half of our 544 mobilcom-debitel shops and also in the 43 GRAVIS stores; in the other shops, the products can be demonstrated and tested via a smartphone. In addition, local staff training – fully in line with the medium – is also provided by the company’s own business channel: With waipu.tv we will in future be able to supply the current sales issues to each of our stores on a permanent and virtually live basis.

Despite this time-consuming preparation work, we continue to devote the same intensity to operating our core mobile communications business, also focusing on the consistent organic expansion of digital lifestyle activities. Accordingly, not least as a result of specific special actions of mobilcom-debitel and a restructured Allnet tariff group of our discount subsidiary klarmobil – we have again been able to expand customer ownership which is very important for our company (Postpaid and No-frills client base).

This has been due to an extensive marketing campaign for the 25th birthday of mobilcom-debitel; this comprised two four-week TV flights with more than 2,000 spots, as well as complex online advertising, out-of-home posters and a wide range of “below-the-line“ (BTL) measures at the “point of sale“ (PoS). We also embarked on our now almost traditional roadshow through, on this occasion, 30 German cities; this year, we focused to a somewhat greater extent on major events such as “Bochum Total“ and the “Out4Fame Festival“ in Bottrop – positioning our company as a digital lifestyle provider.

Our digital lifestyle activities were also addressed by our individual corporate brands in the second quarter, with temporary special actions: For instance, the “Sunday Blockbusters” which started in November of last year. In recent months, in view of the European Football

Championship in France, these Sunday online actions also offered online-video recorder and WIFI sound systems for the large number of football fans. The actions also focused particularly on smartphones of all popular manufacturers – ranging from Apple, Huawai and Sony right through to Samsung.

Special activities have also been reported by our subsidiary MFE Energie GmbH; freenet acquired this energy marketing company which is based in Berlin in 2013. Since that time, the company has been offering products and services of more than 30 regional and nationwide electricity and gas suppliers via the mobilcom-debitel shops and our traditional high street agents. In the second quarter, the company extended this portfolio to include two additional cooperations: Firstly with First Utility GmbH, which is responsible for the product offering of Shell PrivatEnergie in Germany, and secondly with EnBW for distributing the latter's products in the core area of Southern Germany. In addition to further premium brands, MFE Energie thus supplies three of the four major energy groups in Germany.

The effect of all the above activities and the acquisitions which had been completed is reflected in the figures of freenet AG for the second quarter of 2016:

- Customer ownership, which is the important control parameter in our company, has increased further: The number of Postpaid and No-frills customers slightly increased in the second quarter by 50,000 to the current figure of 9.42 million; this figure includes particularly valuable customers with two-year contracts, who increased in the same period by 39,000 to 6.39 million.
- Postpaid ARPU also continued to stabilise currently stated at 21.4 euros; this is equivalent to prior year quarter, respectively by 0.1 euros lower compared to the previous quarter.
- Compared with the comparison and prior quarter, revenue has increased to 807.7 million euros; this is due to a stable core business of mobile communications, as well as in particular higher valuable digital lifestyle revenue and also, for the first time, the acquisitions and investments which have been concluded since the beginning of the year.
- Gross profit of 219.9 million euros is higher than the figure for the comparison quarters, with a gross profit margin of 27.2 per cent.
- Compared with the comparison quarter 2015, EBITDA has increased from 89.1 million euros to 104.8 million euros.
- Free cash flow is now stated as 115.9 million euros, and is significantly higher than the figure for the prior year quarter.

With total revenue of 1,556.9 million euros, EBITDA of 194.0 million euros and free cash flow of 180.8 million euros for the first six months, we continue to be moving in the right direction and are precisely in line with our planning regarding our full 12-month targets for 2016. As a result of the acquisition of the Media Broadcast Group and the investment in EXARING AG in the first quarter of 2016 respectively in the end of 2015, our planning has slightly increased – to EBITDA of somewhat more than 400 million euros and free cash flow of approximately 300 million euros. After receiving the expected dividend payment of Sunrise Communications Group AG, free cash flow increased by approximately 30 million euros, not being part of our guidance.

Furthermore we continue to expect a moderate growth of Group revenue with a slightly growing customer ownership and a further stabilisation of the Postpaid ARPU.

Moving in that direction, we will in future focus the freenet brand across all divisions to a greater extent than has previously been the case. We will thus take account of the increasing appeal of our Group, which we consider to be very strong not least as a result of the recent acquisitions and investments as well as the very successful organic growth in mobile communications and digital lifestyle. For instance, in the regular negotiations with the national and international providers and manufacturers in the fields of telecommunication and digital lifestyle, and also in the discussions with the major broadcasters in Germany with regard to future cooperations in the segment '"TV and Media". An initial start has already been made. For instance with freenet TV and at MFE Energie, which will initially offer its product under the freenet Energy brand.

We at freenet AG are looking forward to exciting times with no less exciting challenges. We – management and each individual employee – will continue, as has been the case in the past, to devote our entire energy, experience and expertise in order to add a new chapter to the long-standing history of success of the company. In this way, we will make a further crucial step towards becoming the leading digital lifestyle provider in Germany.

Christoph Vilanek Joachim Preisig Stephan Esch

# FREENET AG ON THE CAPITAL MARKETS

## Capital market environment

In the first half of 2016, the financial markets were again exposed to numerous political and economic factors as well as the resultant uncertainty. In addition to the continuation of the difficult situation on the global economic scene, and the unclear interest rate policy of the major central banks, the focus was mainly on the European Union with the asylum and euro crisis. The European community of states has so far not been able to reach agreement regarding a common solution for the refugee crisis, and the crisis of the European Monetary Union which began in 2009, has still not been resolved. A further factor is the referendum of 23 June, in which a majority of the British population voted to leave the European Union ("Brexit"). The Brexit vote resulted in considerable uncertainty throughout the world regarding the possible consequences for the global economy and financial markets.

In this context, investors were hit by significant falls in equity prices in the first half of 2016. European equity indices in particular reported double-digit losses. The index of the European telecommunications stocks SXKP as well as the German technology index TecDax each closed on 30 June with a loss of 13 per cent compared with the beginning of the year. The EURO STOXX, which comprises the leading companies in the euro zone, and the largest German equity index DAX both fell by approximately 10 per cent in the first half of the year. On the other hand, the index of the mid-size German stocks MDAX reported a relatively stable performance, with a loss of approximately 4 per cent since the beginning of the year.

In response to the Brexit vote, which came as a surprise to the majority of investors, the DAX temporarily fell by more than 1,100 points on 24 June – in relation to the prior day high. Nevertheless, most institutional and private investors remained calm and looked for favourable buy opportunities. According to the sentiment index of the Frankfurt stock exchange, private investor optimism rose to the second highest level in the year. In the week following the Brexit vote, this market sentiment was reflected in a slight recovery in prices, although the DAX failed to rise to such an extent that it would have cancelled out the previous losses. The main German market indicator closed the first half of the year at 9,680 points (10,743 points on 31 December 2015).

# The freenet share

Following a good performance in the financial year 2015, the price of freenet shares declined in the first half of 2016. At the start of the second quarter, the stock was trading at 24.69 euros on the electronic trading platform Xetra. In the initial weeks of this period, the price of the shares rose, posting the high for the quarter at 26.20 euros on 20 April. By the end of June, the price fell back again, reaching the low of 22.35 euros in the second quarter on 27 June. freenet shares were trading at 23.08 euros at the end of trading on 30 June. The average Xetra daily closing rate was 24.49 euros in the second quarter.

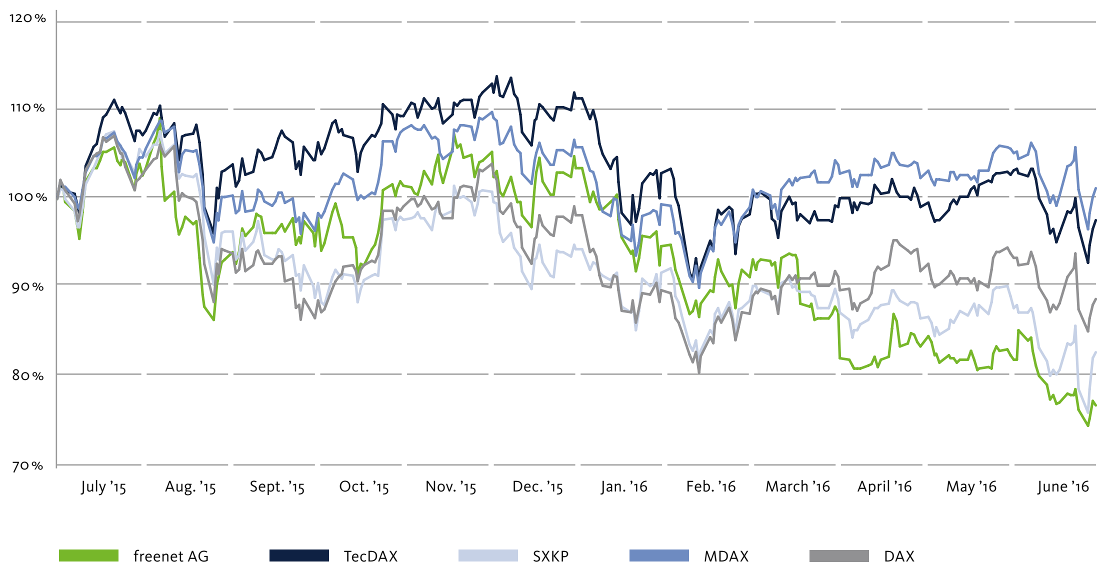
Trading with freenet shares picked up appreciably in the period under review. In total, 38.6 million shares changed owners on the electronic trading platform Xetra in the second quarter, compared with 33.7 million in the first quarter of 2016 and 36.3 million in the second quarter 2015. In the second quarter, the percentage of the overall volume traded via alternative trading platforms ("dark pools") increased to 50 per cent of the total trading volume (prior quarter 46 per cent). Between April and June, approximately 594 thousand freenet shares were bought and sold on average every Xetra trading day, compared with 595 thousand in the corresponding prior year period and compared with approximately 519 thousand in the prior quarter.

In the second quarter, the price of freenet shares fell by 7 per cent, and thus underperformed the TecDAX benchmark index by 5 percentage points. In the same period, the freenet shares also underperformed the SXKP index by 2 percentage points.

Based on a 12-month comparison, freenet shares have declined by 24 per cent, thus underperforming the TecDAX which fell by only 3 per cent in the same period. On the other hand, the SXKP index also fell by a significant 18 per cent.

Measured in terms of market capitalisation, freenet shares at the end of the second quarter of 2016 were ranked 4 on the TecDAX, and were ranked 5 in terms of trading volume.

Figure 1: **12-month's performance of the freenet share (Indexed; 100 = Xetra closing price on 30 June 2015)**

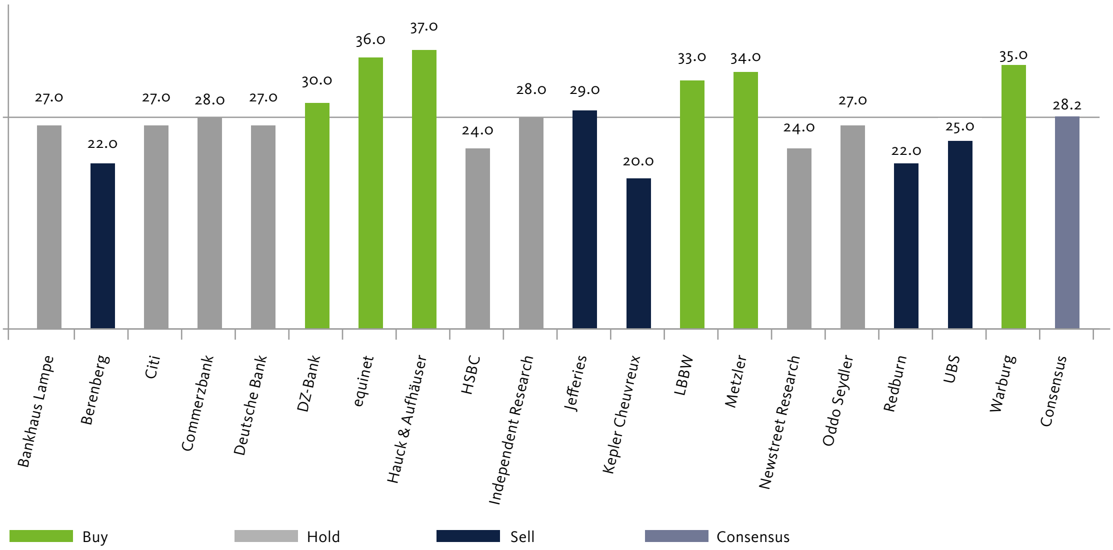


# Analyst recommendations

In the first half of 2016, the business development of freenet AG was rated by a total of 19 analyst houses. The average price target for freenet shares was 28.16 euros.

With regard to the recent analyst recommendations the following overview results as per 30 June 2016:

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




* As per 30 June 2016.

