ANNUAL REPORT FREENET AG

2015

freenet GROUP

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

CONTENTS

KEY FINANCIALS: GROUP OVERVIEW

Result

In EUR million/as indicated	2015	2014	Q4/2015	Q3/2015	Q4/2014
Revenue	3,117.9	3,040.6	826.8	790.1	833.7
Gross profit	790.4	778.1	215.6	197.1	210.8
EBITDA	370.2	365.6	97.8	97.3	96.3
EBIT	298.8	301.2	78.9	79.0	79.6
EBT	254.7	260.6	64.0	69.0	68.6
Group result	221.5	248.2	48.4	61.9	67.5
Earnings per share in EUR (diluted and undiluted)	1.73	1.93	0.38	0.48	0.53
Dividends paid per share in EUR for the financial year	1.55[1]	1.50	0.00	0.00	0.00

Balance Sheet

In EUR million/as indicated	31.12.2015	31.12.2014	31.12.2015	30.9.2015	31.12.2014
Balance sheet total	2,724.0	2,498.3	2,724.0	2,554.6	2,498.3
Shareholders' equity	1,379.0	1,293.6	1,379.0	1,280.1	1,293.6
Equity ratio in %	50.6	51.8	50.6	50.1	51.8

Finances und investments

In EUR million	2015	2014	Q4/2015	Q3/2015	Q4/2014
Free cash flow[2]	284.5	266.6	67.1	81.1	55.6
Depreciation and amortisation	71.4	64.4	18.8	18.4	16.7
Net investments (CAPEX)	30.4	27.9	10.7	4.8	9.2
Net debt[3]	369.2	426.6	369.2	429.3	426.6

Share

	31.12.2015	31.12.2014	31.12.2015	30.9.2015	31.12.2014
Closing price Xetra in EUR	31.32	23.70	31.32	29.54	23.70
Number of issued shares in '000s	128,061	128,061	128,061	128,061	128,061
Market capitalisation in EUR '000s	4,010,231	3,034,406	4,010,231	3,782,282	3,034,406

Employees

	31.12.2015	31.12.2014	31.12.2015	30.9.2015	31.12.2014
Employees	4,367	4,826	4,367	4,547	4,826

KEY FINANCIALS: OVERVIEW MOBILE COMMUNICATIONS SEGMENT

Customer development

In million	2015	2014	Q4/2015	Q3/2015	Q4/2014
Mobile Communications customers/cards[3]	12.24	12.73	12.24	12.28	12.73
Thereof Customer Ownership	9.30	8.92	9.30	9.21	8.92
Thereof Postpaid	6.31	6.01	6.31	6.23	6.01
Thereof No-frills	2.99	2.91	2.99	2.97	2.91
Thereof Prepaid	2.94	3.81	2.94	3.07	3.81
Gross new customers/cards	2.88	3.03	0.78	0.71	0.85
Net change	-0.49	-0.57	-0.04	-0.10	-0.10

Result

In EUR million	2015	2014	Q4/2015	Q3/2015	Q4/2014
Revenue	3,061.2	2,988.7	811.6	776.0	820.3
Gross profit	742.8	731.8	203.6	186.1	196.5
EBITDA	382.8	378.5	99.1	100.2	98.0
EBIT	322.8	324.5	83.2	84.7	84.0

Monthly average revenue per user (ARPU)

In EUR	2015	2014	Q4/2015	Q3/2015	Q4/2014
Postpaid	21.4	21.4	21.3	21.9	21.1
No-frills	2.5	2.8	2.4	2.6	2.5
Prepaid	3.0	2.9	3.1	3.2	2.8

1 The dividend will be paid out subject to the resolution of the Annual General Meeting in May 2016. For more information concerning the dividend policy refer to chapter “freenet AG and the capital markets”.
2 For a definition of free cash flow, see section “Financial performance indicators.
3 At the end of period.

ANNUAL REPORT FREENET AG

2015

DIGITAL LIFESTYLE AND MOBILE COMMUNICATIONS

FREENET AG IN THE WORLD OF DIGITAL LIFESTYLE

Smartphones, tablets and increasingly "wearables" are changing our world: the digital services and products that are based on these are opening up an innovative lifestyle for us, while our mobile design and structuring possibilities are becoming simpler, more efficient, and at the same time increasingly diverse and individual. We benefit from this in almost all areas of life and in almost every situation: the information and entertainment available to us via smartphones and other devices open up virtually unlimited options for us at any time of the day or night, enabling us to make our homes safer and more comfortable, do and pay for our shopping, and monitor and improve our health.

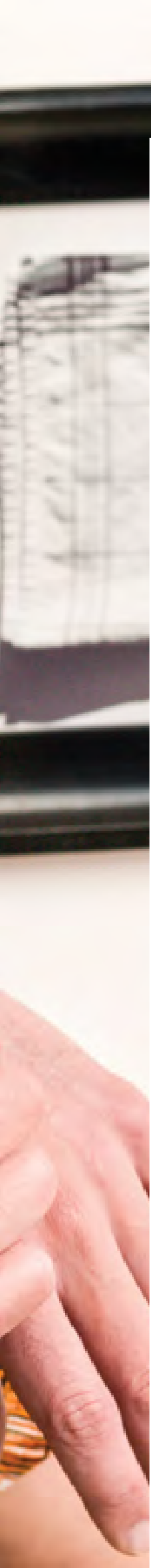
These options are provided by a number of groundbreaking applications that have already established themselves on the market or that are currently addressing new segments. The current and forecast developments, with their tremendous dynamism and sustainability, are similarly impressive – as the selected figures in the following examples demonstrate:

- While revenues from classic consumer electronics – including TV and audio devices, digital cameras, games consoles and Blu-ray and DVD players – are declining in Germany, smartphones achieved a new record in 2015 with approximately 25.6 million units sold accompanied by an increase in revenue of 7.3 per cent to a forecast 9.1 billion euros.
- At the same time, "tablets" passed the sales threshold of 2 billion euros for the first time, with more than 7.7 million devices sold. They are represented in 45 per cent of households across Germany and therefore come in third after smartphones and laptops in terms of household penetration.
- With a penetration of now 75 per cent of households, smartphones have replaced laptops – previously at the top of the list – with the latter decreasing by one percentage point year-on-year to 72 per cent.
- Wearables – interconnected mini-computers worn directly on the body – likewise established themselves very quickly on the German market: fitness trackers and smartwatches alone generated unit sales of more than 1.7 million in 2015. And this despite the fact that a much-noticed product, the AppleWatch, was launched this year in the second quarter. All the same, around 650,000 smartwatches in total were purchased on the domestic market – an increase of just over 350 per cent compared to the previous year. And according to an IDC survey in 2015, global sales of fitness wristbands and smartwatches will increase more than sixfold up until 2019, from the 25 million units generated in 2014.
- The success of these mobile devices is crucially dependent on the quantity and quality of the available apps, which turn the mini-computers into veritable all-rounders. Bitkom have stated that users of smartphones, tablets and smartwatches can now choose from 3.7 million programmes provided by the five largest suppliers alone, and that this number is likely to grow by a six-digit figure each month. The UK-based market research organisation, Juniper Research, expects that there will be 235 billion app downloads around the world in 2015 – that is 30 for each world citizen and constitutes an increase of 28 per cent over 2014. The most active consumers in this area are the Chinese, with a proportion of 60 per cent, while the USA accounts for 8 per cent and South Korea, the UK and Germany each for 2 per cent. This clearly illustrates the strong growth potential in the Western world.

- The digital lifestyle applications that are gaining popularity include those in the sports and health market segments. Six out of ten active participants in sports – and three quarters of those aged under 29 – use corresponding devices when pursuing their hobby, in particular smartphones, pulse monitors, step/calorie counters or mp3 players. A survey by Deloitte concludes that mobile e-health offerings in the form of apps or specific wearables will generate a global sales volume of 26 billion US dollars by 2017.
- According to the Consumer Electronics 2015 trend survey, smartphones and tablets are also the most important drivers of the Internet of Things – with consumer electronics and SmartHome as the central sectors. The survey predicts that the Germans will use around 100 million interconnected terminals by 2020, not including smartphones and tablets; in the 2015 financial year, according to Deloitte's estimates, there were already sales of one billion interconnected devices.
- In light of this, market experts are anticipating an annual expansion of 55 per cent in mobile data traffic in the next three years. A large proportion of this – as before – will be accounted for by video products and by film and music streaming services.

In view of the immense and increasing complexity of products and services related to the digital lifestyle, the role played by freenet AG is becoming even more significant – as an independent service provider and as one of the leading major enterprises in the digital sector. To achieve this, we are utilising our particular position within the competitive environment:

- **We provide expert advice from an independent perspective!**
  On top of that we concentrate entirely on the personal needs and wishes of each individual customer. To provide this service, we seek out the best and already tried-and-tested products and services on the market and assist customers in their purchase decisions by providing appropriate information and advice.
- **We offer integrated lifestyle product landscapes!**
  Our main mobilcom-debitel brand and our premium GRAVIS brand have many years of expertise and experience in the fields of telecommunications, internet and high-quality digital lifestyle products. In addition to this is the purchasing power of millions of long-term customers who we represent. This is the foundation upon which carefully chosen, coordinated offerings that are subject to the best possible terms are developed.
- **We have the right mobile communications tariff!**
  As a service provider, our range of products encompasses all German mobile communications networks – with our own tariffs as well as the network operators' original tariffs, which generally come at a discount. Here, the main mobilcom-debitel brand focuses primarily on high-quality contractual relationships when acquiring customers, while the klarmobil, callmobile, freenetmobile and debitel light discount brands offer particularly inexpensive tariffs.
- **We are very close to customers!**
  Thanks to around 560 mobilcom-debitel shops of our own, plus 43 GRAVIS stores, customers will find us right there where they live. These are supplemented by just over 400 exclusive partnerships with electronics stores, in particular Media-Saturn Deutschland GmbH, as well as several thousand additional retail and distribution partners among specialist dealers. In addition to the above, we provide customer support via our efficient online channels and social networks, and by way of apps, email, telephone or letter.