# Dividend

The adopted dividend of 1.55 euros for each dividend-bearing share was paid out following the annual general meeting of 12 May 2016. This is equivalent to a distribution rate of 69.7 per cent of the free cash flow generated in the financial year 2015.

# Shareholder structure

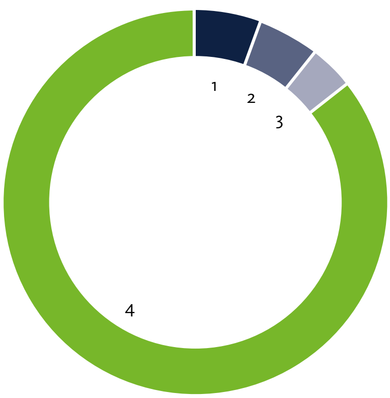
freenet AG's share capital totals 128,061,016 euros and is divided into 128,061,016 registered no-par value shares. Each share represents 1.00 euros of the share capital.

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

- In May, Deutsche Asset Management Investment GmbH (Deutschland) notified us that its holding had fallen below the 3 per cent reporting threshold. On 10 May, its share of the voting rights in freenet AG amounted to 2.65 per cent (3,392,465 voting rights).
- In May, Flossbach von Storch SICAV (Luxembourg) notified us that it had exceeded the 5 per cent reporting threshold. On 10 May, its share of the voting rights in freenet AG amounted to 5.23 per cent (6,701,755 voting rights).
- In June, BlackRock Inc. (USA) notified us that its holding had fallen below the 3 per cent reporting threshold. On 17 June, its share of the voting rights in freenet AG amounted to 2.98 per cent (3,811,336 voting rights).

As a result, the shareholder structure of freenet AG on 30 June 2016 was as follows:

Figure 3: **Current shareholder structure**




1 **5.55 %** Flossbach von Storch AG*
2 **5.16%** Allianz Global Investors GmbH*
3 **3.70 %** The Capital Group Companies, Inc*
4 **85.59 %** Other Shareholders/free float**

* *Including attributions according to German Securities Trading Act.*
** *The free float according to Deutsche Börse AG amounts to 89.29%.*

Based on the voting rights disclosures received during the quarter under review, free float has increased from 77.62 per cent by 7.97 percentage points to 85.59 per cent compared with 31 March 2016.

# Corporate bond

In April 2011, freenet AG placed a five-year corporate bond with a volume of 400.0 million euros and an annual coupon of 7.125 per cent on the capital market as some of the instruments for repaying private equity financing. The bond was repaid in full, including interest, on time on 20 April 2016.


PHILIPS

# INTERIM GROUP MANAGEMENT REPORT

# ECONOMIC REPORT

## Business performance

In its traditional business segment, freenet AG acts as an independent service provider, supplying the digital lifestyle growth market with integrated product worlds, customer-oriented services and low-cost mobile tariffs for all German mobile communications networks. The company's portfolio comprises its own tariffs and services as well as tariffs and services of the network operators in Germany relating to mobile communications / mobile internet. The company also offers innovative digital applications relating to home automation and security, health, data security, entertainment and infotainment – including the latest smartphones, tablets and notebooks as devices with attractive accessories.

A key target group is made up of private users, who are addressed as part of a multiple-brand strategy: In view of the fierce competition within the sector, the main brand mobilcom-debitel focuses mainly on high quality contract relations with regard to signing up customers and with regard to portfolio management; the discount brands of freenet also cover the No-frills sector.

In addition, in the first quarter of 2016 respectively at the end of 2015, freenet AG completed the process of breaking into the new business line of digital TV with two fundamental acquisitions and investments. Firstly, the company acquired all shares in Media Broadcast Group. This company, which is based in Cologne, is the sole commercial provider of the DVB-T2 HD standard in Germany which started at the end of May. This new standard permits the terrestrial broadcasting of a comprehensive package in full-HD quality, and addresses millions of German TV households which previously had been using DVB-T (which is now coming to an end). This will be possible on the TV at home and will also be available for mobile use, for instance in a train or car. This service of Media Broadcast will also comprise access to the catch-up services of the broadcasters. The acquired package also includes the elements of radio (VHF and DAB plus) as well as network service for TV production.

freenet AG has also acquired an initial 24.99 per cent stake in EXARING AG, thus assuring the distribution rights for the closed IP platform for innovative entertainment and TV services; this "initial investment" can be extended gradually to a majority stake of 50.01 per cent by the end of 2016 by way of using existing options. The company is based in Munich, and has its own fibre-optic network, enabling (in technical terms) moving-image entertainment for 23 million German households– this means that the technology is also in a position to cope with future innovations such as virtual reality and holography/3D.

In the second quarter of 2016, freenet AG carried out considerable preliminary work for the planned product launches in the newly acquired media segments. The envisaged starting dates are the end of the current year for IPTV/Entertainment of EXARING and the spring of 2017 for DVB-T2 HD. As has been the case in prior years, a further focal point of the business segments of freenet was the continuous expansion of offerings in digital lifestyle and mobile communications / mobile internet.

### Intense preparations for launches in the media segment

The pilot operation of DVB-T2 HD started as planned in several German densely populated urban areas on 31 May 2015. In the initial phase of the new broadcasting standard, which is to end on 29 March 2017, the viewer in the various core regions will be able to receive ultra-high resolution TV pictures of ARD and ZDF as well as the private broadcasters RTL, Sat.1, ProSieben and VOX via antenna.

The end of the "soft launch" in March of next year will simultaneously see the end of the existing DVB-T and freenet TV will make its commercial start as a new brand: Up to 20 private stations will then be available in full-HD quality – although the services will still be encrypted. For this purpose, in addition to an internal or external antenna, the viewer will require a CI+ module of freenet TV for upgrading new DVB-T2 HD-capable TVs; on the other hand, a small set-top box will be required for all other TVs.

In recent weeks and months, freenet and the new subsidiary Media Broadcast have licensed approximately a dozen of these set-top boxes; they are now already available on the market. At the same time, in addition to the advertising activities of the public broadcasters and intensive reporting about the new terrestrial HDTV, the company also started various marketing measures, appearances at exhibitions and talks with private broadcasters, for instance with regard to future PR cooperations.

With regard to IPTV of EXARING, the preparations for the introduction of waipu.tv – the future brand name of the new product relating to digital moving-image entertainment – are more advanced. At the beginning of the quarter, 100 participants initially started intensive test runs relating to linear TV, video-on-demand, online games and streaming services. In May, the test series with continuous surveys were extended to 500 participants; the experience gained and suggestions obtained will be integrated in the extremely customer-oriented configuration of waipu.tv; the corresponding product start is planned for the fourth quarter of 2016.

## New offerings are extending the digital lifestyle portfolio

In November of last year, mobilcom-debitel started a marketing action (with its "Sunday Blockbusters") in which digital lifestyle products are offered online for a particularly low price. In the second quarter, the focus was on smartphones of various manufacturers. For instance, the price of the Sony Xperia M5 fell to 260 euros from the standard market prices starting at 340 euros – without a coupled mobile communications contract. The device is watertight and dust-tight, and offers a range of advantages, including a 5-inch full-HD display, a 13-megapixel front camera with a wide angle lens, video recordings in 4K quality, with hybrid autofocus and an extremely sharp five-fold clear-image zoom. And a special "Spring Blockbuster" was available for a price of 300 euros in the form of the very successful iPhone 5s (in the 16-GB version) which continues to be very much in demand. This device has various features including the fingerprint scanner Touch ID, an 8 megapixel camera on the reverse side as well as a retina display.

In addition, as part of its anniversary offerings on the occasion of its 25-year anniversary, mobilcom-debitel also offered the Huawei P8 and P9 as well as the Samsung Galaxy S5 Neo for conditions which provided savings of up to 100 euros compared with the standard prices on the market. It was possible to achieve further savings of 90 euros by buying an Apple iPad Air 2 WiFi in the 16-GB version.

There were also special offers available on the occasion of the European Football Championship. For instance, freenet offered a 20 per cent discount for the original UEFA EURO 2016 DFB home shirt of Adidas whenever a user took out a Save-TV contract. Thanks to numerous apps for iOS, Android, Windows, Kindle-Fire and SmartTV, the browser-based online video recorder can be used for programming recordings and for streaming from the TV programme; after they have been broadcast in Free-TV, the programmes are saved in the user's personal cloud and are then available at the desired format for downloading or streaming in optimum HD quality. Save.TV offers a facility for recording programmes of more than 45 public and private broadcasters. Prices for the service for mobile users of mobilcom-debitel start at 4.99 euros per month, without an existing mobile contract, prices for Save.TV start at 9.99 euros per month.

GRAVIS also released special offers in connection with the European Football Championship. The freenet subsidiary offered Sonos PLAYBAR with a 100-euros voucher until the end of June to anybody who wished to experience genuine stadium sound in hifi quality when watching TV at home. The wifi sound system with nine loudspeakers also provided (app-driven) the subsequent party music with music services such as Apple Music, Spotify or Deezer. The corresponding cocktail was provided by "Perfect Drink" – a digital scale with a free app, a shaker which was provided as well as precise recipes for 300 drinks. And with the selfie stick "Mila" of Networx, the user was also able to capture all goal celebrations.

As has been the case with all major football events, freenet continued the history of success of its previous football apps. As a perfect companion for the European Football Championship, "Pocket EM 2016" provided the latest news and analyses related to the tournament in France and the German team. This feature was also accompanied by the most important facts regarding the other teams, with player profiles and the stadia, a clearly arranged schedule as well as all group tables.

## klarmobil is upgrading its tariff family

In recent months and quarters, the discount subsidiary of freenet actively shaped the fierce competition within the sector with a wide range of special actions. At the beginning of June, klarmobil restructured these temporary offerings to form a fixed allnet tariff group. In this way, new and existing customers now generally receive more performance for the same price, in particular a higher data volume and a higher surfing speed. The three new tariff options are set out in the following:

- For 14.85 euros per month during the minimum two-year contract duration, the Allnet Flat 1000 offers a flat rate for calls to all German networks, an internet flat rate with 1 GB data volume and max. 21 mbps in downstream.
- For 17.85 euros per month, the Allnet Flat 2000 doubles the internet flat rate to 2 GB high-speed data volume with max. 42 mbps in downstream, and otherwise offers the same benefits.
- And finally, the Allnet Flat 4000 costs 22.85 euros per month, offering in addition to the flat rate for calls a flat rate for text messages to all German networks as well as a high-speed data volume of 4 GB with also max. 42 mbps.

The one-off set-up price of the three tariffs is 19.95 euros; anybody who ports an existing number to klarmobil is given a call credit of 25 euros. All three flat rates are offered in the network of Deutsche Telekom.

In June, mobilcom-debitel also offered an unusually low-price allnet flat rate special action: Offered via the deal platform crash-tarife.de, the price for the Allnet Comfort flat rate was reduced from the standard 29.99 euros per month to an effective 6.99 euros per month. Over the 24-month life of the contract, new customers are thus able to save more than 550 euros. The features provided by the tariff include a mobile internet flat rate with 1 GB and a maximum bandwidth of 21.6 mbps as well as a flat rate for calls to all German mobile networks and into the national landline network.

## mobilcom-debitel has started anniversary campaign and roadshow

To mark its 25th birthday, the company started a three-month anniversary campaign at the beginning of June, with offers relating to smartphones, tariffs and digital lifestyle products. With the provocative and appealing Greek “Costa Fast Gar Nix“ as presenter, the campaign targeted a wide range of marketing channels with TV spots, online advertising, out-of-home posters as well as various below-the-line measures at the point of sale. For this purpose, two four-week TV flights with more than 2,000 spots run on far-reaching platforms such as ProSieben and Sat.1, supported by extensive online advertising and out-of-home posters in more than 20 major German cities. The 360° campaign was rounded off by additional social-media and PR measures as well as a Bild newspaper supplement with a circulation of several millions.

Also in June, mobilcom-debitel again went on tour, visiting a total of 30 German cities in the course of the summer months. The roadshow focussed particularly on major events such as Bochum Total or the Out4Fame festival in Bottrop as well as on positioning the company as a digital lifestyle provider. Visitors are able to immerse themselves in virtual worlds, test new smartphones as additional products and applications, become drone pilots or obtain information about the new freenet TV. The focus is on the brand experience for potential new customers and not on sales.

## MFE Energie GmbH is expanding its portfolio of offerings

In 2013, freenet acquired MFE Energie GmbH, one of the leading energy marketing companies in Germany. Since then, the company which is based in Berlin, has been selling offers of more than 30 regional and nationwide electricity and gas suppliers via the 544 mobilcom-debitel shops as well as approximately 5,600 agents and 400 electronic stores.

In the second quarter, MFE Energie extended its portfolio of offerings to include two additional co-operations, thus expanding its market position as the leading energy marketing company for high-street outlet sales in Germany.

- In mid-June, the Berlin-based company concluded a distribution agreement with First Utility GmbH, which is responsible for the product portfolio of Shell PrivatEnergie in Germany, and took on the latter's product portfolio as one of the small number of exclusive partners. It is based on the co-operation between Shell Energy Europe Ltd. and First Utility Ltd. parent company – one of the largest British energy utilities with many years of experience in supplying domestic and commercial customers.

- At the end of June, this was followed by a cooperation with EnBW for distributing the latter's products in the core area of Southern Germany. As one of the largest energy providers in Germany, EnBW supplies 5.5 million customers with electricity, gas, water as well as energy-related products and services. In addition to other premium brands, this means that MFE Energie now supplies three of the four major energy groups in Germany.

# 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 | 30.6.2016 | 31.3.2016 | 31.12.2015 | 30.9.2015 | 30.6.2015 |
|---|---|---|---|---|---|
| Customer Ownership | 9.42 | 9.37 | 9.30 | 9.21 | 9.11 |
| Thereof Postpaid | 6.39 | 6.36 | 6.31 | 6.23 | 6.16 |
| Thereof No-frills | 3.02 | 3.01 | 2.99 | 2.97 | 2.94 |
| Prepaid | 2.67 | 2.79 | 2.94 | 3.07 | 3.27 |
| Mobile Communications customers/cards | 12.09 | 12.15 | 12.24 | 12.28 | 12.38 |

As has been the case in the past, we operate our core business of mobile communications with the aim of generating valuable customers in the processes of signing up new customers and in managing existing customers, and also with the aim of consistently expanding our digital lifestyle activities. The result is reflected in a further increase of the non-financial performance indicator customer ownership in the second quarter of 2016. Compared with 30 June 2015, the number of participants has increased by 313,000 participants (3.4 per cent) to the current figure of 9.42 million. Compared with 31 March 2016, the increase is approximately 50,000 participants (+0.5 per cent).

This increase is essentially attributable to the increase in the number of postpaid users, which comprises all mobile 24-month contracts which are marketed within the Group. This group of users is significant for the company's strategy, and has increased by 3.8 per cent compared with the corresponding previous year figure, namely by 232,000 participants to 6.39 million. Compared with 31 March 2016, the increase is approximately 39,000 participants (+0.6 per cent).

In the No-frills sector, which comprises all mobile tariffs distributed via discount brands of the Group, the number of users increased by 81,000 (+2.8 per cent) compared with the previous year. Compared with 31 March 2016, the number of users has increased by 11,000 to 3.02 million.

The number of prepaid SIM cards in circulation that are distributed via the main brand mobilcom-debitel declined further to a final total of 2.67 million cards during the quarter under review. This further decline is 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 | Q2/2016 | Q1/2016 | Q4/2015 | Q3/2015 | Q2/2015 |
|---|---|---|---|---|---|
| Postpaid | 21.4 | 21.5 | 21.3 | 21.9 | 21.4 |
| No-frills | 2.4 | 2.4 | 2.4 | 2.6 | 2.6 |
| Prepaid | 3.1 | 2.9 | 3.1 | 3.2 | 3.0 |

In the second quarter of 2016, the average monthly revenue per user for postpaid users was 21.4 euros; this figure is roughly in line with the corresponding previous year figure and slightly lower than the previous quarter. The development in ARPU in recent quarters clearly shows the stabilisation at this level and confirms the strategy of focusing on valuable customers in mobile communications business.

The average monthly revenue of 2.4 euros generated in the no-frills customer segment is equal to the previous quarter's level. No-frills ARPU is reported at 0.2 euros lower than in the second quarter of 2015.

In the second quarter of 2016, prepaid-ARPU increased by 0.2 euros compared with the previous quarter to 3.1 euros, and is thus slightly higher than the figure reported for the previous year quarter.

# Management system

## Financial and non-financial performance indicators

The Executive Board of freenet AG focuses on the interests of all stakeholders with regard to the strategic alignment of the group. A uniform management system, which is based on financial and also on non-financial performance indicators, is used for implementation at the group level and also in the individual subsidiaries. It must be borne in mind that the following performance indicators, except the key figure revenue,  are no substitute for the IFRS parameters and should therefore not be considered as such. For an extensive definition of the financial and non-financial performance indicators, please refer to the section "Corporate profile of the Group" in the current annual report.

The following are financial performance indicators relevant for management purposes:

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

A schedule of the so called non-GAAP measures (also known as "alternative performance measures") EBITDA and free cash flow is set out in the section "Segment reporting" and in the consolidated statement of cash flows.

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 second quarter of 2016, no adjustments were made compared with the previous quarter.

## Other control parameters

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

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

As of 30 June 2016, the number of employees slightly declined from 4,990 as of 31 March 2016 to 4,879. At the end of 30 June 2015 4,611 people were employed at the freenet Group.

# Assets, earnings and financial position

## Revenue and earnings position

Table 3: **The Group's key performance indicators**

| In EUR `000s | Q2/2016 | Q2/2015 | Change |
|---|---|---|---|
| Revenue | 807,673 | 752,537 | 55,136 |
| Gross profit | 219,864 | 186,359 | 33,505 |
| Overhead costs | -115,027 | -97,271 | -17,756 |
| EBITDA[1] | 104,837 | 89,088 | 15,749 |
| EBIT | 64,353 | 70,332 | -5,979 |
| EBT | 43,027 | 60,618 | -17,591 |
| **Group result** | **49,648** | **54,910** | **-5,262** |

**GROUP REVENUE** increased by 7.3 per cent in the second quarter of 2016 compared with the same period last year. This was achieved first and foremost as a result of the significant growth in the customer ownership portfolio (9.42 million customers as at the end of June 2016 compared with 9.11 million customers as at the end of June 2015) accompanied by almost constant postpaid ARPU (21.4 euros in Q2/2016 compared with 21.4 euros in Q2/2015), and also the inclusion of the Media Broadcast Group in the consolidation group.

The **GROSS PROFIT MARGIN** improved by 2.5 percentage points to 27.2 per cent. At 219.9 million euros, the **GROSS PROFIT** has increased by 33.5 million euros compared with the figure reported for the previous year comparison quarter. Both developments are primarily connected with the fact that the consolidation group has been extended to include the Media Broadcast Group.

**OVERHEAD EXPENSES** which include the items other **OPERATING INCOME, OTHER OWN WORK CAPITALISED,**

1 Group result before interest, taxes on income, depreciation and impairment write-downs, including shares of associates accounted for using the equity method, excluding depreciation and deferred taxes from the subsequent accounting regarding shadow purchase price allocation (element of the result of associates accounted for using the equity method).

**PERSONNEL EXPENSES, OTHER OPERATING EXPENSES, AND THE SHARE OF RESULTS OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD (ONLY ELEMENTS OF RESULTS)** increased by 17.8 million euros compared with Q2/2015. On the one hand, the increase in personnel expenses and the other operating expenses, essentially as a result of the fact that the Media Broadcast Group and EXARING have been included in the consolidation group, has resulted in an increase in overhead expenses. On the other hand, the shares of results of associates accounted for using the equity method (due to the acquisition of the shares in Sunrise) has had a positive impact on the overhead expenses.

In the reporting quarter 2016, **EBITDA** is stated as 104.8 million euros, representing an increase of 15.7 million euros compared with the figure reported for the previous year comparison quarter.

Compared with the previous year, **DEPRECIATION AND IMPAIRMENT WRITE-DOWNS** have increased by 16.4 million euros to 35.1 million euros, namely as a result of the increase in property, plant and equipment and intangible assets resulting from the acquisitions (Media Broadcast Group and EXARING) as well as the preliminary purchase price allocation (Media Broadcast Group) and the final purchase price allocation (EXARING) carried out in this connection.

The **NET INTEREST INCOME**, i.e. the difference between interest income and interest expenses, is disclosed as -21.3 million euros in the reporting period (Q2/2015: -9.7 million euros). The considerable increase of 11.6 million euros in net interest expense is mainly due to the compounding of non-current liabilities of the Media Broadcast Group as well as the refinancing carried out in March 2016.

As a result of the effects explained above, the **CONSOLIDATED RESULT BEFORE TAXES ON INCOME (EBT)** amounted to 43.0 million euros, representing a decline of 17.6 million euros compared with the previous year.

**INCOME TAX** income of 6.6 million euros was reported for the period under review in 2016 (Q2/2015: expenses of 5.7 million euros). Current tax expenses of 7.3 million euros (Q2/2015: 8.0 million euros) were netted with deferred tax income of 13.9 million euros (Q2/2015: 2.3 million euros), mainly as a result of the write-up of deferred tax assets from tax loss carry-forwards and primarily due to the Media Broadcast Group consolidation.

As was the case in the corresponding period of the previous year, the **GROUP RESULT** reported in the second quarter of 2016 was exclusively attributable to continued operations, and amounted to a total of 49.6 million euros; compared with the figure of 54.9 million euros reported for the previous year comparison quarter, this represents a decline of 5.3 million euros.

## Assets and financial position

Table 4: **Selected Group balance sheet figures**

### Assets

| In EUR million | 30.6.2016 |
|---|---|
| Non-current assets | 3,582.2 |
| Current assets | 696.7 |
| **Total assets** | **4,278.9** |

| In EUR million | 31.3.2016 |
|---|---|
| Non-current assets | 3,583.9 |
| Current assets | 1,024.5 |
| **Total assets** | **4,608.3** |

### Shareholders' equity and liabilities

| In EUR million | 30.6.2016 |
|---|---|
| Shareholders' equity | 1,273.9 |
| Non-current and current liabilities | 3,005.0 |
| **Total equity and liabilities** | **4,278.9** |

| In EUR million | 31.3.2016 |
|---|---|
| Shareholders' equity | 1,426.9 |
| Non-current and current liabilities | 3,181.4 |
| **Total equity and liabilities** | **4,608.3** |

The **BALANCE SHEET TOTAL** as of 30 June 2016 amounted to 4,278.9 million euros, and thus declined by 329.5 million euros (7.1 per cent) compared with 31 March 2016 (4,608.3 million euros).

On the **ASSETS SIDE** of the balance sheet, **NON-CURRENT ASSETS** declined from 3,583.9 million euros to 3,582.2 million euros. This slight decline is largely due to a decrease of 18.5 million euros in intangible assets to 987.8 million euros, which in turn resulted primarily from a combination of ongoing amortisation and a low level of new investment. This was opposed primarily by the increase in claims arising from capitalized tax loss carry-forwards, which resulted in total in an increase of 16.2 million euros to 174.0 million euros in deferred tax assets.

Within **CURRENT ASSETS**, the main item to be highlighted is the decline in liquid assets of 299.4 million euros to 204.0 million euros. The decline in liquid assets is mainly attributable to the repayment on 20 April 2016 of the corporate bond with a nominal value of 400.0 million euros plus cumulative interest of 28.5 million euros as well as the dividend distribution of 198.4 million euros which was paid in the second quarter of 2016. This was opposed by the proceeds from the raising of borrowings from the first tranche of the facilities agreement signed at the end of March 2016 with a nominal amount of 240.0 million euros as well as the free cash flow of 115.9 million euros generated in the reporting quarter.

The trade accounts receivable have declined by 19.4 million euros to 464.1 million euros due to reference date factors. Inventories have also declined by 8.0 million euros to 70.4 million euros due to a decrease in inventories of hardware.

On the **LIABILITIES SIDE** of the balance sheet, borrowings decreased by 183.9 million euros to 1,730.9 million euros compared with 31 March 2016 mainly due to the corporate bond which was repaid in the quarter under review. On the other hand, the first tranche of the facilities agreement which was drawn down in April 2016 out of the original nominal amount of 240.0 million euros (now disclosed under the current borrowings with a carrying amount of 238.7 million euros) had the effect of increasing gross borrowings.

The decline of 11.0 million euros to 543.8 million euros in the other liabilities, accruals and deferrals, is mainly attributable to the reduction of 10.1 million euros in liabilities attributable to VAT and income tax issues.

The increase of 10.4 million euros in the other provisions to 93.7 million euros relates mainly to provisions of the Media Broadcast Group. The pension provisions increased by 6.9 million euros to 94.6 million euros, mainly as a result of the considerable decline in the discount rate (30 June 2016: 1.7 per cent; 31 March 2016: 2.2 per cent). Please refer to point 10 of the selected disclosures in the notes to the financial statements.

The **EQUITY RATIO** declined mainly due to the dividend payout from 31.0 per cent at the end of March 2016 to 29.8 per cent at the end of June 2016. The **NET DEBT** amounted to 898.0 million euros as of 30 June 2016. With this parameter, the financial debt (1,730.9 million euros) is reduced by the liquid assets (204.0 million euros) as well as the Sunrise share of market value as of 30 June 2016 (11,051,578 shares multiplied by the closing price of 56.90 euros on the Frankfurt am Main stock exchange), as the share in Sunrise would be available at all times for reducing the level of financial debt. As of 31 March 2016, net debt amounted to 805.0 million euros, as the result of financial debt of 1,914.7 million euros less liquid assets of 503.4 million euros and the Sunrise share of market value as of 31 March 2016 (10,721,395 shares multiplied by the closing price of 56.55 euros on the Frankfurt am Main stock exchange).