INNOVATIVE DIGITAL LIFESTYLE PRODUCTS

The entertainment and wearables market segments, along with home automation and data security, are currently among the most relevant digital lifestyle applications. After a number of years in which mobilcom-debitel had emphasised particular aspects, for example with “SmartHome” and a “cloud” of its own, in the corresponding business segments, the 2015 financial year was dominated by a product offensive centring on entertainment, wearables/watches and other hardware.

In February, for example, the company launched particularly inexpensive offers for Valentine’s Day as a double pack. For the regular individual price of 50 euros, customers in the mobilcom-debitel shops and on the online channels received two wireless HMDX Jam Plus Bluetooth loudspeakers – a model that combines compact design with a powerful, clear sound. Or, for example, the Networx Premium ceramic headphones complete with a remote control and microphone for a smartphone – in the double variant reduced from around 45 euros to just under 20 euros and with a headphone splitter as a free bonus for the simultaneous use of a player by two people.

In the fitness area, mobilcom-debitel likewise offered a “couple’s price”, which in this case was reduced by 70 per cent from the regular price to around 15 euros – the product being the Networx sports wristband with a flexible fastening strap in a choice of colours. Combined with the personal sport app, the Fitness Coach is recording training progress, new best times or calorie consumption, for example. Networx is freenet AG’s own brand name for accessories of all kinds.

Then, in June, the company opened “AudioBooks”, providing access to around 30,000 audio books for the first time – also for customers without a linked mobile communications contract – for 9.99 euros per month with a free trial period. Its users can choose from more than 10,000 German audio books and a further 20,000 foreign-language titles in English, Spanish or Turkish, for example. The Audiobook Flat complemented existing entertainment flat rates offered by mobilcom-debitel: such as the film option from supplier, maxdome, with access to more than 50,000 films and series, and playable on smartphones, tablets and PCs; or the music option from Juke with more than 30 million songs, search and suggest function as well as playlists that can be created separately and listened to offline. Both options also contain an extended free trial period at a monthly cost of well below 10 euros.

At the IFA technology fair in Berlin in September, smartwatches and other wearables played a prominent role – alongside the established models from Asus, LG, Motorola, Samsung and Sony, and in particular the new watches from Apple and Pebble. At the end of the month, GRAVIS started to sell the Apple Watch, initially in 30 of its stores as well as online. The range on offer initially included two variants: the Apple Watch made from anodised aluminium and the variant with a stainless-steel casing – including matching accessories such as wristbands or docking stations.

The freenet subsidiary had also supplied its branches with all of the Pebble models and, within the scope of Apple Music’s market launch, substantially reduced the prices of selected consumer electronics products in the summer. These included, among others, headphones, in-ear headsets and Bluetooth loudspeakers – such as Beats Solo 2 and Studio 2.0, the Beats Pill 2.0 loudspeaker or the Z2 from Bowers & Wilkins; at the same time, mobilcom-debitel had also halved the price of the P3 from the same manufacturer – the ultra-light, foldable hi-fi light headphones with excellent sound, design and wearing comfort.

Then, in mid-October, mobilcom-debitel launched an extensive presentation of selected wearables in 30 of its shops. A separate wearable wall with three modules brings a total of 43 smartwatches and fitness trackers from renowned manufacturers such as Garmin, Jawbone, LG, Motorola, MyKronoz, Samsung and Sony to life there – in concrete usage scenarios and in different colour schemes and price segments, from economy to high-class. A 32-inch screen supplies additional information and application examples, while specially trained employees are on hand to provide personal advice.

In the course of the year, the individual Group companies also regularly offered the hardware, namely smartphones and tablets, which is required for digital lifestyle applications on favourable terms. In the first quarter, for example, mobilcom-debitel reduced the Samsung Galaxy Tab 4 10.0 in combination with the Internet Flat 3000 and Game Flat option from its regular price of 50 euros to 14 euros.

klarmobil, in turn, launched a joint campaign with Computer Bild at the end of September for German Unification Day: in combination with the reduced AllNet Flat in the Vodafone network, the current premium smartphone, Galaxy S6 from Samsung, officially cost 74.95 euros as a one-off price but, in the event of a contract activation by 11 October 2015, this brought a bonus payment of 100 euros – in other words, an additional payment of 25 euros for klarmobil customers. And within the scope of a further collaboration with Computer Bild, the magazine's readers received 80 GB of mobile storage space on the mobilcom-debitel Cloud Pro free of charge for a year – and subsequently for 99 cents instead of 3.99 euros per month.

At the end of September, just in time for the official sales launch in Germany, the new iPhone 6s and the 6s Plus from Apple were also available at GRAVIS. In addition, the freenet subsidiary offered anyone who was interested a purchasing service for earlier-generations iPhones and for used Android smartphones. Depending on the condition, features and colour of the old device, this service can reduce the price of a new acquisition by up to 500 euros.

Savings of similar magnitude were promised by a special offer involving mobilcom-debitel and its exclusive distribution partner, Saturn: in parallel to the launch of the 6s, the "old" iPhone 6 in the 64 GB version was on offer in its electronics stores from just 99 euros – combined with the Real AllNet in the Vodafone network and 2 GB of data volume for 39.99 euros per month.

In the end-of-year business, further offers then rounded off the digital lifestyle product offensive. At the end of October, mobilcom-debitel complemented its SmartHome product range with a new Bluetooth heating thermostat at a price of just under 18 euros. The device can be easily attached to almost all radiators without interfering in the heating system and allows the room temperature to be comfortably controlled using its own, free app: it features the option to configure a weekly programme, a boost function to raise the temperature for brief spells, automatic frost protection, a vacation function, calcification protection and automatic reduction of the temperature when the windows are open. At the same time, the company temporarily reduced the monthly charges for the SmartHome S and M basic packages by up to 30 per cent.

In November, mobilcom-debitel launched its "Sonntagskracher" ("Sunday Stunner") as a new online sales format for particularly inexpensive digital lifestyle products, offered on a page of its own in the online shop for 24 hours each Sunday. The campaign focuses on smartphones and tablets, other peripheral devices and accessories. The offers in the run-up to Christmas included, among others, the Sony Xperia Z5 32 GB, the Sony Xperia style, the Samsung Galaxy S5 neo and the Lenovo Tab 2 A7-30.

An exclusive collaboration with Gymondo was then launched at the end of the month. In a two-month free trial period, users could access more than 20 programmes and 250 courses offered by the leading online fitness training portal via their smartphones; then the "Try and Buy" offer was available to them starting at 4.99 euros per month.

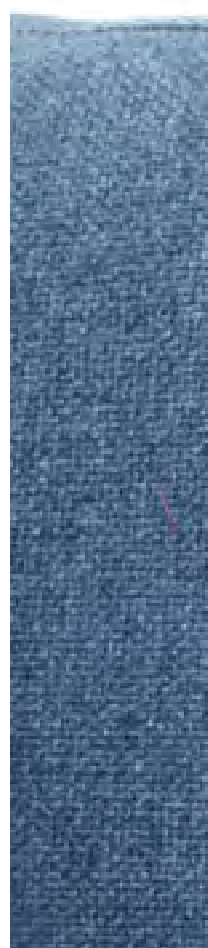
In December, there were further offers of smartphones, tablets, fitness wristbands as well as seasonal gadgets for the Christmas holidays – each with a considerable "gift reduction".

AWARD-WINNING TARIFFS

With its AllNet tariff structure, freenet's main mobilcom-debitel brand has at its disposal a comprehensive range that complements the respective digital lifestyle applications with transparent, favourably priced flat rates for user profiles of all kinds and for all German mobile communications networks. In view of the intense competition that prevails in this sector, we focus on high-quality contractual relationships in pursuing these activities. At the same time, freenet's various discount brands cover the no-frills customer segment. In addition to its own tariffs, the network operators' original tariffs are also available – generally with discounts of 10 per cent.