## Cash flow

Table 5: **The Group's key cash flow indicators**

| In EUR million | Q2/2016 | Q2/2015 | Change |
|---|---|---|---|
| Cash flow from operating activities | 133.6 | 80.7 | 52.9 |
| Cash flow from investing activities | -39.7 | -6.5 | -33.2 |
| Cash flow from financing activities | -393.3 | -123.1 | -270.2 |
| **Change in cash and cash equivalents** | **-299.4** | **-48.9** | **-250.5** |
| | | | |
| **Free cash flow[1]** | **115.9** | **74.1** | **41.8** |

In the second quarter of 2016, the **CASH FLOW FROM OPERATING ACTIVITIES** is reported at 133.6 million euros, equivalent to a pronounced increase of 52.9 million euros compared with the previous year quarter. In addition to a 9.8 million euros increase in EBITDA (not including the non-cash-effective share of results of the associate Sunrise in the amount of 5.9 million euros) as well as a dividend payment of 30.1 million euros received from Sunrise, the decline of 10.9 million euros in tax payments (Q2/2016: -7.5 million euros, Q2/2015: -18.3 million euros) and also a 2.1 million euros increase in the reduction of net working capital compared with Q2/2015 had a positive impact on the cash flow from operating activities.

In the second quarter of 2016, the **CASH FLOW FROM INVESTING ACTIVITIES** amounted to -39.7 million euros compared with -6.5 million euros in the second quarter of 2015, mainly due to the payments of 22.1 million euros for the additional share of 0.73 per cent in the share capital of Sunrise.

The cash outflows for investments in intangible assets and in property, plant and equipment, netted out against the cash inflows from such assets, increased in the second quarter of 2016 compared with the previous year quarter by 11.1 million euros from 6.6 million euros to 17.7 million euros. The cash-effective investments were financed entirely out of the company's own resources, and mainly related to property, plant and equipment of the Media Broadcast Group.

In the quarter under review, the **CASH FLOW FROM FINANCING ACTIVITIES** declined from -123.1 million euros in the previous year comparison period to -393.3 million euros mainly due to the dividend of 198.4 million euros paid in the second quarter of 2016 and also the repayment of the corporate bond with a nominal value of 400.0 million euros plus the payment of cumulative interest of 28.5 million euros in relation to the corporate bond. The Group also received proceeds of 239.3 million euros from the raising of debt.

As a result of the effects described above, **FREE CASH FLOW** of 115.9 million euros was generated in the second quarter of 2016 – representing an increase of 41.8 million euros compared with the level reported for the corresponding previous year quarter (74.1 million euros).

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

# Financial Management

Strategic corporate management is underpinned by focused financial management, with the capital structure and liquidity development 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, less the Sunrise share of market value). 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. July 2015 to July 2016 and July 2014 to July 2015).

Table 6: **Key figures of financial management**

| | Q2/2015 | Target 2015 | Q2/2016 | Target |
|---|---|---|---|---|
| Debt ratio | 1.4 | 1.0 – 2.5 | 2.3 | 1.0 – 2.5 |
| Pro forma debt ratio | 1.4 | 1.0 – 2.5 | 3.9 | 1.0 – 2.5 |
| Interest Cover | 9.3 | >5 | 6.7 | >5 |
| Equity ratio in % | 49.4 | >50 | 29.8 | >50 |

The debt ratio indicates the relationship between net debt (1,730.9 million euros) less liquid assets (204.0 million euros), less the Sunrise share of market value as of 30 June 2016 (11,051,578 shares multiplied by the closing price of 56.90 euros on the Frankfurt am Main stock exchange) and the EBITDA generated within the past 12 months. As of 30 June 2016 it amounted to 2.3 and was thus, just as of 30 June 2015, within the strategic target range of 1.0 to 2.5.

At 3.9, the pro forma debt ratio (financial debt less liquid assets compared to the EBITDA generated within the past 12 months) is higher than the strategic range of between 1.0 and 2.5, due to the refinancing in connection with the acquisitions during the first quarter of 2016 as well as the dividend payment which was made in the reporting quarter. It has to be borne in mind that the EBITDA of the last 12 months used for this purpose includes only three and a half months of the business activity of the Media Broadcast Group which is particularly strong in terms of EBITDA. The debt primarily comprises borrowers' note loans with 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 with a nominal value of 720.0 million euros which was concluded in March 2016 (second tranche of refinancing).

At 6.7, the interest cover is considerably lower than the corresponding figure for Q2/2015 (9.3), mainly as a result of the increase in net interest expense due to the refinancing in connection with the acquisitions; it therefore remains above the target of 5.0.

As of 30 June 2016, the equity ratio was below the target of 50 per cent; this is also connected with the refinancing.

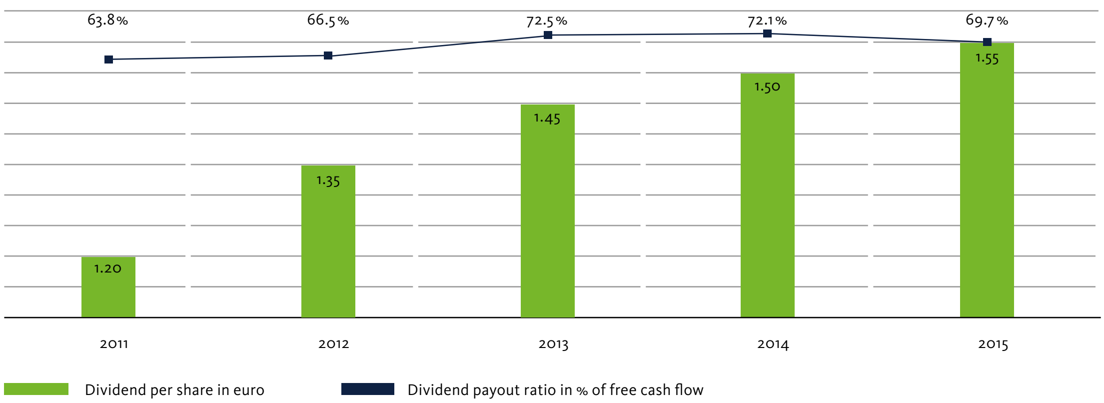
Despite the refinancing in relation to the acquisitions, the Executive Board has not made any changes to its financial strategy and thus continues to be committed to the target.

## 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 respectively in the end of 2015, the equity participation in EXARING AG and the acquisition of shares in Sunrise Communications Group AG.

Following the annual general meeting of 12 May 2016, freenet AG paid out the adopted dividend of 1.55 euros per dividend-bearing share out of the cumulative profit. This is equivalent to a pay-out rate of 69.7 per cent of the free cash flow generated in the financial year 2015.

Figure 4: **Dividend policy KPIs**




In order to underline the sustainability of the business model, the Executive Board 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 accordingly provided the company's shareholders with the prospect of a dividend payment which represents a continuous increase compared with the previous years.

# SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Other events of major significance have not occurred after the balance sheet date.

# OPPORTUNITIES AND RISK REPORT

## Opportunities

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

freenet AG sets itself the objective of performing a pioneering role in all areas of digital lifestyle and of successfully defending this role. For this reason, freenet AG and its subsidiaries continued the strategy of focusing on mobile voice and data services and the marketing of digital lifestyle products with a careful and consistent approach. In the marketing of smartphones and flat-rate tariffs, the focus of commercial activity was mainly on customer quality and the stabilisation of the contract customer base. In line with the strategy of freenet AG, a further focus was placed on digital lifestyle business. The relevant areas include health, data security and home automation as well as entertainment and wearables. The range of products in this growth market has been extended accordingly to include further smartphone and tablet-based applications. Accordingly, with these products, freenet AG has established a broader base than has ever been seen in the past. As the largest network-independent mobile communications provider, freenet AG is going to expand along this successful path in digital lifestyle business and make use of opportunities against the backdrop of a strict orientation towards stakeholder value.

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

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

The trend towards paying for mobile devices, the expansion of mobile internet and data use, the further advance of smartphones as well as the linking of products continued.

Furthermore, the effects of the trend towards a more intensive mobile internet and data usage and the associated trend towards higher-priced flat-rate products could lead to a more positive increase in customer ownership than expected, although overall, the latter tends to be regarded as rather improbable.

At the beginning of the year, freenet AG also completed the process of breaking into the new business unit Digital TV:

With the Media Broadcast Group, the company acquired the sole commercial provider in Germany of the DVB-T2 HD standard which started at the end of May 2016. This new standard addresses millions of German households and enables an extensive channel package to be broadcasting in HD quality. This service will be complemented by access to the media libraries of some stations.

freenet AG has also acquired a 24.99% stake in EXARING AG, and assured the distribution rights for that company's closed IP platform for innovative entertainment and TV services. The company is now planning a product relating to digital moving-image entertainment under the brandname waipu.tv. This market launch is expected to take place in the fourth quarter of 2016.

All these aspects might have a positive impact on the anticipated development of revenue, EBITDA and free cash flow.

Internal opportunities for freenet AG could emerge in particular from:

- the assessment and implementation of strategic options in the field of mobile communications, digital lifestyle and TV,
- the continuous intensification of business relationships with suppliers for the stabilisation of existing and the development of new condition models,
- the consolidation and consistent further development of IT systems to achieve a further improvement in customer satisfaction,
- the enhancement of our selling power through the expansion of existing sales channels (multichannel approach) and the use of existing and new sales collaborations and partnerships,
- a further improvement in shop performance, also by marketing additional products,
- the implementation and marketing of new products in the digital lifestyle and TV sector,
- the intensified establishment of the brands klarmobil, freenetmobile, callmobile and debitel light in the steadily growing discount market, with the aim of participating even more actively in this growth market,
- and the continuous improvement of processes and quality for a lasting reduction in cost structures.

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

In addition to the established main brand mobilcom-debitel, the discount brands klarmobil, freenetmobile, callmobile and debitel light in particular, as well as others, could establish themselves more firmly on the market, possibly leading to a higher rate of market penetration.

At the beginning of June 2016, klarmobil restructured certain tariff offers. Formerly temporary special actions had been converted into a fixed allnet tariff group. In this way, customers can be offered even more performance for the same price – in particular a higher data volume and a faster surfing speed. If the brands perform stronger than expected on the steadily growing discount market, this could lead to higher revenue and to improved results and higher free cash flow than had been forecast.

The strategic collaboration of mobile communications services and the digital lifestyle business was accelerated further. This Group-level orientation of business activities will be pursued consistently in the future as well, as the trend towards the continuing digitalisation and interconnection of products and services will carry on into the future. Against this backdrop, growth opportunities, synergy potential and the chance to establish new strategic partnerships are still being discerned in relation to the rendering of services in the digital lifestyle sector, especially Health, Home Automation & Security, Data Security and Entertainment and Infotainment. In the future, this could lead to more positive contributions to the underlying financial performance indicators than had hitherto been expected. The significance of the strategic transformation from a mobile communications specialist pure and simple to a digital lifestyle provider will increase against this background.

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

## Overall evaluation of the opportunities situation

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

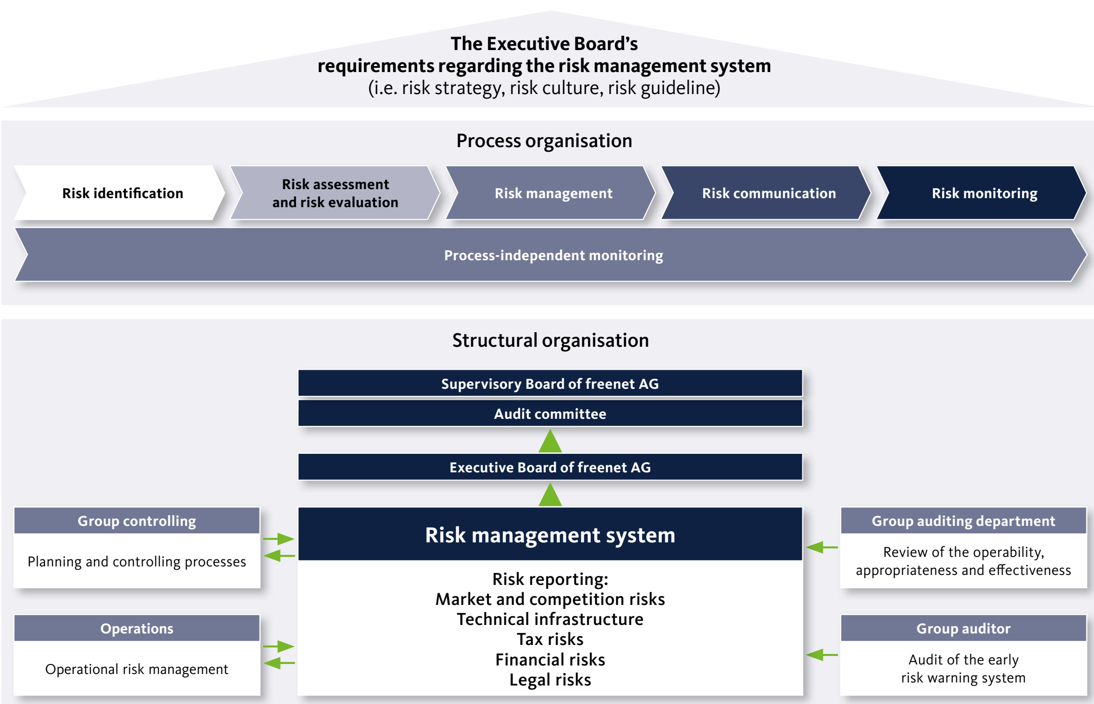
Both external and internal opportunities that had basically remained the same since the previous year were identified. The significance of the opportunities shown and the resulting positive effects on the forecast financial and non-financial performance indicators, and therefore on the development of freenet AG as a whole, are collectively rated as low. The management is therefore expecting the positive trend in business performance that was forecast in the outlook.