In light of this and on this basis, freenet used a variety of targeted discount and tariff options to month by month emphasise further highlights on the market during the course of 2015. The short-term promotions by the Group's various discount brands were all conducted via the company's own www.crash-tarife.de deal platform or neutral online platforms. The following describes a number of selected offers that reflect the diversity of tariffs and network options for customers – and therefore freenet's elevated competitive position as a service provider in mobile communications:

- At the beginning of the year, debitel light halved the AllNet Flat rate in the D1 network to just under 10 euros per month for the first three months. The tariff includes 100 free minutes to all German networks, an SMS flat rate and an HSDPA flat rate for mobile surfing with a data volume of 300 MB and a download speed of up to 3.6 Mbit/s.
- The AllNet-Spar-Flat rate from klarmobil that was offered in February for 16.85 euros per month in the Vodafone network enabled users to save 117 euros compared with the regular price over the contractual period thanks to various bonuses. The tariff contains free calls to all German networks and a 250 MB data flat rate with up to 7.2 Mbit/s. Also in February, the Telekom Talk Easy 100 from Talkline provided savings of just over 400 euros during the contractual period. The D1 tariff – reduced from around 20 euros to 2.90 euros per month – offers a 250 MB internet flat rate, an SMS flat rate, 100 free minutes and Norton Mobile Security 3.0 as a free security solution.
- As a highlight in March, mobilcom-debitel scrapped the roaming costs for the premium AllNet tariff within the European Union plus Norway, Switzerland and Liechtenstein. For around 50 euros in the D-network and 40 euros in the E-network, the flat rate contains telephony, SMS and mobile internet as free services within the EU at a maximum bandwidth of up to 2 GB and 50 Mbit/s.
- In April, freenet's main brand sharply undercut the network operator's comparable tariff in its All Flat, with a monthly charge of 14.85 euros in the first contractual year and 29.85 euros in the second without any further non-recurring costs. In addition, for example, the data tariff Internet Flat 5000 was reduced – with 5 GB unrestricted inclusive volume and a special bonus of 1 GB for high-speed LTE bandwidth up to 50 Mbit/s – by 10 euros per month to 19.99 euros. And for frequent internet users who do not use the phone much, the "Smart-Surf" was reduced to 3.99 euros per month – which represents savings of 192 euros over the two-year contractual period. The tariff offers 1 GB data volume and 50 free minutes and text messages respectively per month in the o2 network.
- May, on the other hand, was shaped by a number of promotions featuring the discount subsidiary klarmobil. The AllNet Starter, for example, was on offer for 3.95 euros instead of the usual 9.95 euros per month, and the AllNet-Spar-Flat – with free calls to all national networks, 3,000 text messages and 1,000 MB data volume at maximum bandwidth – was halved to 14.85 euros per month.
- Then, in June, klarmobil again improved the AllNet-Spar-Flat in the D1 network. The offer includes free calls and text messages to all German networks as well as double the data volume of 500 MB. Over the two-year contractual period, the savings compared to the standard tariff price amounted to 165 euros.



- In July, mobilcom-debitel reduced the RED 1.5 tariff from Vodafone to 39.99 euros per month. It includes a telephone, SMS and data flat rate with an inclusive LTE volume of 1.5 GB and a surfing speed of up to 100 MBit/s. In the middle of the month, the company then reduced the price of the Smart Surf from the Telefónica network – with 50 free minutes and free text messages to all German networks, plus 1 GB high-speed data volume – to 9.99 euros per month. Under the "freenetmobile" brand the freeFlat tariff from the Telekom network was reduced to 16.95 euros per month. It offers free calls to all German networks, a 250 MB internet flat rate and – for an additional 4 euros per month – an SMS flat rate plus a doubled surfing volume of 500 MB.
- At the beginning of August, callmobile launched the cleverSmart 400 as a promo tariff with no minimum term from the Vodafone network. For a monthly price of just 4.95 euros, it contains 400 MB of unrestricted data transmission in the GPRS and UMTS networks – as well as 100 free text messages and 100 call minutes to all German networks.
- At the beginning of September, mobilcom-debitel launched an online special-offer tariff – the Internet-Flat 3000. For 9.99 euros per month, customers can surf at a speed of up to 50 MBits/s in Deutsche Telekom's LTE network until the high-speed data volume of 3 GB has been used up; thereafter, the data rate is cut back to 64 kBits/s.
- In October, klarmobil launched the Smart-Flat as a new, variable smartphone tariff in the D-networks. For a basic monthly charge of 5.95 euros, it offers users inexpensive, subsequently bookable data upgrades of 400, 500, 600 or 1,000 MB, starting from one euro per month as well as 100 free minutes to all German networks. And the company reduced the price of its AllNet-Flat with unlimited calls to German networks and 1 GB data volume over the two-year contractual period to 17.35 euros in absolute terms.
- In November, mobilcom-debitel offered the Comfort AllNet at a reduced price of around 15 euros per month, the country's most favourably priced AllNet flat rate in the D1 network; it encompassed a data allocation topped up to 500 MB with a data rate of up to 7.2 Mbit/s, as well as a voice flat rate for calls to the German mobile and landline networks.
- In December, klarmobil finally doubled the data volume in the AllNet Starter to an unrestricted 400 MB and the free minutes to 400 per month; the tariff also includes 100 free text messages at a monthly price of 6.95 euros. And for the same price, mobilcom-debitel offered the Comfort AllNet o2 with 500 MB surfing volume as the most favourably priced LTE AllNet flat rate among German suppliers.

As in the previous years, the various tariffs provided by mobilcom-debitel and its discount subsidiaries again picked up dozens of test triumphs, recommendations and awards in independent comparative tests in trade journals and business publications during the course of the year. In addition, many offerings included the inexpensive acquisition of corresponding smartphones and tablets from all relevant manufacturers, such as Apple, Huawei, LG, Nokia, Samsung or Sony. To some extent, the terminals were even provided at the price of one euro, for example the new Motorola Moto G3 in an exclusive promotion with Computer Bild.

PERSONALISED SERVICE

Services tailored to the customers' respective needs are one of the crucial criteria for a company's success – especially in the highly competitive market environment that prevails in mobile communications and the mobile internet. As a service provider, freenet AG therefore works continuously and very intensively to improve its processes and to achieve the greatest possible proximity to customers. For it is they who have ultimately classify and evaluate all contacts and experiences with a provider and its service.

In light of this, the company had, in the preceding years, launched the "Balance" project, which brings the customers' respective concerns into line with the service employees' skills by using intelligent routing – regardless of the chosen form of communication. To do this, freenet takes a proactive approach that anticipates questions and needs that arise even before the concrete establishment of contact with the customer and makes preparations accordingly. This is particularly relevant for telephone enquiries as a medium preferred by customers; as a result, customer satisfaction increased significantly at mobilcom-debitel's call centres, while inactive call times were reduced and marginal times in everyday call centre work were utilised more efficiently.

In the company's own shops, on the other hand, mobilcom-debitel offers interactive advisory solutions in the form of video walls or "solution desks", where customers can test functional product samples and have them explained for their particular requirements by way of radio frequency identification (RFID tags) and reading devices.

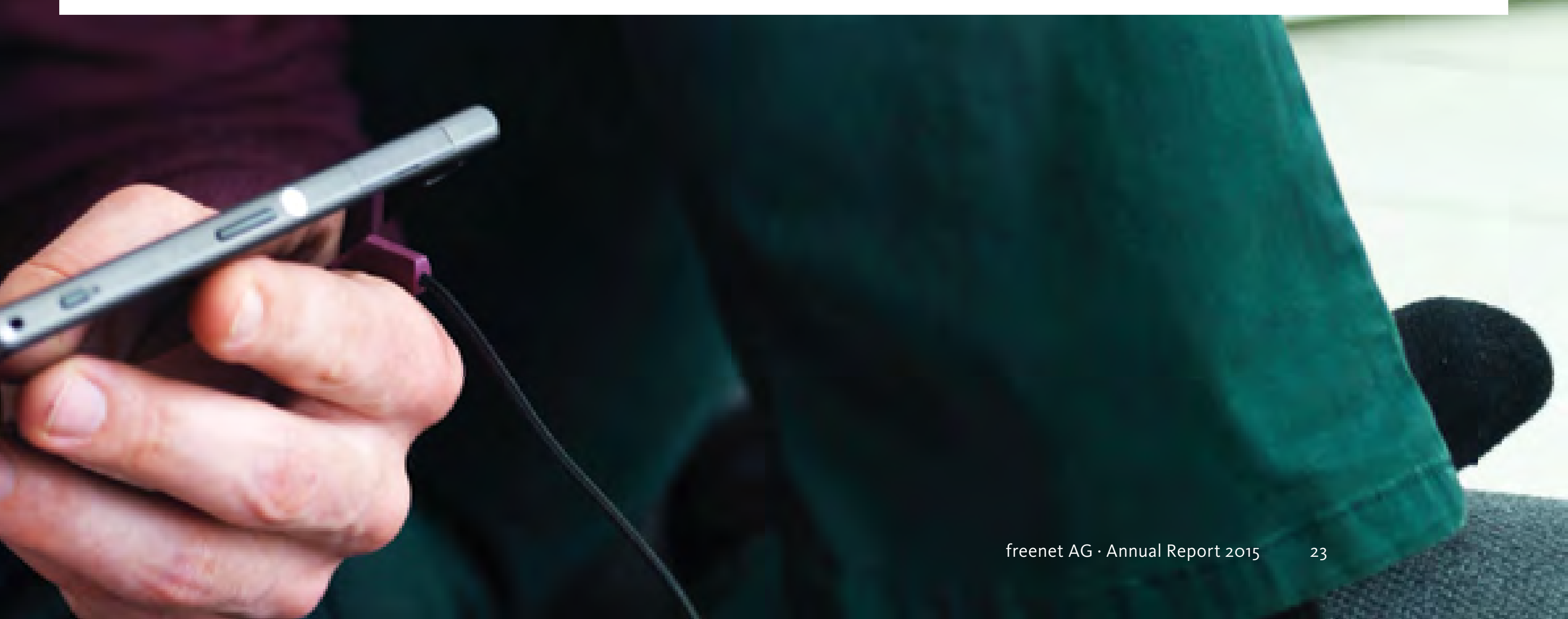
In addition, many small and more substantial new services slotted together in the course of 2015 to provide the overall picture of an all-round improved service.