## Risk management system

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

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

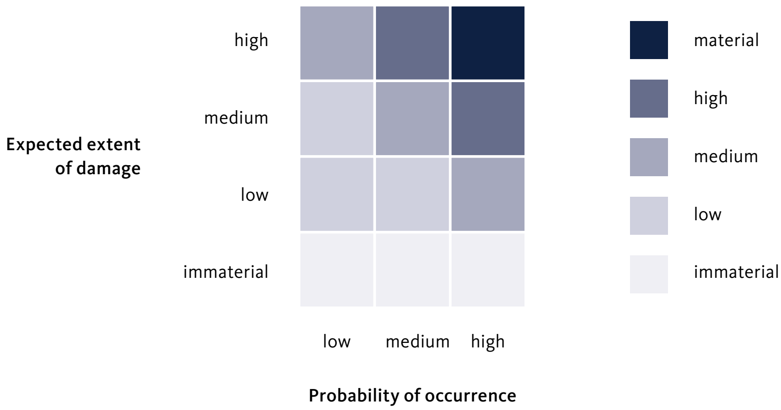
Figure 5: **Process and structural organisation of freenet AG's risk management system**



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

The risks within freenet AG are assessed in accordance with the net principle, by which the risk is observed in conjunction with the mitigating influence of any countermeasures that were implemented. The criteria "probability of occurrence" and "anticipated extent of damage" is used to assess the risks. In the process, risks with a low (<50 per cent), medium (50-75 per cent), and high (>75 per cent) probability of occurrence are systematically categorised and differentiated from each other. With regard to the extent of the anticipated damage arising from a risk, distinctions are drawn between immaterial (<1.0 million euros), low (1.0 to 2.5 million euros), medium (2.5 to 10.0 million euros) and high (>10.0 million euros) anticipated damages. The combination of the probability of occurrence and the extent of the anticipated damage results in the classification of the risks' significance as "immaterial", "low", "medium", "high" and "material". These risk categories are shown in the following illustration.

Figure 6 : **Risk matrix at freenet AG**




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

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

The methods and systems of risk management are continuously being examined, enhanced and adjusted. In the process, freenet AG's internal auditing department plays a supporting role, with the regular audits of the risk reports being the main focus. The Supervisory Board, in particular freenet AG's audit committee, monitors the effectiveness of the risk management system from the standpoint of German stock corporation law. The Supervisory Board is integrated by means of regular reporting and, if necessary, an up-to-date report by the Executive Board (process-independent risk monitoring).

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

# Risks

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

The Mobile Communications segment is by far the most significant segment in the freenet Group in terms of both revenue and earnings. This is also the source of the main market risks in this particular field; they are therefore detailed in the following primarily in relation to this segment. The estimation of risk for the other categories basically applies for all segments. Material differences between the segments in relation to the estimation of risk are specified as such separately.

## Market risks

### Highly competitive markets

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

Vigorous competition can also lead to higher costs for new customer acquisitions, accompanied by falling revenue and a significant propensity of customers to switch. As a result, the forecast revenue-based key performance indicators, earnings indicators and free cash flow could develop in a slightly more negative fashion than had previously been expected. In order to prevail against its competitors, freenet AG must continue to design its products attractively, market them successfully and carry out customer retention activities. In addition, freenet AG must respond to the development of the competition's business and anticipate new customer requirements. This involves a medium risk for the achievement of the company's goals.

### Network operators

Bonus payments and commissions of the MNOs are an element of the income of freenet AG. A reduction in these network operator premiums can lead to a higher capital commitment and marketing risks. This aspect constitutes a medium risk for freenet AG. freenet AG is trying to minimise the risk by negotiating flexible purchasing terms and by continuously monitoring goal attainment for premium payments and renegotiating as and when necessary.

The margins in mobile service provider business are very much determined by the network operators and their defined tariff models. This imposes certain restrictions within the tariff models, for instance by way of restrictions faced by users wishing to change tariffs. The risk has been classified as low by freenet AG. Nevertheless, the company constantly monitors the implementation of further volume-based purchasing models – in the postpaid and also in the prepaid fields.

The network operators are increasingly marketing their products themselves and forcing the mobile communications service providers out of the market ("shift to direct"). Also, due to their business structure, the network operators are sometimes able to offer better rates than the mobile communications service providers. This, in turn, can lead to a loss of distribution channels and customers. This aspect represents a minor risk for freenet AG.

As a countermeasure, freenet AG concludes long-term contracts with its main distribution partners and offers them attractive incentive systems (e.g. Airtime models). An additional possibility of maintaining and expanding existing distribution channels is to be seen in the acquisition of further franchise partners.

The merger between the two network operators O2 and E-Plus might result in a reduced amount of competition between the remaining mobile network operators ("MNOs") and an associated weakening of the service provider model. This might be reflected in various ways, including a reduction of the margin. There is also the risk of coordinated behaviour of the three MNOs remaining after the merger to the detriment of all service providers. The network capacity provided by Telefónica Deutschland to another market player without its own mobile network will probably be marketed quite aggressively. On the positive side of the equation, existing contracts were extended until 2025, which provides freenet AG with a certain amount of protection. If conditions were to be reduced across the market, the conditions for the distribution partners would be adjusted. The risk has been classified as insignificant by freenet AG.

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

## Acquisition of companies

freenet AG has acquired companies in the past. In connection with this, there is a medium risk that the operating activities of these new investments will not develop as expected and that consequently, among other things, growth in digital lifestyle will remain below expectations and therefore below the forecast results and free cash flows. The management report contains regular monitoring of the investment development with the aim of initiating countermeasures immediately if there are any deviations from the original plan.

## Acquisition of the Media Broadcast Group

The acquisition which was completed in the first quarter has resulted in various risks for the company. freenet AG considers that there is a medium risk in the form of the current VHF regulation of the Bundesnetzagentur (Federal Network Agency). This regulation might intensify and encourage competition, which means that the company might suffer losses in terms of market share, revenue and earnings in this particular field.

In addition, user demand for the product freenet TV which is offered via the DVB-T2 HD standard mentioned in the opportunities report might be weaker than originally anticipated. This constitutes a medium risk for freenet.

## Stake in EXARING AG

Since the end of 2015, freenet AG has owned a 24.99% stake in EXARING AG. This might result in risks that the number of users at the time of the product launch might be lower than originally anticipated and that the costs, particularly costs of content (TV stations) and acquisition (sales partners/marketing partners), might be higher than originally anticipated. freenet has classified both risks as medium.

## Stake in Sunrise Communications Group AG

In the first half of 2016, freenet AG acquired a stake of 24.56% in Sunrise Telecommunications Group AG. The business performance of Sunrise AG might turn out to be less positive than originally anticipated, which in turn might have a negative impact on the earnings and business development of freenet. The risk has been classified as low by freenet.

## Termination charges

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

### Laws and regulation

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

## IT risks

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

A hacker attack on the freenet TV database might result in harmful data manipulation which, under extreme circumstances, might result in failure of the TV boxes. The risk has been classified as low by freenet.

## Tax risks

### Loss carry-forwards

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

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

### VAT risk on "remuneration from third party"

In a letter from the Federal Ministry of Finance dated 4 December 2014 and a simultaneous addendum to the VAT application decree, the fiscal authority issued the following rule: If the intermediary in a mobile communications contract supplies the customer in the intermediary's own name with a mobile communications device or some other electronic article, and if the mobile communications company grants the intermediary a commission dependent on the supply of the mobile communications device or other electronic articles on the basis of a contractual agreement, or part of a commission dependent on the above, such a commission or part of a commission shall not be regarded as remuneration for an intermediary brokering role vis-à-vis the mobile communications company, but rather as remuneration from a third party as defined by section 10 (1) sentence 3 of the German VAT Act (UStG) for the supply of the mobile communications device or the other electronic article. This applies irrespective of the amount of any additional payment to be made by the customer. The application of this rule as from 1 January 2015 will not involve any reportable risks for the company. As for the revenue reported before 1 January 2015, the company regards it as very likely indeed that the rule specified above will have no significant negative effects for freenet AG under VAT law. However, a low risk remains for the revenue reported before 1 January 2015 for assessment periods that have not been audited conclusively, as a result of which freenet AG would have to refund some of its input tax to the tax authorities.

### Other tax risks

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

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

## Financial risks

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

### Bad debt losses

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

The assessment of the risk of default on trade accounts receivable in the freenet Group is focused primarily on trade accounts receivable owed by end customers. In the mass business of our Group, particular attention is devoted to the creditworthiness of customers and sales partners. Credit checks are carried out for major contract customer areas before a contract is taken out with the customer. In the ongoing contractual relationship, the implementation of a swift and regular reminder and debt collection process involving a number of debt collection companies in the benchmarking area, together with long-term debt collection monitoring and high-spender monitoring, are essential measures for the minimisation of the default risk in our Group. An ongoing dunning and debt collection process is also operated with regard to accounts due from dealers and franchise partners. Credit limits are also defined and monitored. Commercial credit insurance, moreover, safeguards us against significant default risks vis-à-vis major customers (traders and distributors in the mobile communications segment). The risks associated with uninsured traders and distributors are restricted by an internal limit system—generally, customers with a poor credit standing must pay cash in advance or the commercial relationship will not come into being. Finally, the appropriate formation of valuation allowances takes the risks of default on receivables into account.

There are regularly trade accounts receivable due from the mobile network operators in the Mobile Communications segment, and there are regularly trade accounts receivable in the TV/Media segment due from public and private providers of TV and radio programmes. The concept of collecting these receivables is also constantly monitored; however, past experience has shown that the risk of bad-debt losses in this respect is extremely low.

There is a factoring agreement between the Group and a bank on the sale of receivables from mobile options. The relevant risks (in particular the risk of default) and opportunities are transferred to the bank under this arrangement. Although of minor significance, the late payment risk shall be completely retained by the freenet Group.

## Impairment of assets

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

freenet AG's assets are checked both regularly and on an ad-hoc basis otherwise as and when appropriate if there are potential indicators of lasting impairment. Such an indicator may be changes in the economic or regulatory environment. Any resultant impairment is not cash-effective, and therefore does not have any impact on the free cash flow. The revenue and EBITDA are also not affected (no impact on the financial performance indicators).

## Liquidity

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

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

The Group uses a variety of financial instruments to reduce the general liquidity risk. The liabilities due to banks shown under borrowings relate to the borrowers' note loan concluded in December 2012, May 2015 and February 2016 (disclosed as 778.8 million euros, including interest accruals, as of 30 June 2016) as well as the two loan tranches in the syndicated facility agreement of March 2016 for a total of max. 1,040.0 million euros (shown as 951.9 million euros, including interest accruals, as of 30 June 2016). The third tranche in the facility agreement for 100.0 million euros (in the form of a revolving credit line) had not been drawn as of 30 June 2016.

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

## Capital risk management

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

## Interest rate risk

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

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

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

### Other financial risks

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

## Legal risks

### Settlement agreement with France Télécom S.A.

mobilcom AG, as the company's legal predecessor, and a number of other former mobilcom group companies signed a settlement agreement with France Télécom S.A. and associated companies in November 2002. The validity of this settlement agreement is being challenged by a number of individual shareholders.

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

### Capital increase

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

## Overall assessment of the risk position

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

| Risks | Probability of occurrence | Expected extent of damage | Risk | Tendency |
|---|---|---|---|---|
| **Market risks** | | | | |
| Highly competitive markets | medium | medium | medium | → |
| Network operator | | | | |
| Bonuses and margins | medium | medium | medium | → |
| Shift to direct | medium | low | low | → |
| $O_2$ and E-Plus | low | immaterial | immaterial | → |
| Acquisition of companies | medium | medium | medium | → |
| Termination charges | low | medium | low | → |
| Laws and regulation | low | low | low | → |
| **IT risks** | low | medium | low | → |
| Data theft and hacking attacks | low | low | low | → |
| **Tax risks** | | | | |
| Loss carryforwards | low | high | medium | → |
| VAT risk on "remuneration of a third party" | low | medium | low | → |
| Other tax risks | low | medium | low | → |
| **Financial risks** | | | | |
| Bad debt losses | high | low | medium | → |
| Impairment of assets | low | high | medium | → |
| Liquidity | | | | |
| General liquidity risk | low | high | medium | → |
| Constraint of financial leeway | low | medium | low | → |
| Capital risk management | low | high | medium | → |
| Interest rate risk | medium | medium | medium | ↗ |
| Other financial risks | low | immaterial | immaterial | → |
| **Legal risks** | | | | |
| Settlement agreement with France Télécom | low | high | medium | → |
| Capital increase through contribution in kind | low | high | medium | → |
| **Compliance Risks** | | | | |
| Competitive risk "UKW regulation" | medium | medium | medium | → |
| **Operational Risks** | | | | |
| Customer volume freenet TV | low | high | medium | → |
| **Strategic risks** | | | | |
| Impact of earnings Sunrise | low | medium | low | → |
| Customer development EXARING | medium | medium | medium | → |
| Cost development EXARING | medium | medium | medium | → |

↗ Arrow upward: Classification in higher risk class compared to previous report
→ Arrow across: Classification in same risk class compared to previous report or newly registered risk
↘ Classification in lower risk class compared to previous report

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

Market, IT and tax, financial as well as legal risks were identified as of 30 June 2016. Their potential effects on the general future development of freenet AG and its financial and non-financial performance indicators are classified by the management in overall terms as low. The management is therefore expecting that the positive trend forecast will not be compromised significantly as a result of the aforementioned risks.