- In March, mobilcom-debitel opened a "pop-up store" in Hamburg city centre for two weeks in the form of "#digitalrepublic". On 250 square metres of a former bank branch, prospective customers were able to exhaustively discover and try out digital worlds of adventure – from interactive games to the latest trendy devices and tried-and-trusted SmartHome solutions. Highlights of this were the "AnkiDrive" car-racing game with "learning" cars, innovative flying objects, 3D printing, gamers' corners with virtual-reality headsets, or a variety of infotainment programmes. The same concept and portfolio of presentations were then used for two weeks in November at a further #digitalrepublic in Leipzig.
- In April, the company published a free set of instructions on spring cleaning for laptops and PCs, and on data hygiene on one's hard disk and in the cloud. As well as how to clean the hardware, the instructions included, in particular, tidying up the hard disk by deleting data and software that are no longer required, a special data carrier cleaning function from Windows, and the defragmentation of files as well as their optimum structuring with the help of the mobilcom-debitel cloud's "Smart Organizer".
- Also in April, the freenet.de portal was relaunched with improved user guidance, in which users were systematically integrated from the outset. In the news area, the new portal, which is designed for stationary and mobile use, provides more, current information about politics, finance, business, motoring, entertainment, lifestyle, digital and games.
- At the same time, the freenet subsidiary, GRAVIS, launched further personal training sessions in its stores for the "Generation 55plus" in the second quarter – i.e. for customers whose dealings with

digital lifestyle lack the automatic ease and lightness of touch customary among younger users. The courses, which are geared towards the needs of the respective individual customers, featured topics such as email, office and photo programmes, plus Skype, iTunes, app stores and cloud solutions. In an April special, buyers of iPads or Macbooks received a free, one-hour personal training session.

- In September, GRAVIS started collaboration with DesignBar Solutions in the flagship store on Berlin's Ernst-Reuter-Platz. At the "Designbar" there, customers had their very first opportunity to print their desired images or personal photos on their iPhone accessories. It consists of a printing unit, a user terminal and the "Cloud Cube" as the central IT component, and uses not only high-quality images of its own but also users' photos that can be transmitted via Wi-Fi.
- In October, the company then reduced the replacement of batteries used in iPhones from the series 4, 4s, 5, 5c and 5s from around 75 euros to just under 30 euros. The replacement is carried out on-site in the respective branch and its completion takes until the next working day; for around 20 euros extra, customers can have their smartphones returned to them on the same day if they hand them in no later than 2.00 p.m.
- In December, mobilcom-debitel introduced mobile payment in time for the pre-Christmas business. Up until December, the some 560 shops belonging to the company received the required payment terminals for Near Field Communication NFC; this means that customers can now settle their bills there with their NFC-enabled smartphone, an NFC sticker or their NFC-enabled debit or credit card.

In March 2015, the company received another award for its various improvements regarding customer services and proximity: the "Golden Stevie" as management team of the year in the field of customer support. The renowned Stevie Awards for outstanding performance, founded in the USA in 2002, are presented within the framework of six programmes: the American Business Awards, German Stevie Awards, International Business Awards, Stevie Awards for Women in Business, Stevie Awards for Sales & Customer Service and Asia-Pacific Stevie Awards.

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OUTSTANDING SALES APPROACHES

In the previous three years, mobilcom-debitel had successfully addressed the traditional mobile communications business with the slogan "Getting more together!" The umbrella campaign was based on the promise to use the strength of around 13 million customers within the freenet Group, in order to offer very good value for money in competition with all networks, tariffs and smartphones.

In the first quarter of 2015, the company launched a new umbrella campaign with the slogan "Do what you like. We make it possible." It stands for the company's aspirations and its development as the leading supplier of digital lifestyle in Germany. With this in mind, the campaign highlights how the smartphone and the tablet are simplifying and enriching our lives, pays closer attention to the customers' point of view, and positions mobilcom-debitel as a supplier that makes digital lifestyle possible and brings it to life with its comprehensive range of smartphones, tablets, wearables, technology and tariffs.

With a clear dividing line between image and sales, the new campaign also lends the company greater flexibility in its marketing activities: while the TV, online and events channels are aimed more at image improvement, the point of sale gives priority to selling by way of promotions and "below-the-line" ("BTL") measures.

In this context, February saw the launch of a new TV commercial that promoted the topic of fitness and wearables on all wide-reaching commercial channels for four weeks; the commercial was broadcast more than 1,100 times and generated a total of 260 million gross contacts. In addition, the campaign was aimed at a broad-based online presence, with extensive promotions in the print and social media channels, in the mobilcom-debitel shops and in 48 ECE shopping centres and 37 fitness studios rounding off the range of measures.

Then, during the "Summer Weeks" from the beginning of July until the end of August, the primary theme was the sale of hardware products – especially smartphones including accessories – and partly in combination with special tariffs for their favourably priced usage. The biggest sale campaign in our corporate history to date, measured by gross volume, once again contained all of the classic marketing measures with TV commercials to the fore and comprehensive online and point-of-sale activities also prominent.

Against the backdrop of the Greek crisis dominating the media at that time, the new and thoroughly provocative face of the advertising campaign "Costa Fast Gar Nix" (i.e. costs virtually nothing) was introduced. This strongly polarising Greek man generated a substantial amount of attention and also got to the heart of the company's brand core very well. Subsequently, essential image-related statistics improved, as did the level of relevance and priority among potential buyers: awareness of the mobilcom-debitel brand passed the 80-per-cent mark for the first time and the brand's familiarity improved by more than 20 per cent. During the campaign period, actual sales also increased considerably – and across the whole range of campaign products that were promoted: among particular smartphones, there were some threefold increases, while accessories chalked up a fourfold improvement.

In parallel to the above, the now traditional mobilcom-debitel truck tour through German towns and cities got under way – incidentally, a unique selling point in the German mobile communications market. The tour headed for 77 top locations as well as six additional special events such as the Hanse Sail and Bochum Total. The two trucks, each 15 metres in length and fitted with an integrated stage and lounge, large LED wall and flat-screen TV and with additional support from two accompanying small VW vans, trebled the number of visits to the approximately 100 adjacent shops in those locations. As a result of this, revenues in the respective locations likewise increased – by up to 70 per cent for smartphones, accessories and new mobile communications contracts. One aspect that paid dividends all round was that all of the significant hardware manufacturers were on board during the tour of the towns and cities – so that the customers had the best possible selection and advice at their disposal.

In addition, the klarmobil discount subsidiary also launched its own promotional campaign in mid-July with the slogan "Don't be lazy: Switch!" This, too, featured TV ads on commercial channels, social media activities, banner advertising and the klarmobil.de online platform. In the commercials, TV entertainer Simon Gosejohann made his way through the pedestrian zones of German towns, with the aim of persuading potential customers to switch networks and providers.

Then, for mobilcom-debitel's Christmas campaign, the likeable, cheeky Greek was again in action from the beginning of November until the end of January 2016 – this time as "Costa Gans Wenig" (i.e. it doesn't cost a lot), supported by Agathe, his Christmas goose ("Gans"). Here, too, the main focus was on the sale of hardware in the form of smartphones, tabs and fitness trackers, in addition to tariffs and entertainment content. Endowed with an even bigger media budget than in the summer campaign, the integrated activities served the most significant marketing channels – with TV commercials, online support in the form of wallpapers, billboards and retargeting, out-of-home placards, a range of BTL measures, "BILD" newspaper inserts and several million mailshots. To mark the start, the TV adverts appeared in three flights and two variants more than 2,000 times on wide-reaching commercial channels such as Pro7 and Sat.1.

In addition, seven promotion teams went on a tour of Germany for six days a week from mid-November until just before Christmas, thereby accumulating a total of 238 campaign days. For their part, the TV commercials that were broadcast generated around 550 million gross contacts and about a dozen average contacts per person in the mobilcom-debitel target group – adults aged between 18 and 49.

TO OUR SHAREHOLDERS

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

LETTER TO SHAREHOLDERS

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

As last year demonstrated to us with unprecedented clarity, we are living in a time of great change. The world is growing closer together: thanks to the virtually unlimited possibilities provided by the latest communications tools and the mobile digital structuring of work and leisure across all boundaries, but also as a consequence of political and economic crises and armed conflicts in far-away countries.

Innovative technologies are contributing almost as a catalyst to this enormous dynamism, and the accompanying development of digital lifestyle is bringing about a marked upheaval in our industry as well. freenet AG has already been serving this attractive growth market for several years now from the secure position of a service provider – in other words, without its own development costs and risks, and with tried-and-tested products and services. Our focal points within this scenario are in the Entertainment, Home Automation and Health and Security business, all in differently dimensioned versions, packages or periods of time, and in most cases for highly favourable monthly charges.

At the same time, we, as Germany's biggest network-independent telecommunications company, offer our customers in the traditional mobile communications business segment the optimum range of terminals and tariffs for all of the German networks; independent advice and the greatest possible proximity to customers with our own shops, specialist retailers and electronics stores as partners, as well as online and social media channels complement this outstanding position in the competitive environment. In view of the demanding, largely saturated market environment, the focus of our main mobilcom-debitel brand is on high-quality contractual relationships with private customers, while our discount brands serve the "no-frills" customers.