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

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

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

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

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

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

### Structure of the Group accounting process

The accounting processes for the individual financial statements of freenet AG's subsidiaries are basically recorded by local accounting systems manufactured by SAP. freenet AG uses SAP's "EC-CS" ("SAP EC-CS") module as its consolidation system at the ultimate Group level. For the preparation of the consolidated balance sheet, the consolidated income statement, the consolidated statement of cash flows, and the consolidation of the capital, debt, and expenses and income, etc., the data reported by the subsidiaries is entered into the consolidation system in a variety of ways — mostly automatically using the SAP module "FI" ("SAP-FI"), and in isolated cases also manually by entering the reported data. The individual disclosures in the Group management report and the notes to the consolidated financial statements are each generated from standardised reporting packages and institutionalised coordination processes as part of the internal control system; these processes are handled using Microsoft Excel ("MS Excel") among others. The aforementioned information for the notes, too, is consolidated using MS Excel.

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

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

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

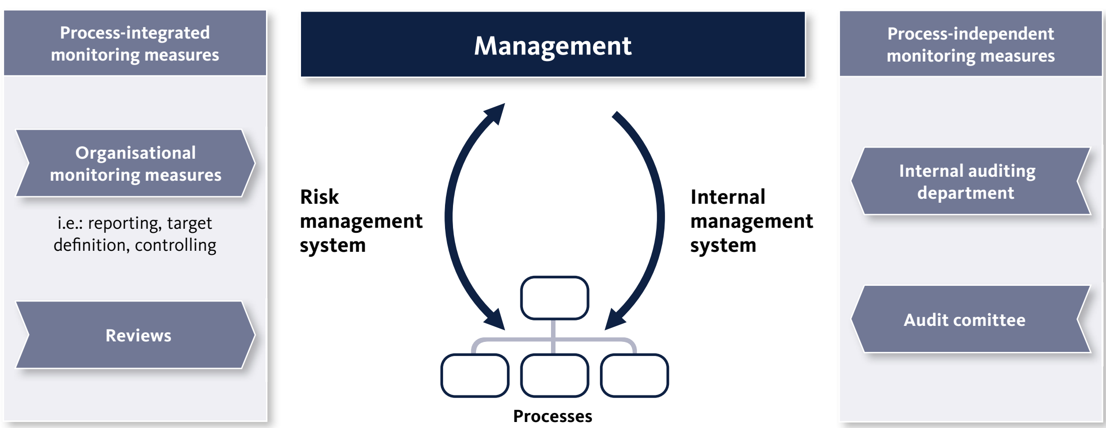
The regular elements in the Group's internal control system are aimed at achieving the extensive automation of the formation and cross-checking of all relevant data, from raw accounting data and customer invoicing to valuation allowances, accruals, depreciation and amortisation. These automated controls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

The Group internal audit department's annual review of the internal control system in 2015 showed that potential improvements ascertained in the departments audited in previous years have been implemented. On the one hand, the department has intensified its proven controlling activities continuously and increased the frequency of internal audits, and on the other hand, it has increased the level of automation within the controlling activities. The results are used to systematically derive measures and monitor their success.

The Group auditor and other review bodies are likewise involved in freenet AG's control environment with process-independent review activities.

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

Figure 7: **Key features of the internal control system at freenet AG**



# 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 had 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 has previously been the case, we are assuming that there will be a further approximately 10 million euros of EBITDA resulting from our recent stake acquired in Sunrise Communications Group AG. Following a resolution of the general meeting of Sunrise Communications Group AG, freenet AG also received a cash-effective dividend of 30.1 million euros on 21 April 2016. The free cash flow accordingly increased by the anticipated approximately 30 million euros in the second quarter of 2016, not being part of our guidance. 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 of 2015 and that the number of customer ownership customers will increase slightly compared with the financial year 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 changes in user patterns in the direction of greater mobile data use by means of stepping up its marketing of data tariffs and current devices, such as smartphones and tablets. The general decline in user figures in the mobile communications market is combated by freenet AG with various sales measures to the extent equivalent to that seen in 2015. In addition, the company anticipates the increasing development of new sources of revenue as a result of marketing innovative products and services for mobile digital lifestyle applications, for instance in the new TV division

Table 7: **Development of the key performance indicators**

| In EUR million/as indicated | Forecast of 2014[1] 2015 | Forecast of 2014[1] 2016 | 2015 | Since the beginning of the year / Q2/2016 | Latest forecast 2016 |
|---|---|---|---|---|---|
| **Financial performance indicators** | | | | | |
| Group revenue | stable | slight increase | 3,117.9 | 1,556.9 | moderate increase |
| Group EBITDA[2] | 370 | 375 | 370.2 | 194.0 | slightly above 400[3] |
| Free cash flow[4] | 280 | 285 | 284.5 | 180.8 | around 300[5] |
| Postpaid ARPU (in EUR) | stable | stable | 21.4 | 21.4 | stable |
| | | | | | |
| **Non-financial performance indicators** | | | | | |
| Customer Ownership (in million) | slight increase | slight increase | 9.30 | 9.42 | slight increase |

1 In accordance with the Group management report accompanying the consolidated financial statements for 2014.
2 Group result before interest, taxes on income, depreciation and impairment write-downs, including shares of associates accounted for using the equity method, excluding depreciation and deferred taxes from the subsequent accounting regarding shadow purchase price allocation (element of the result of associates accounted for using the equity method).
3 Further 10 million euros are expected as a result of the recent acquisition of the Sunrise stake.
4 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.
5 The approximately 30 million euros from the dividend payment of Sunrise Communications Group AG in April are not included.

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# OVERVIEW

# Consolidated income statement

## for the period from 1 January to 30 June 2016

| In EUR `000s/as indicated | 1st half 2016 1.1.2016-30.6.2016 | 1st half 2015 1.1.2015-30.6.2015 | Q2/2016 1.4.2016-30.6.2016 | Q2/2015 1.4.2015-30.6.2015 |
|---|---|---|---|---|
| Revenue | 1,556,856 | 1,501,011 | 807,673 | 752,537 |
| Other operating income | 32,366 | 31,431 | 14,335 | 17,761 |
| Other own work capitalised | 7,313 | 6,351 | 4,921 | 3,785 |
| Cost of material | -1,144,765 | -1,123,261 | -587,809 | -566,178 |
| Personnel expenses | -101,605 | -99,762 | -56,730 | -49,589 |
| Depreciation and impairment write-downs | -56,798 | -34,211 | -35,136 | -18,756 |
| Other operating expenses | -162,361 | -140,710 | -83,466 | -69,254 |
| **Operating result** | **131,006** | **140,849** | **63,788** | **70,306** |
| | | | | |
| Share of results of associates accounted for using the equity method | 620 | 57 | 565 | 26 |
| Thereof profit share * | 6,160 | 57 | 5,913 | 26 |
| Thereof subsequent recognition from purchase price allocation * | -5,540 | 0 | -5,348 | 0 |
| Interest receivable and similar income | 520 | 457 | 350 | 207 |
| Interest payable and similar expenses | -33,587 | -19,717 | -21,676 | -9,921 |
| **Result before taxes on income** | **98,559** | **121,646** | **43,027** | **60,618** |
| | | | | |
| Taxes on income | 2,409 | -10,522 | 6,621 | -5,708 |
| | | | | |
| **Group result** | **100,968** | **111,124** | **49,648** | **54,910** |
| | | | | |
| Group result attributable to shareholders of freenet AG | 103,862 | 110,616 | 51,898 | 54,651 |
| Group result attributable to non-controlling interest | -2,894 | 508 | -2,250 | 259 |
| | | | | |
| **Earnings per share in EUR (undiluted)** | **0.81** | **0.86** | **0.40** | **0.42** |
| **Earnings per share in EUR (diluted)** | **0.81** | **0.86** | **0.40** | **0.42** |
| | | | | |
| Weighted average of shares outstanding in thousand (undiluted) | 128,011 | 128,011 | 128,011 | 128,011 |
| Weighted average of shares outstanding in thousand (diluted) | 128,011 | 128,011 | 128,011 | 128,011 |

* We refer to point 4 of the selected explanatory notes in accordance with IAS 34.

# Consolidated statement of comprehensive income

## for the period from 1 January to 30 June 2016

| In EUR `000s | 1st half 2016 1.1.2016-30.6.2016 | 1st half 2015 1.1.2015-30.6.2015 | Q2/2016 1.4.2016-30.6.2016 | Q2/2015 1.4.2015-30.6.2015 |
|---|---|---|---|---|
| **Group result** | **100,968** | **111,124** | **49,648** | **54,910** |
| | | | | |
| Change in fair value of available-for-sale financial assets | -28 | -43 | -5 | -11 |
| Reclassification adjustments from the change in fair value of available-for-sale financial assets | 35 | 0 | 35 | 0 |
| Currency difference | -20 | 169 | 49 | -68 |
| Currency difference from subsequent accounting of associates accounted for using the equity method | 1,196 | 0 | 1,196 | 0 |
| Income tax recognised in other comprehensive income | -14 | -38 | -42 | 24 |
| **Other comprehensive income/to be reclassified to the income statement in the following periods** | **1,169** | **88** | **1,233** | **-55** |
| Recognition of actuarial gains and losses arising from the accounting for pension plans acc. IAS 19 (2011) | -12,675 | 6,454 | -7,871 | 12,175 |
| Income tax recognised in other comprehensive income | 3,815 | -1,939 | 2,369 | -3,658 |
| **Other comprehensive income/not to be reclassified to the income statement in the following periods** | **-8,860** | **4,515** | **-5,502** | **8,517** |
| **Other comprehensive income** | **-7,691** | **4,603** | **-4,269** | **8,462** |
| **Consolidated comprehensive income** | **93,277** | **115,727** | **45,379** | **63,372** |
| | | | | |
| Consolidated comprehensive income attributable to shareholders of freenet AG | 96,171 | 115,219 | 47,629 | 63,113 |
| Consolidated comprehensive income attributable to non-controlling interest | -2,894 | 508 | -2,250 | 259 |

# Consolidated balance sheet as of 30 June 2016

## Assets

| In EUR '000s | 30.6.2016 | 31.3.2016 | 31.12.2015 |
|---|---|---|---|
| | | | |
| **Non-current assets** | | | |
| Intangible assets | 987,790 | 1,006,295 | 458,089 |
| Goodwill | 1,372,891 | 1,374,273 | 1,153,985 |
| Property, plant and equipment | 234,270 | 223,656 | 32,542 |
| Investments in associates accounted for using the equity method | 713,582 | 719,833 | 1,760 |
| Other investments | 566 | 1,575 | 1,517 |
| Deferred income tax assets | 173,970 | 157,760 | 177,337 |
| Trade accounts receivable | 75,973 | 77,311 | 79,438 |
| Other receivables and other assets | 23,138 | 23,179 | 12,045 |
| | **3,582,180** | **3,583,882** | **1,916,713** |
| | | | |
| **Current assets** | | | |
| Inventories | 70,386 | 78,387 | 79,468 |
| Current income tax assets | 3,086 | 3,054 | 3,058 |
| Trade accounts receivable | 388,130 | 406,205 | 436,009 |
| Other receivables and other assets | 31,080 | 33,396 | 18,910 |
| Cash and cash equivalents | 204,019 | 503,425 | 269,761 |
| Assets classified as held for sale | 0 | 0 | 101 |
| | **696,701** | **1,024,467** | **807,307** |
| | | | |
| | **4,278,881** | **4,608,349** | **2,724,020** |