This strategy, which is geared towards sustainable profitability, again paid dividends in the last financial year, as the figures for 2015 demonstrate:

- The customer ownership as an important control parameter in our company has now increased continuously for the last four years in a row: in the course of the year, the number of customers in the postpaid and no-frills areas increased by 376,000 to 9.30 million by the end of December 2015, and the number of particularly valuable contract customers with two-year contracts contained therein has increased by 298,000 to 6.31 million.

- We have managed to stabilise the postpaid ARPU: At 21.4 euros, it is exactly at the previous year's level.
- As a result of these developments, as well as thanks to increasing, high-calibre digital lifestyle revenue, revenue increased by 2.5 per cent in the reporting year to 3.12 billion euros.
- Also on an upward trend is gross profit, which increased to 790.4 million euros and corresponds to a gross profit margin of 25.4 per cent.
- As a result, EBITDA improved by 1.3 per cent on the previous year to 370.2 million euros – although the customer base has been increased.
- At 284.5 million euros the free cash flow is now significantly above last year's figure (266.6 million euros) and slightly outperforms the guided figure of 280.0 million euros.

This means that freenet AG has met or exceeded its targets for the financial year 2015 – and has again shown itself to be a highly reliable actor on the capital markets. At the same time, we have thereby again laid the foundation for our constant dividend policy, which is oriented to shareholder value and which provides for a distribution comprising between 50 and 75 per cent of the free cash flow. Accordingly, shareholders received 1.50 euros per share with dividend entitlements in May 2015; this corresponds to 72.1 per cent of the free cash flow and an aggregate payment of 192.0 million euros. Therefore we propose together with the Executive Board to the annual general meeting the distribution of a dividend for the financial year 2015 in the amount of 1.55 euros per no-par-value share entitled to dividend.

With a view to generating these good results and attractive dividend pay-outs in a sustainable manner in light of the fiercely competitive telecommunications market, we pushed on systematically with our work on continuous improvement processes in 2015. These concern all areas of commercial activity – our products and services, the internal processes and interfaces to customers, our external and internal communications, our cooperation partners and, last but not least, employee qualifications in the Group. To illustrate the diversity of such activities, here are some selected examples:

- In the Digital Lifestyle business, our GRAVIS subsidiary and mobilcom-debitel, in particular, have further expanded their range of products and services. These activities were focused on the Entertainment, Hardware and Health market segments – for example with high-quality yet inexpensive Bluetooth loudspeakers and headsets, with smartwatches and training armbands, with smartphones, tablets and the latest app-based games, and film, music and audio-book options. Thanks to its outstanding position as a long-standing, exclusive Apple trading partner, GRAVIS was one of the first retailers in Germany to offer the latest Apple devices – such as the Apple Watch or the new iPhone 6s – promptly upon their launch in its 43 stores.
- To facilitate the best possible use of digital lifestyle while at the same time continuing to increase contract customer numbers, freenet's individual brands carried out numerous, time-limited, special tariff-related promotions – generally via particular online trading platforms. As a result, new customers were, in some cases, able to achieve

savings of several hundred euros compared to the standard charges of the network operators, our discount subsidiaries and our main mobilcom-debitel brand over the two-year contractual period. And it was not least these special promotions that also contributed to the many top placements achieved by our tariffs in tests conducted by trade journals.

- Our offers relating to digital lifestyle, mobile internet and telephony were accompanied by a range of services and measures that went beyond day-to-day business. They included, for example:
  - individually bookable personal training sessions in the shops,
  - separate publications on the subjects of data maintenance and security,
  - founders' competitions and participation in special events, such as the "Long Night of eBooks",
  - the relaunches our freenet.de portal and the web-/app-based freenetmail service with improved clarity and user guidance, or
  - temporary pop-up stores in German towns and cities, where prospective customers could discover and try out digital worlds of adventure, their fascination and their advantages, without any direct commercial realisation.
- freenet launched a highly complex IT project called "Omni-channel", which, even when measured against general industry standards, constitutes a quantum leap in respect of optimum customer service – while at the same time being the ultimate e-commerce-platform. The objective is the complete digital synchronisation of all our interfaces to the customer – regardless of whether they contact us online, by telephone and mail, or in the shop with their desires, concerns and existing information/shopping carts. In some areas, these challenging steps have already been taken with success, and the project is scheduled for completion in early summer 2016.
- In late autumn, our Motion TM subsidiary also considerably simplified the business processes at the point of sale for its distribution partners and interested specialist retailers, with the new "Moon Fachhandel" specialist trading portal. This allows mobile communications contracts, smartphones, tablets and digital lifestyle products to be activated and/or ordered immediately across the whole range of mobile communications networks and market-relevant manufacturers.
- Selling power and service are also to be strengthened by a new structure for supporting the specialist retailers. To put this into effect, we have introduced a third stage in the form of the directly controlled "partner agencies", positioned between the franchise and the "LPP plus partners", which are rigorously implementing our focus on digital lifestyle. In addition, we are supporting and managing our own specialist retailers as well as our other particularly effective and loyal distributors even more efficiently and are integrating them more closely into our strategy. With this in mind, both distribution channels are now directly supervised by the same field sales force and thereby benefit from proven best-practice solutions within the Group and from streamlined procedures and coordination under the overall sales management.

- As in the previous years, our product, service and sales offensive was underpinned by several marketing campaigns. In its now almost traditional truck tour of German towns and cities, for example, mobilcom-debitel made its presence felt in 77 leading locations and at six special events and festivals – incidentally, another innovative unique selling point in the mobile communications market. The two trucks, each 15 metres in length and fitted with an integrated stage and lounge, large LED wall and flat-screen TV and with additional support from two accompanying small VW vans, trebled the number of visits to the approximately 100 adjacent shops in those locations. As a result of this, revenues in the respective locations likewise increased – by up to 70 per cent for smartphones, accessories and new mobile communications contracts. One aspect that paid dividends all round was that all of the significant hardware manufacturers were on board during the tour of the towns and cities – so that the customers had the best possible selection and advice at their disposal.
- Also in the summer months and in the pre-Christmas period, three large-scale classic advertising campaigns were staged by mobilcom-debitel and klarmobil. These comprised TV ads on wide-reaching commercial channels, intensive online communication and – for our main brand – a range of promotions on location in the shops. The focal point of mobilcom-debitel's campaigns was the sale of smartphones, wearables, accessories and other hardware. In light of the Greek crisis that dominated the media over the course of the year, the new figureheads for the campaigns were "Costa Fast Gar Nix" and "Costa Gans Wenig". This provocative, cheeky and strongly polarising Greek character generated a huge amount of attention and also got to the heart of the company's brand core very well. As a result, essential image-related statistics such as the brand's recognition and trustworthiness figures improved, as did its relevance and priority among potential buyers. Moreover, in the course of the campaigns, actual sales were multiplied several times over – and across all of the campaign products that were promoted.

All of these large and small steps involving continuous improvements are being reflected not only in our solid figures, but also in a variety of awards. As well as the top positions occupied in tariff tests that we have already mentioned,

- Motion TM secured a top-ten position in the test of more than 75 distributors in November 2015;
- mobilcom-debitel received the Golden Stevie for customer support in the "Management Team of the Year" category at the 1st Annual German Stevie Awards in March;
- at the same time, our head of customer support was awarded a Silver Stevie as "Manager of the Year";
- the readers of connect, Europe's biggest telecommunications trade magazine, chose mobilcom-debitel as "mobile communications provider/retailer of the year" for the seventh year in succession;
- in Focus Money's extensive value-for-money check, the company secured second place among all of Germany's telephone and mobile communications providers;

- and finally, at the CCV Quality Award 2015 in October, the most prestigious award in the industry, mobilcom-debitel, along with Bosch Service Solutions and Gedikom GmbH, was one of the three nominees in the employee orientation category, which rewards innovative ideas and benefits for the workforce.

We achieved a lot in the past financial year and the current year is already off to a promising start. With the acquisition of the Media Broadcast Group and the investment in EXARING AG announced in March, we want to tap into additional value creation potential in the digital lifestyle area via the attractive business in linear and internet-based television. We also acquired a stake in Sunrise Communications Group AG through a share acquisition of 23.83 per cent, with the option of purchasing up to an additional 0.73 per cent next month under the same conditions. We have very closely observed the development of Sunrise Communications Group AG for some time and have noted some strong parallels with our own business model. There are also a number of similarities in terms of our financial profiles and our cash and dividend policies. Acquiring the shares from CVC Capital Partners has proved to be a great opportunity for freenet AG. Our portfolio of shares is entitled to dividends with immediate effect.

We would therefore like to take this opportunity to again express our very special thanks to our around 4,400 employees for their exceptional commitment: With their daily dedication and their great expertise and experience, it is they who, in conjunction with the managers, lay the foundation for our company's sustainable success. We would also like to thank all shareholders for the trust which they place in our company and our shares.

We shall continue along our chosen path in the current year and beyond, pursuing the same strategy, continuity and intensity – that is our promise: we are convinced in our determination to ensure that the challenges and imponderables of the telecommunications market will remain as manageable for us in the future as they have been in the past.

Christoph Vilanek   Joachim Preisig   Stephan Esch

KEY INFORMATION FROM THE MANAGEMENT'S PERSPECTIVE

Digital lifestyle is expanding into new dimensions!

Driven by the increasingly complex possibilities of digital lifestyle, smartphones and tablets are advancing to become almost indispensable structuring and controlling instruments in our everyday lives. In so doing, they are now achieving levels of value in use in German citizens' leisure behaviour that are comparable with the still-popular use of television – with an average of more than three hours' consumption per day and approximately 1.5 devices per household.

Over the last few months and quarters, freenet AG has once again contributed to the growth of this attractive market by offering a range of new digital-lifestyle products. At the same time, we have been working intensively on essential strategic decisions that open up whole new dimensions for users and freenet alike; in the process, smartphones/tablets and televisual home entertainment are increasingly converging in a truly fascinating way. The acquisition of Media Broadcast Group, Cologne and the investment in EXARING AG, Munich, are the results of this work.

With the increasing availability of DVB-T2 technology, Media Broadcast offers inexpensive and previously unattained ultra-HD quality for television by way of conventional TV, laptops or tablets. And all this without a satellite dish or cable connection, with minimal initial investment and monthly charges – but with maximum comfort for uncomplicated and flexible use in various rooms around the house. In providing this service, Media Broadcast firmly incorporates IPTV as a channel of its own.

EXARING AG, for its part, has its own IPTV infrastructure and platform for transmitting all kinds of moving-image entertainment from classical-linear or digital television to new solutions for virtual reality or gaming. To enable this, the company has exclusive access to 12,000 kilometres of fibre-optic cable. All the consumer needs, apart from a screen with an internet connection, is a smartphone or tablet with the EXARING app, which allows them to use all of the features individually and inexpensively; including a self-learning electronic programme guide, a personal mobile video recorder in the cloud or access to an array of exclusive channels.

Conventional set-top boxes, hard disks or remote control for the various devices, on the other hand, are no longer required.

With these acquisitions, freenet AG is completing another step on the way to becoming the leading provider of digital lifestyle in Germany.

Christoph Vilanek,
Chairman of the Executive Board, freenet AG

freenet is taking advantage of the presently low interest rate!

There are two ways in which our company is benefiting from interest rates that are currently at an all-time low: on the one hand, they provide optimum conditions for freenet AG's very inexpensive, sustainable refinancing of all its commercial activities. And on the other hand, they are making our high-dividend share an even more lucrative investment option for private and institutional investors.

In the first half of 2015, with this in mind, we initially took up three tranches of a promissory note loan with an aggregate nominal value of 100 million euros, with terms of five to seven years and – to some extent variable – interest rates of between 1.05 and 1.79 per cent. By taking up a further promissory note loan in the first quarter of 2016 with a nominal value of 560.0 million euros we are, on the one hand, safeguarding the refinancing of the corporate bond that falls due in April 2016. On the other hand, this step provides us with sufficient funds for general corporate purposes and acquisition projects. The promissory note loan is divided into 5 tranches with terms of 5 to 10 years and in some cases variable interest rates of between 1.00 and 1.95 per cent.

Also of benefit to us in connection with this is the investment grade rating that we have achieved with our credit standing as a company oriented towards cash flow and profit, and with continuous debt reduction and a solid financial strategy. In the process, we are aiming for a debt-equity ratio, as before, of between 1.0 and 2.5, so that we can have at our disposal all of the required funds to achieve further organic and inorganic growth whenever required. The latter currently applies to two projects that constitute an important step in the freenet Group's advancement to become a leading digital lifestyle provider in Germany. With our stake in EXARING AG and the acquisition of Media Broadcast Group new fields of activity in the area of linear and internet-based television (IPTV) are opening up for us. Our exploitation of the new TV business area is proceeding, in line with our principles, close to our core business and subject to strict investment and profitability requirements.

In so doing, we are continuing to adhere rigidly to our shareholder-value-based dividend policy. In the future too, we would like to distribute between 50 and 75 per cent of the free cash flow to our shareholders every year. In conjunction with the Supervisory Board, we shall therefore propose to this year's Annual General Meeting that 1.55 euros per share entitled to dividends be distributed. At 128 million issued shares, this corresponds to a total of 198.4 million euros or around 70 per cent of the free cash flow from 2015. Similarly, we on the Executive Board of freenet AG have today decided – thereby underlining the sustainability of our business model – to propose to the Supervisory Board and the 2017 Annual General Meeting the distribution of 1.60 euros for each share entitled to dividends.

We thereby offer a dividend yield that is among the highest on the German stock market; this makes the freenet share particularly attractive, especially when compared with the current interest on German bonds, let alone fixed deposits. To help ensure that this also applies in the future – and in harmony with, hopefully, further increases in the share price – we shall continue to work hard so that we can pay our shareholders slightly increased dividends year after year.

Joachim Preisig,
Chief Financial Officer, freenet AG

Our IT standardisation is setting new standards!

Today, customers use a variety of channels to make contact with a desired product, and often combine them with one another: they go online, come into a shop or call us; in doing so, they leave behind specific information – such as about their individual user profile –, compile personal shopping baskets and receive specific made-to-measure offers or advisory records from different employees.

As one of Germany's most digitalised companies[1], we have taken on the task of optimally synchronising these diverse channels, information levels and process operations, keeping them ready at all times and harmonising them; in this way, we are creating virtually the ultimate commerce platform. Here are some examples and headwords on this subject:

- *Making an appointment: a potential customer makes an advisory appointment online in the nearest mobilcom-debitel shop; at the shop they then order*
- *a smartphone not currently in stock via an "instore online order". Or somewhere online, they might already have compiled a*
- *shared basket – a shopping cart containing products that they would like to try out before buying in the shop; the employee on-site then has the cart available at the push of a button and has already reserved it.*
- *Click & collect: the customer wants to pick up the goods ordered online personally in the nearest shop, so that they can be advised about it there as well. And if possible with*
- *same-day delivery – either in the shop or at home, as that is more convenient for them.*
- *Mobile PoS: at one of our marketing campaigns in a pedestrian zone, the customer gets an advisory session on a tablet. By means of a*
- *digital pencil, the customer's points are made available in the shop nearby, which the customer then heads for.*

While these examples seem so desirable and simply a matter of course from the customer's point of view, they constitute a highly complex challenge for the IT and logistics of a broadly positioned group of companies that handles thousands of products. We launched our "Omni-channel" project with a test phase in the autumn of 2014, and then implemented it successfully in the last financial year with as many as 2,000 external person days in the first areas that were dealt with. In this way, we are setting new standards among German providers in the telecommunications and digital lifestyle areas.

Stephan Esch,
Chief Technical Officer, freenet AG

1 Source: Accenture study "New businesses, new competitors: The top 500 of the digital challenge" 2014

Intelligent service makes the difference!

Digital lifestyle requires both a smartphone/tablet that is always ready as well as the perfectly smooth functioning of all relevant applications. Users are therefore less and less willing to accept any malfunctions or unanswered questions, let alone lengthy repairs for their devices. This means that speedy, intelligent and personal service is essential if we are to operate successfully in the competitive environment.

In that respect, our company is very well positioned. We deal with customers' potential concerns in a forward-looking manner, even before they get in touch with us. And we do this irrespective of their preferred method of contact, be it on the go via our customer app, which informs them promptly about invoices, contractual changes and mobile phone dispatch, or by letter, mail, fax, telephone or chat.

If a customer contacts us by phone – increasingly the most popular and certainly the most efficient service for both parties –, we spare them the interactive voice response, i.e. the seemingly endless and often annoying process of trudging through and answering every conceivable option. Instead, we anticipate their concern with a high degree of accuracy – because on the previous day, for example, they received their bill or a new smartphone and now have some questions about it. Accordingly, we connect them with the right customer adviser.

In this area, too, we made the best possible choice beforehand thanks to intelligent control logic. This means that for every service employee, we continuously determine and check which area they has the best expertise for – and match them with the right customer. In the process, we dispense as far as possible with standard replies or text modules in letters. Instead, employees should find individual and, if possible, creative solutions for and with our customers.

In addition to this, we systematically and anonymously analyse all customer contacts with regard to recurring concerns or keywords. In this way, we recognise new developments and trends in the market at an early stage and can respond to them and position ourselves accordingly.

Birgit Geffke is Head of Customer Care
at mobilcom-debitel; in 2014 she received the
Call Centre Manager of the Year award.

Small is beautiful!

We come up against several challenges in our marketing activities: we operate in the highly intense competitive environment of telecommunications; the companies in this sector alone invest around 2 billion euros per year in advertising – out of a total advertising volume of more than 30 billion euros in Germany. As well as the classic channels, new ones are increasingly being served – with social media as the key factor. As a result, around 6,000 advertising messages per day rain down on domestic customers – to which they are increasingly reluctant to respond, while brand loyalty is in permanent decline.

In this context, how, on the one hand, can we successfully achieve the balancing act of improving our product sales, significantly increasing customer numbers and brand values in the traditional mobile communications business, while communicating freenet's current paradigm shift towards becoming a digital lifestyle provider on the other? And with a comparatively small advertising budget that corresponds to just one-third of our actual market share?

The answer to that is multifaceted: we usually run three to four major campaigns per year, which integrate all forms of advertising in a 360° communications strategy – including the increasingly important digital form. Campaigns that, in other respects, are highly sophisticated, provocative and "loud", without really being loud. Such as the one in the financial year 2015 featuring our Greek character "Costa Fast Gar Nix" and "Costa Gans Wenig": in view of the political events at the time, he seemed very cheeky and likeable, and polarised strongly, but he also improved our positive image as a professional, fresh company. And he generated the hardware sales that we were aiming for.