## Shareholders' equity and liabilities

| In EUR `000s | 30.6.2016 | 31.3.2016 | 31.12.2015 |
|---|---|---|---|
| | | | |
| **Shareholders' equity** | | | |
| Share capital | 128,061 | 128,061 | 128,061 |
| Capital reserve | 737,536 | 737,536 | 737,536 |
| Cumulative other comprehensive income | -23,054 | -18,785 | -15,363 |
| Retained earnings | 380,022 | 526,541 | 474,577 |
| **Capital and reserves attributable to shareholders of freenet AG** | **1,222,565** | **1,373,353** | **1,324,811** |
| Capital and reserves attributable to non-controlling interest | 51,330 | 53,580 | 54,224 |
| | **1,273,895** | **1,426,933** | **1,379,035** |
| | | | |
| **Non-current liabilities** | | | |
| Trade accounts payable | 16,709 | 26,400 | 0 |
| Other payables | 431,788 | 422,367 | 42,452 |
| Borrowings | 1,487,296 | 1,484,851 | 218,382 |
| Deferred income tax liabilities | 6 | 6 | 6 |
| Pension provisions | 94,555 | 87,691 | 51,191 |
| Other provisions | 66,064 | 56,480 | 8,044 |
| | **2,096,418** | **2,077,795** | **320,075** |
| | | | |
| **Current liabilities** | | | |
| Trade accounts payable | 480,929 | 468,722 | 443,718 |
| Other payables | 111,999 | 132,382 | 107,975 |
| Current income tax liabilities | 44,431 | 45,831 | 32,465 |
| Borrowings | 243,580 | 429,876 | 420,532 |
| Other provisions | 27,629 | 26,810 | 20,220 |
| | **908,568** | **1,103,621** | **1,024,910** |
| | | | |
| | **4,278,881** | **4,608,349** | **2,724,020** |

# Schedule of changes in equity

## for the period from 1 January to 30 June 2016

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

| | | | Cumulative other comprehensive income | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| In TEUR | Share capital | Capital | Revaluation reserve | Currency difference | Currency difference from subsequent accounting of associates accounted for using the equity method | Valuation reserve in accordance with IAS 19 | Retained earnings | Capital and reserves attributable to shareholders of freenet AG | Capital and reserves attributable to non-controlling interest | Shareholders' equity |
| **As of 1.1.2016** | **128,061** | **737,536** | **-139** | **364** | **0** | **-15,588** | **474,577** | **1,324,811** | **54,224** | **1,379,035** |
| Dividend payment | 0 | 0 | 0 | 0 | 0 | 0 | -198,417 | -198,417 | 0 | -198,417 |
| Group result | 0 | 0 | 0 | 0 | 0 | 0 | 103,862 | 103,862 | -2,894 | 100,968 |
| Recognition of actuarial gains and losses acc. IAS 19 (2011)[1] | 0 | 0 | 0 | 0 | 0 | -8,860 | 0 | -8,860 | 0 | -8,860 |
| Change in fair value of available-for-sale financial instruments[1] | 0 | 0 | 5 | 0 | 0 | 0 | 0 | 5 | 0 | 5 |
| Foreign currency translation[1] | 0 | 0 | 0 | -14 | 0 | 0 | 0 | -14 | 0 | -14 |
| Foreign currency translation from subsequent accounting of associates accounted for using the equity method[1] | 0 | 0 | 0 | 0 | 1,178 | 0 | 0 | 1,178 | 0 | 1,178 |
| Sub-total: Consolidated comprehensive income | 0 | 0 | 5 | -14 | 1,178 | -8,860 | 103,862 | 96,171 | -2,894 | 93,277 |
| **As of 30.6.2016** | **128,061** | **737,536** | **-134** | **350** | **1,178** | **-24,448** | **380,022** | **1,222,565** | **51,330** | **1,273,895** |

1 Figures are balanced with income tax recognised in other comprehensive income.

# Consolidated statement of cash flows

## for the period from 1 January to 30 June 2016

| In EUR `000s | 1st half 2016 1.1.2016-30.6.2016 | 1st half 2015 1.1.2015-30.6.2015 |
|---|---|---|
| **Result before interest and taxes (EBIT)** | **131,626** | **140,906** |
| | | |
| **Adjustments** | | |
| Depreciation and impairment on items of fixed assets | 56,798 | 34,211 |
| Share of results of associates accounted for using the equity method | -620 | -57 |
| Dividends received from associates accounted for using the equity method | 30,124 | 0 |
| Gains on the sale of subsidiaries | -35 | 0 |
| Gains on the disposal of fixed assets | -187 | -91 |
| Decrease in net working capital not attributable to investing or financing activities | 6,543 | 4,496 |
| Tax payments | -18,766 | -28,303 |
| **Cash flow from operating activities** | **205,483** | **151,162** |
| Investments in property, plant and equipment and intangible assets | -25,141 | -15,068 |
| Proceeds from the disposal of property, plant and equipment and intangible assets | 424 | 196 |
| Payments for the acquisition of subsidiaries | -76,618 | 0 |
| Proceeds from the sale of subsidiaries | 43 | 100 |
| Payments for the acquisition of associates accounted for using the equity method | -738,219 | 0 |
| Interest received | 488 | 334 |
| **Cash flow from investing activities** | **-839,023** | **-14,438** |
| Dividend payments to company owners and minority shareholders | -198,417 | -192,017 |
| Proceeds from new borrowings | 1,505,680 | 99,400 |
| Cash repayments of borrowings | -697,231 | -1,157 |
| Interest paid | -42,234 | -30,808 |
| **Cash flow from financing activities** | **567,798** | **-124,582** |
| **Cash-effective change in cash and cash equivalents** | **-65,742** | **12,142** |
| | | |
| **Cash and cash equivalents at the beginning of the period** | **269,761** | **111,944** |
| **Cash and cash equivalents at the end of the period** | **204,019** | **124,086** |

| **Composition of cash and cash equivalents**<br>In EUR '000s | 30.6.2016 | 30.6.2015 |
|---|---|---|
| Cash and cash equivalents | 204,019 | 124,086 |
| | **204,019** | **124,086** |

| **Composition of free cash flow**<br>In EUR '000s | 30.6.2016 | 30.6.2015 |
|---|---|---|
| Cash flow from operating activities | 205,483 | 151,162 |
| Investments in property, plant and equipment and intangible assets | -25,141 | -15,068 |
| Proceeds from the disposal of property, plant and equipment and intangible assets | 424 | 196 |
| **Free cash flow (FCF)** | **180,766** | **136,290** |

# 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 at 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).

2. With the acquisitions of EXARING as well as the Media Broadcast Group, the freenet Group operates in the new business unit “TV and Media”. In the first quarter of 2016, the results of these activities were still provisionally ascribed to the “Other/Holdings” segment, because at the point at which the condensed consolidated interim financial statements for the period ending 31 March 2016 were prepared, the main decision makers of the Group have not been provided with a reporting structure which had been changed compared with 31 December 2015. The main decision makers of the Group have now been provided with an amended reporting structure, according to which EXARING as well as the Media Broadcast Group are reported separately as a business unit. Because the quantitative thresholds in accordance with IFRS 8.13 have also been exceeded, the Media Broadcast Group as well as EXARING have for the first time been allocated to the new segment “TV and Media” in these consolidated interim financial statements. Because the information in the amended reporting structure has been available from the time of initial consolidation, EXARING was allocated to the segment "TV and Media” with retroactive effect as of 1 January 2016, and the Media Broadcast Group was allocated to the segment “TV and Media” with retroactive effect as of 18 March 2016. In the corresponding period of 2015, the freenet Group was not yet operating in the segment “TV and Media”; this is the reason why it was not necessary for any adjustment to be made in segment reporting for the comparison figures of the previous year.

   As from the second quarter 2016 the management reporting presented to the main decision makers of the Group was changed. The income statement of the individual segments is no longer shown down to segment EBIT level but ends at the segment EBITDA level as the EBIT is not defined as financial key performance indicator. This means that the EBIT figure is not used for corporate management purposes. A corresponding adjustment of the previous years’ disclosure has been carried out.

## Significant events and transactions

3. 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, Taunus Management GmbH & Co. KG as well as Taunus Management II GmbH & Co. KG (the vendors) for the acquisition of 100 per cent of the shares in the Media Broadcast Group. The Media Broadcast Group consists of a holding company (formerly two holding companies, one of which has since been merged with the other) as well as the main operating company Media Broadcast GmbH, Cologne, as well as further subsidiaries and equity participations. The satellite activities 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. 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.

   In these consolidated interim financial statements, the purchase price allocation carried out in accordance with IFRS 3 for the acquisition of the Media Broadcast Group is again of a provisional 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 up 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 value as of 17 March 2016

### Assets

| In EUR `000s | 17.3.2016 |
|---|---|
| **Non-current assets** | |
| Intangible assets | 562,252 |
| Goodwill | 220,288 |
| Property, plant and equipment | 191,573 |
| Other investments | 64 |
| Trade accounts receivable | 469 |
| | |
| | **974,646** |
| **Current assets** | |
| Trade accounts receivable | 17,858 |
| Other receivables and other assets | 33,180 |
| Cash and cash equivalents | 25,036 |
| | |
| | **76,074** |
| | **1,050,720** |

### Shareholders' equity and liabilities

| In EUR `000s | 17.3.2016 |
|---|---|
| **Non-current liabilities** | |
| Trade accounts payable | 27,660 |
| Other payables | 395,750 |
| Borrowings | 297,193 |
| Deferred income tax liabilities | 22,635 |
| Pension provisions | 31,731 |
| Other provisions | 47,898 |
| | **822,867** |
| **Current liabilities** | |
| Trade accounts payable | 66,261 |
| Other payables | 13,170 |
| Current income tax liabilities | 26,989 |
| Other provisions | 8,397 |
| | **114,817** |
| | **937,684** |

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 (of which as expected, 196.1 million euros allowable for tax purposes) 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.

The other receivables and other assets of 33.2 million euros relate to gross amounts of 34.8 million euros less adjustment of 1.6 million euros.

The liabilities of the Media Broadcast Group as of 17 March 2016 (at fair values) comprise contingent liabilities of 24.8 million euros, consisting of 17.3 million euros current income tax liabilities as well as 7.5 million euros non-current other provisions.

After the time of its initial consolidation (18 March to 30 June 2016), the Media Broadcast Group contributed a total of 77.9 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 six months of 2016 would have been 136.5 million euros. The EBITDA contribution of the Group for the period between 18 March 2016 and 30 June 2016 amounted to 14.6 million euros. If this transaction had taken place as of 1 January 2016, the contribution to the EBITDA of the Group would have been 25.2 million euros.

4. 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 come with an immediate dividend entitlement. 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.

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 also acquired for a price of 72.95 CHF, and come with an immediate dividend entitlement. This additional acquisition resulted in purchase costs of 22.1 million euros.

Overall, and also as of 30 June 2016, freenet AG holds a stake of 24.56 per cent in the share capital of Sunrise.

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 interim report as of 31 March 2016. A brief overview is provided in the following.

**Summarised information for Sunrise on first quarter 2016**

## Balance sheet

| In CHF '000s | 31.3.2016 |
|---|---|
| | |
| Non-current assets | 3,430,471 |
| Thereof intangible assets | 2,472,154 |
| Current assets | 637,616 |
| Thereof cash and cash equivalents | 214,810 |
| **Total assets** | **4,068,087** |
| | |
| Non-current liabilities | 2,356,584 |
| Thereof non-current borrowings | 1,832,426 |
| Current liabilities | 561,021 |
| Thereof trade accounts payable and other payables | 494,303 |
| **Total liabilities** | **2,917,605** |

## Income statement

| In CHF '000s | 1.1.-31.3.2016 |
|---|---|
| | |
| Revenue | 445,588 |
| Gross profit | 290,848 |
| EBITDA | 139,248 |
| **Group result after taxes** | **6,789** |

In view of the size of the transaction, the shadow purchase price allocation which has been prepared in accordance with IAS 28 is of a provisional nature; accordingly, the figures recognised in the financial statements have to be considered as provisional. The term "shadow purchase price allocation" is used because the purchase price allocation for an associated company is not directly reflected in the consolidated balance sheet of freenet AG, and instead is reflected only via subsequent depreciation. The preliminary shadow purchase price allocation identified goodwill of 755.5 million CHF which is applicable to the freenet share but which is not subject to ongoing depreciation, as well as assets totalling 237.8 million CHF which are attributable to the freenet share and which are subject to ongoing depreciation (thereof customer relations 169.9 million CHF, thereof brand rights 67.9 million CHF).

For the period between 24 March 2016 and 30 June 2016, the income statement shows a figure of 572 thousand euros for the share of results of associates accounted for using the equity method which is attributable to Sunrise; of this figure, shares in the consolidated net income of Sunrise after tax accounted for 6,112 thousand euros, and the subsequent depreciation of the shadow purchase price allocation accounts for -5,540 thousand euros. With regard to the shares in the consolidated net income of Sunrise after tax, it has to be borne in mind that, for the period between 1 April 2016 and 30 June 2016, freenet has made an estimate because no financial information had been provided by Sunrise in this respect at the point at which these consolidated interim financial statements were prepared. On the other hand, with regard to the shares in the consolidated net income of Sunrise after tax, it has to be borne in mind that freenet initially adjusts the Group result after tax disclosed by Sunrise by the amount which Sunrise has included in this Group result as depreciation as well as deferred tax effects in relation to purchase price allocation. This ensures that this depreciation and these deferred tax effects are not recognised twice, because freenet shows the effects from the purchase price allocation according to IAS 28 in the “Results of associates accounted for using the equity method, thereof from subsequent recognition from purchase price allocation”.

Other comprehensive income of 1,196 thousand euros resulting from currency difference in subsequent recognition and also other comprehensive income of -18 thousand euros has been shown from recognised income taxes in relation to Sunrise as an element of the other comprehensive income of the consolidated statement of comprehensive income for the first half of 2016.