We also made our mark in the sector with special, distinctly innovative measures. These included our lavish truck tours through German towns and cities, within whose framework the number of visits and sales in our nearby shops usually increased several times over. And our temporary, pop-up stores "#digitalrepublic", in which we presented digital worlds of adventure without any pressure to buy. And, finally, the "Station Domination" in Hamburg to mark the turn of the year 2014/2015, in which we occupied the entire 2,300 square metres of advertising space in the Jungfernstieg underground station – Hamburg's most heavily frequented public transport hub.

Kerstin Köder,
Head of Marketing at mobilcom-debitel

Every employee is an ambassador!

We do good and tell others about it – taking this maxim of professional press and PR work to heart as a matter of course. However, we can only inspire our customers' enthusiasm for our products in a sustainable way if truly every employee shares this enthusiasm and credibly communicates it to others. To achieve this, we also live and communicate digital lifestyle systematically within the company – topically, informally and interactively. With this in mind, we have continuously developed and improved our internal communications over the past few months and years, the aim being to take every one of our some 4,400 employees with us on our thoroughly demanding journey.

Since 2012, our CEO has been conveying his personal impressions, assessments and thoughts in "Christoph's Blog" – concerning, for example, visits to trade fairs and to international business partners, or on issues of product innovations. Our intranet, which was given an overhaul in 2015, is now more interactive and pays greater attention to the employees' most popular thematic areas. Moreover, every one of them can ask the Executive Board chairman questions anonymously via "Frag Christoph!" ("Ask Christoph!") – which he then promptly answers himself.

At our nine company offices, there are corresponding showrooms and digital-life days where we can exhaustively try out the products that we have been marketing. These sites also host rotating "town hall meetings" with the respective workforce; there, the Executive Board reports in detail on particular developments or innovations at freenet, which, by way of webcasts, is transmitted live to all of the other sites. The same applies, incidentally, for the regular works meetings. And at managing director level, podcasts to employees or shop owners and partners round off the digital dialogue.

On the other hand, the meeting-free day at freenet AG provides us with additional scope for our most important corporate objective: creating a digital benefit for customers with our range of products and services and informing them about it in detail!

Nadine Mette,
Head of PR at freenet AG

Digital lifestyle gives our corporate culture wings!

A company has only achieved sustainable success when its employees are as committed, professional and decisive as possible, and when the management demonstrates entrepreneurial and creative flair. It also requires regular impetus from outside: "new blood" in the form of new, talented minds that call entrenched processes and structures into question and thereby contribute to making the necessary improvements in the overall structure.

freenet AG encourages and demands this specific culture of expertise and personal responsibility, of identification and renewal, with a multitude of measures and programmes. It is self-evident that we, as one of Germany's most digitalised companies, integrate the diverse options of digital lifestyle as far as possible. This starts as early as e-recruitment, with mobile-optimised careers pages, application processes and video-based interviews; however, it also includes digital procedures of all kinds in day-to-day work, thereby making them faster, more efficient and more cost-effective. As an employer, we want to generate enthusiasm with digital lifestyle and enjoy success with it in our team!

Within the scope of staff development, we are also embarking on interesting new paths designed to provide us with highly qualified employees and a strong position in the applicant market and the competitive environment in the long term. To this end, we are training around 300 apprentices each year for every area of the company, thereby countering the increasing bottlenecks, such as in the IT sector in Germany – and we received an award from Kiel Chamber of Commerce and Industry (IHK) in 2015 as a leading company that takes on trainees. We also received the renowned Absolventa Award for our training programme, which has been running for three years now: over a period of twelve months, it prepares technical college and university graduates for specific and key positions and encompasses specialist and across-the-board methodical training programmes as well as network meetings at our various sites.

In the form of "freenet Unternehmer" ("freenet Entrepreneur"), we recently launched a further assistance programme within the scope of staff development: it is focused on top-performers at freenet who demonstrate an exceptional degree of commitment, initiative, and the courage to think differently – in other words, true entrepreneurial spirit. In this way, we are creating the basis upon which they will be able to help actively shape our ever-changing company in the future.

Nicole Engenhardt-Gillé,
Head of Group HR at freenet AG

SUPERVISORY BOARD REPORT

Dear Ladies and Gentlemen,

Below, the Supervisory Board reports on its activities in the financial year 2015.

Supervision and advice in continuous dialogue with the Executive Board

In the financial year 2015, as in the previous years, the Supervisory Board diligently performed the monitoring and advisory duties incumbent upon it under the law and the articles of association. As well as numerous issues that were discussed and decided upon at the Supervisory Board's meetings, the plenum's deliberations in the first half of 2015 were focused primarily on

- the auditing of and making of resolutions for the annual financial statements as at 31 December 2014 and
- the preparations for the Annual General Meeting on 21 May 2015

In the second half of the year, the Supervisory Board then concerned itself primarily with

- the company's further strategic development and
- potential acquisition projects.

The Supervisory Board continuously advised, supported and supervised the Executive Board in its management duties and regularly advised it in connection with its decisions pertaining to the management of the company. The Executive Board included the Supervisory Board at an early stage in all of its decisions of a fundamental nature relating to the company's management and reported regularly and extensively in written and oral form about the business performance, corporate planning, strategic development and situation of the company. In connection with this, the Executive Board provided the Supervisory Board with reports and documents, both without having to be asked and when requested on the occasion of Supervisory Board discussions. In addition, the Executive Board justified itself extensively in the plenum and at meetings of the Supervisory Board's committees.

In particular, the Supervisory Board held detailed discussions with the Executive Board about divergences in the business performance compared to the plans and targets, and examined these with the help of the documents that it had received. In addition, the Executive Board continued with the company's strategic alignment – with its concentration on the mobile communications segment and simultaneous restructuring as a digital lifestyle provider, as well as its expansion of the business areas – in close consultation with the Supervisory Board. All of the commercial transactions with significance for the company were discussed in detail on the basis of the Executive Board's reports. Likewise on the basis of the Executive Board's reports, the Supervisory Board made resolutions after examining the subject matter in question, as and when required. Outside of the meetings, too, the Executive Board kept the Supervisory Board members informed about current business developments.

Furthermore, the chairman of the Supervisory Board held regular discussions with the Executive Board on the company's prospects and future strategic

Dr. Hartmut Schenk, Chairman of the Supervisory Board alignment and informed itself about current topics and events. The propriety, expediency and efficiency of the Executive Board's management were unobjectionable.

In the financial year 2015, the Supervisory Board held four meetings requiring personal attendance and one meeting conducted by telephone, and additionally made one resolution in written form. The attendance at the Supervisory Board meetings was again above average in the year under review: with the exception of one meeting at which eleven of the twelve Supervisory Board members were present, the Supervisory Board always assembled with its full complement of members. Accordingly, no member of the Supervisory Board participated in just half of the meetings or fewer. Apart from a conference held by the personnel committee, the committee meetings were attended by their full complement of members in 2015.

No circumstances that might constitute conflicts of interest involving Executive or Supervisory Board members which must be disclosed to the Supervisory Board and about which the Annual General Meeting must be informed were disclosed to the Supervisory Board, unless such circumstances are mentioned explicitly elsewhere in this report.

Supervisory Board meetings

Regular topics for discussion in the plenum were
- current business developments,
- the market and competitive situation and
- the financial position and financing situation of the company.

In the meeting on 25 March 2015, the main subject matter of the audit and discussion was initially the annual and consolidated financial statements as at 31 December 2014. The findings of the annual financial statements audit were discussed together with representatives of the auditor, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. After completing its own audit, the Supervisory Board raised no objections to the auditors' audit findings and followed the audit committee's recommendation by approving the annual and consolidated financial statements. The annual financial statements were thereby adopted. Another crucial point brought up at this meeting was the agenda for the Annual General Meeting on 21 May 2015 and the corresponding proposed resolutions from the Supervisory Board to the Annual General Meeting. At this meeting, the Supervisory Board also passed a resolution on the target agreements with the members of the Executive Board for the year 2015. Finally, the Executive Board set out initial considerations regarding a variety of acquisition projects that it had identified and regarded as being capable of providing inorganic growth, and discussed these with the Supervisory Board. It was subsequently decided not to proceed with one of the projects that the Supervisory Board had adopted during a telephone conference on 6 May 2015.

At its meeting on 21 May 2015, the Supervisory Board continued its discussions with the Executive Board regarding a second project that had been submitted to the Supervisory Board in March, and granted its approval for the acquisition of a stake in EXARING AG, Munich. At this meeting, which was held immediately after the Annual General Meeting, the Supervisory Board initiated an efficiency review that it carried out with the assistance of KPMG AG Wirtschaftsprüfungsgesellschaft.

On 24 July 2015, following comprehensive written preparations, the Supervisory Board passed a resolution to approve personal investment interests in EXARING AG on the part of the three Executive Board members.