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. When received, this payment increased the cash flow from operating activities of the second quarter of 2016.

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

The acquisition of shares in Sunrise has resulted in a new situation for the freenet Group with regard to the presentation of the income statement item “Result of associates accounted for using the equity method”: Whereas in the past at our Group, the subsequent recognition of an associated company was achieved only by way of writing up or writing down the carrying amount of the investment to take account of the current earnings elements and also by way of writing down the carrying amount as a result of impairments, the shadow purchase price allocation relating to the acquisition of Sunrise has resulted in intangible assets which have to be written down, and have thus resulted in a further element of the result of associates accounted for using the equity method.

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 starting with the consolidated interim financial statements for the period ending 31 March 2016.

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" has been used for calculating our key financial performance indicator EBITDA. The depreciation resulting from the subsequent recognition of the shadow purchase price allocation does not have a negative impact on Group EBITDA.

5. As of 30 June 2016, receivables of 60.9 million euros (31 March 2016: 61.4 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.

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

| In EUR '000s | 1.1.2016 - 30.6.2016 | 1.1.2015 - 30.6.2015 |
|---|---|---|
| **Sales of services** | | |
| **Joint ventures** | | |
| FunDorado GmbH, Hamburg | 173 | 205 |
| **Total** | **173** | **205** |

As of 30 June 2016, there were the following major receivables due from related parties:

| In EUR '000s | 30.6.2016 | 30.6.2015 |
|---|---|---|
| **Receivables from related parties** | | |
| **Joint ventures** | | |
| FunDorado GmbH, Hamburg | 41 | 81 |
| **Total** | **41** | **81** |

All transactions were at market rates.

## Other disclosures

7. The starting point for the cash flow statement is the result of the continued and discontinued operations before interest and 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 | 1.1.2016-30.6.2016 | 1.1.2015-30.6.2015 |
|---|---|---|
| | | |
| Earnings before taxes | 98,559 | 121,646 |
| Interest payable and similar expenses | 33,587 | 19,717 |
| Interest receivable and similar income | -520 | -457 |
| **Earnings before interest and taxes (EBIT)** | **131,626** | **140,906** |

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

The following overview "Fair value hierarchy as of 30 June 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 30 June 2016

| In EUR '000s | Valuation category according to IAS 39 | Carrying amount balance sheet 30.6.2016 | Value approach: Amortised cost | Value approach: Cost | Value approach: Fair value recognised in profit or loss | Value approach: Fair value recognised in equity | Non-financial assets/ liabilities | Fair value financial assets 30.6.2016 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | LR | 204,019 | 204,019 | | | | | -* |
| Other financial assets | AFS | 566 | | | | | | |
| Other financial assets (measured at cost) | AFS | 566 | | 566 | | | | |
| Trade accounts receivable | LR | **464,103** | **464,103** | | | | | **464,315** |
| Other receivables and other assets | | 54,218 | | | | | 15,508 | |
| Other non-derivative financial assets | LR | 35,928 | 35,928 | | | | | 35,928 |
| Available-for-sale financial assets | AFS | 2,782 | | | | 2,782 | | 2,782 |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Trade accounts payable | FLAC | 497,638 | 497,638 | | | | | -* |
| Borrowings | FLAC | 1,730,876 | 1,730,876 | | | | | 1,736,859 |
| Other payables and accruals | | 543,787 | | | | | 69,544 | |
| Other non-derivative financial liabilities | FLAC | 474,243 | 474,243 | | | | | 474.243 |
| | | | | | | | | |
| **Thereof aggregated by valuation categories acc. to IAS 39** | | | | | | | | |
| Available-for-sale financial instruments | AFS | 3,348 | | 566 | | 2,782 | | 2,782 |
| Loans and receivables | LR | 704,050 | 704,050 | | | | | 500,243* |
| Financial liabilities (measured at amortised cost) | FLAC | 2,702,757 | 2,702,757 | | | | | 2,211,102* |

* 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 30 June 2016

| In EUR '000s | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale financial assets | 2,782 | 2,782 | 0 | 0 |
| Trade accounts receivable | 76,230 | 0 | 0 | 76,230 |
| **Liabilities** | | | | |
| Borrowings | 781,288 | 0 | 0 | 781,288 |

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

In the first six months, the borrowings classified under level three of the hierarchy have increased by 557.3 million euros mainly as a result of the raising of the new promissory note.

The other financial instruments are normally 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. The other financial assets were sold entirely in the second quarter of 2016. There was accordingly no separate disclosure as of 30 June 2016.

9. 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 six months of 2016 to include the following companies:

   **Fully consolidated companies**
   - Taunus Beteiligungs 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)

   01083.com GmbH was deconsolidated as of 30 June 2016.

10. The pension provisions for the freenet programme and for the debitel programmes and also for the Media Broadcast Group which was acquired in the first quarter were revalued on the basis of an updated interest rate of 1.7 per cent (31 March 2016: 2.2 per cent) and on the basis of otherwise unchanged assumptions. The actuarial loss of 12.7 million euros resulting from the reduced level of discounting as well as the opposite increase of 3.8 million euros in deferred tax assets has been recognised in the statement of comprehensive income. This has resulted in net negative comprehensive income of 8.9 million euros from items which do not have to be reclassified to the income statement.

11. 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.

12. The net debt (financial debt less liquid assets, less Sunrise share of market value) amounted to 805.0 million euros at the end of the first quarter (31 December 2015: 369.2 million euros) as a result of the refinancing and the acquisitions of the Media Broadcast Group and the shares in Sunrise.

    At the end of the second quarter, the net debt increased by 93.0 million euros from 805.0 million euros to 898.0 million euros. The payment of 198.4 million euros for the dividend and the cash flow of investing activities of -39.7 million euros are the main factors behind the increase in net debt. A contrary effect was generated primarily by the cash flow from operating activities totalling 133.6 million euros. This also includes the dividend payment of Sunrise of 30.1 million euros as a result of the decision taken on 15 April 2016 to pay out 3.00 CHF per share.

13. Other events of major significance have not occurred after the balance sheet date.

14. The Executive Board organises and manages the Company as main decision maker on the basis of the differences between the individual products and services offered by the Company. Because the Group exercises its business operations almost exclusively in Germany, there is no organisation and management based on geographical regions. The Group was active in the following operating segments in the first six 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
      - On the basis of the network operator agreement concluded with these network operators, a range of the Company's own independent services and tariffs as well as a range of tariffs of the network operators
      - Sale/distribution of mobile communications devices as well as additional services for 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)

- TV and Media:
  - Rendering of services, mainly to end users, in the field of IPTV
  - Planning, project management, installation, operation, service and marketing of broadcast-related solutions for business clients in the radio and media sectors
  - Rendering of services to end users in the field of DVB-T2

- 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, EDP services and other services for business customers
  - Range of narrowband voice services (call-by-call, pre-selection) and data services
  - Rendering of sales services

The “Other/Holding” segment includes other business activities in addition to operating activities. This mainly comprises the holding activities of freenet AG (with the rendering of services within the Group in central areas, such as legal, human resources and finance) as well as entries which cannot be clearly allocated. The segment revenue of 38.6 million euros (previous year: 42.2 million euros) reported for the “Other/Holding” segment for the first six months of 2016 is attributable to operating activities (37.8 million euros; previous year: 39.3 million euros) and other business activities (0.8 million euros; previous year: 2.9 million euros). Of the figure of 24.8 million euros (previous year: 28.1 million euros) reported for gross profit for the "Other/Holding" segment for the first six months of 2016, 25.5 million euros (previous year: 28.5 million euros) is attributable to the operating activities and -0.7 million euros (previous year: -0.4 million euros) is attributable to the other business activities. The EBITDA of -5.9 million euros reported for the “Other/Holding” segment for the first six months of 2016 (previous year: -8.3 million euros) was accounted for by operating activities to the extent of 5.1 million euros (previous year: 3.5 million euros) and by other business activities (-11.0 million euros; previous year: -11.8 million euros).

## Segment report for the period from 1 January to 30 June 2016

| In EUR'000s | Mobile Communications | TV and Media | Other/Holding | Elimination of intersegment revenue and costs | Total |
|---|---|---|---|---|---|
| **Third-party revenue** | **1,449,094** | **77,966** | **29,796** | **0** | **1,556,856** |
| Intersegment revenue | 16,058 | 6 | 8,844 | -24,908 | 0 |
| Total revenue | 1,465,152 | 77,972 | 38,640 | -24,908 | 1,556,856 |
| **Cost of materials, third party** | **-1,105,857** | **-28,013** | **-10,895** | **0** | **-1,144,765** |
| Intersegment cost of materials | -5,669 | -12,633 | -2,990 | 21,292 | 0 |
| Total cost of materials | -1,111,526 | -40,646 | -13,885 | 21,292 | -1,144,765 |
| **Segment gross profit** | **353,626** | **37,326** | **24,755** | **-3,616** | **412,091** |
| Other operating income | 29,890 | 1,362 | 3,180 | -2,066 | 32,366 |
| Other own work capitalised | 4,501 | 1,932 | 880 | 0 | 7,313 |
| Personnel expenses | -67,072 | -17,941 | -16,592 | 0 | -101,605 |
| Other operating expenses | -137,692 | -12,212 | -18,139 | 5,682 | -162,361 |
| Profit share of results in associates accounted for using the equity method | 6,112 | 0 | 48 | 0 | 6,160 |
| **Segment EBITDA** | **189,365** | **10,467** | **-5,868** | **0** | **193,964** |
| Depreciation and impairment write-downs | | | | | -56,798 |
| Subsequent accounting for associates accounted for using the equity method | | | | | -5,540 |
| **EBIT** | | | | | **131,626** |
| Group financial result | | | | | -33,067 |
| Taxes on income | | | | | 2,409 |
| **Group result** | | | | | **100,968** |
| Group result attributable to shareholders of freenet AG | | | | | 103,862 |
| Group result attributable to non-controlling interest | | | | | -2,894 |
| **Cash-effective net investments** | **11,361** | **11,532** | **1,824** | | **24,717** |

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

| In EUR'000s | Mobile Communications | Other/Holding | Elimination of intersegment revenue and costs | Total |
|---|---|---|---|---|
| **Third-party revenue** | **1,469,126** | **31,885** | **0** | **1,501,011** |
| Intersegment revenue | 4,507 | 10,346 | -14,853 | 0 |
| Total revenue | 1,473,633 | 42,231 | -14,853 | 1,501,011 |
| **Cost of materials, third party** | **-1,113,250** | **-10,011** | **0** | **-1,123,261** |
| Intersegment cost of materials | -7,190 | -4,131 | 11,321 | 0 |
| Total cost of materials | -1,120,440 | -14,142 | 11,321 | -1,123,261 |
| **Segment gross profit** | **353,193** | **28,089** | **-3,532** | **377,750** |
| Other operating income | 30,944 | 2,515 | -2,028 | 31,431 |
| Other own work capitalised | 4,850 | 1,501 | 0 | 6,351 |
| Personnel expenses | -77,885 | -21,877 | 0 | -99,762 |
| Other operating expenses | -127,645 | -18,625 | 5,560 | -140,710 |
| Share of results of associates accounted for using the equity method | 0 | 57 | 0 | 57 |
| **Segment EBITDA** | **183,457** | **-8,340** | **0** | **175,117** |
| Depreciation and impairment write-downs | | | | -34,211 |
| Subsequent accounting for associates accounted for using the equity method | | | | 0 |
| **EBIT** | | | | **140,906** |
| Group financial result | | | | -19,260 |
| Taxes on income | | | | -10,522 |
| **Group result** | | | | **111,124** |
| Group result attributable to shareholders of freenet AG | | | | 110,616 |
| Group result attributable to non-controlling interest | | | | 508 |
| **Cash-effective net investments** | **12,502** | **2,370** | | **14,872** |

# RESPONSIBILITY STATEMENT

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

Büdelsdorf, 10 August 2016

freenet AG
The Executive Board

Christoph Vilanek    Joachim Preisig    Stephan Esch

# FINANCIAL CALENDAR

| | |
|---|---|
| **11 August 2016[1]** | Publication of interim report as of 30.6.2016 – 2nd quarter 2016 |
| **1 September 2016[1]** | Commerzbank TMT and Consumer Conference, Frankfurt, Germany |
| **8 September 2016[1]** | dbAccess European TMT Conference, Deutsche Bank, London, Great Britain |
| **19 and 21 September 2016[1]** | 5th German Corporate Conference, Berenberg / Goldman Sachs, Munich, Germany |
| **9 November 2016[1]** | Publication of interim report as of September 2016 – 3rd quarter 2016 |
| **16 and 17 November 2016[1]** | Morgan Stanley TMT Conference 2016, Barcelona, Spain |

1 All dates are subject to change.

# IMPRINT, CONTACT, PUBLICATIONS

**freenet AG**
Hollerstraße 126
24782 Büdelsdorf

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

**freenet AG**
**Investor Relations**
Deelbögenkamp 4c
22297 Hamburg

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

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

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

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

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