The Supervisory Board returned to these two issues that came up in May at its next meeting on 24 September 2015. For one thing, it arranged for a demonstration of EXARING AG's product, and secondly, it discussed in detail the results of the efficiency review that were presented by representatives of KPMG AG Wirtschaftsprüfungsgesellschaft. In conjunction with the Executive Board, the members of the Supervisory Board discussed the Group's strategy, with particular emphasis on the core business and the digital lifestyle concept. They discussed the development of new business areas, in which a first step had already been taken with the acquisition of a participating interest in EXARING AG. The Supervisory Board also concerned itself with the gender quota, whose statutory target of 30 per cent for the

Supervisory Board was achieved prematurely. The employee representatives subsequently declared their opposition to full compliance with the gender quota for the next election of the shareholders' representatives to the Supervisory Board. In light of the Executive Board appointments that are scheduled for the end of 2018 and the end of 2019 respectively, the Supervisory Board stipulated a 0% proportion of women on the Executive Board for the period until 30 June 2017.

At its meeting on 10 December 2015, the Supervisory Board discussed the plans submitted by the Executive Board for the financial year 2016, which it then approved. The focal points of the meeting comprised ongoing considerations of the Group's strategic position and of the orientation towards new business areas. Within this context, the Supervisory Board approved the acquisition of the Media Broadcast Group. The Supervisory Board also passed a resolution on the submission of the annual declaration of compliance with the German Corporate Governance Code. To this end, it devoted particular attention to the recommendations for establishing a regulatory limit for membership of the Supervisory Board and for the definition of the amount of time expected to be spent on Supervisory Board activities, both of which were included in the Code for the first time. In the previous years, the Executive and Supervisory Boards had already declared their divergence from recommendations pertaining to the firm specification of targets for the composition of the Supervisory Board and, on this basis, also rejected a regulatory limit for membership of the Supervisory Board for the same reasons.

After the financial year 2015 had come to an end, a plenum meeting was held on 22 March 2016, mainly for the purpose of discussing the annual and consolidated financial statements as at 31 December 2015. The details concerning this matter are the subject of the separate section "Audit of the annual and consolidated financial statements for the financial year 2015" in this report. A further topic was the agenda for the 2016 Annual General Meeting, including the resolutions proposed to the Annual General Meeting by the Supervisory Board.

The work of the Supervisory Board's committees

In order to perform its duties efficiently, the Supervisory Board has set up a steering committee and four other committees. The general duties, the working method and the composition of the individual committees are described in greater detail in the corporate management statement.

Steering committee

At its meeting requiring personal attendance in 2015, the steering committee concerned itself primarily with the preparations for the EXARING AG acquisition project.

Personnel committee

In 2015, the members of the personnel committee got together for four meetings requiring personal attendance. At its meetings, the committee dealt with questions regarding the variable remuneration for Executive Board members. In the process, the committee established whether and to what extent the parameters for the variable remuneration of the Executive Board members for 2014 were reached, set new parameters for the target agreements for the financial year 2015 and proposed these to the Supervisory

Board for a resolution. The committee also investigated the system governing insurance contracts concluded by the company regarding the Executive Board's retirement benefits, and the extent to which this falls into line with the agreements concluded. In conclusion, the committee members defined the criteria for the Executive Board's variable remuneration for 2016.

Audit committee

In four meetings requiring personal attendance, the committee concerned itself regularly with the current audit focal points and discussed them with the auditors. The committee's members dealt intensively with the annual report, the six-month report and the quarterly reports. One highly significant topic in the committee in the first six months of 2015 was the dividend recommendation, which the committee members discussed in depth with the Chief Financial Officer. The committee obtained reports from the managers responsible in Compliance and Internal Audit that were as open and direct as those concerning risk management and fraud management.

The main emphasis of the audit committee's work was to guide and support the auditing of the annual financial statements. For this purpose,

- the committee obtained the auditor's statement of independence in accordance with clause 7.2.1 of the German Corporate Governance Code,
- the committee monitored the auditor's independence and the implementation of the audit assignment,
- the committee determined the focal points of the financial statements audit and
- the committee prepared the Supervisory Board's resolutions on the annual and consolidated financial statements, the proposal for the appropriation of profits and the agreements with the auditor.

Mediation committee

The mediation committee did not have to be convened in 2015.

Nomination committee

The nomination committee, too, remained inactive in 2015.

Annual and consolidated financial statements for the financial year 2015

The annual financial statements prepared by the Executive Board in accordance with the rules of the German Commercial Code (HGB) for the financial year from 1 January 2015 to 31 December 2015 and the freenet AG management report were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt. The audit assignment had been awarded by the chairman of the audit committee in accordance with the resolution passed by the Annual General Meeting on 21 May 2015. The auditor awarded an unqualified audit opinion. The consolidated financial statements of freenet AG as at 31 December 2015 were prepared in accordance with section 315a HGB on the basis of the international accounting standards IFRS. The auditor granted these consolidated financial statements and the Group management report an unqualified audit opinion.

The audit was reported on and discussed in the audit committee on 1 March 2016 and at the Supervisory Board meeting on 22 March 2016. The auditors participated in the discussion of the annual and consolidated financial statements in both committees. They reported on the most significant results of the audits and were at the disposal of the audit committee and the Supervisory Board for supplementary questions and information. As a result of its own final audit of the annual and consolidated financial statements, the management report and the Group management report, the Supervisory Board raised no objections and approved the result of the audit conducted by the auditor.

The Supervisory Board followed the audit committee's recommendation and approved the annual and consolidated financial statements at its meeting on 22 March 2016. The annual financial statements are thereby adopted. At its meeting on 22 March 2016, the Supervisory Board also examined the Executive Board's proposal for the appropriation of the net profits and discussed it with the auditor. Subsequent to this, the Supervisory Board – following the audit committee's recommendation – gave its consent to the Executive Board's proposal.

Changes on the Executive Board and the Supervisory Board

In the financial year 2015, there were no changes in the composition of the Executive Board.

Effective from 31 January 2015, Achim Weiss stepped down from his position on the Supervisory Board. The Supervisory Board has thanked Mr Weiss in last year's report and at the 2015 Annual General Meeting for his expert and constructive contributions and for the trusting collaboration, and is happy to reiterate its thanks in these pages.

In his place, Kiel District Court appointed Ms Sabine Christiansen to the Supervisory Board by resolution of 10 February 2015. The Annual General Meeting on 21 May 2015 confirmed this appointment and elected Ms Christiansen to serve as a member of the Supervisory Board.

The Supervisory Board would like to express its thanks and appreciation to the members of the Executive Board as well as to the employees at all of the Group companies for their personal commitment and their good work.

Büdelsdorf, 22 March 2016
For the Supervisory Board

Dr Hartmut Schenk
Chairman of the Supervisory Board

FREENET AG AND THE CAPITAL MARKETS

Capital market environment

The stock market year 2015 brought a number of surprises on the capital market. The first half of the year – and the first quarter in particular – was very positive indeed for many investors. Good economic data and the sustained policy of low interest rates, in particular, ensured that the climate on the German and European stock markets was upbeat. The market for telecommunications stocks, while still comfortably in positive territory, developed slightly less robustly than the market as a whole.

Overall, the DAX rose by 22 per cent in the first three months of 2015, compared to the end of 2014, to 11,966 points, and thereby recorded the best start to a quarter since its launch in 1988. The TecDAX gained around 18 per cent over the same period.

Following a slight increase at the beginning of the second quarter – documented, among other things, by a new all-time high for the DAX in April – the risks of possible insolvency for Greece and a consequent exit from the Eurozone were the major contributors to the downward trend in share prices. This resulted in a period of increased volatility and falling share prices. The TecDAX nevertheless closed the first half of the year 20 per cent up, in contrast to the DAX, which, as at 30 June, had risen by only around 12 per cent compared to the end of 2014.

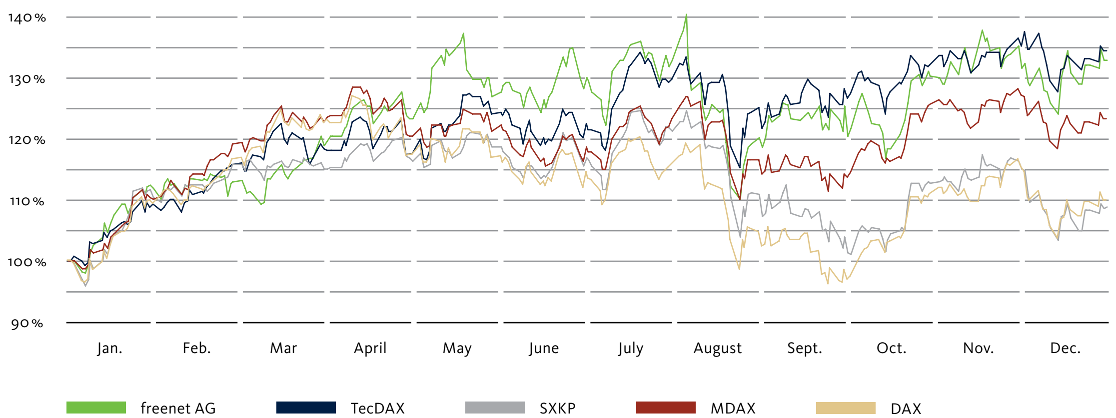
In the third quarter, the German stock market was again affected by contrasting developments. After the agreement on the bailout for Greece was adopted at the beginning of July, there was a brief rally that was subsequently brought to an end by the stock market crash in China and fears of an impending interest rate increase by the US central bank. The DAX, as the most important German stock market barometer, ended the third quarter at 9,660 points, 1 per cent below its level at the end of 2014, while the TecDAX continued its positive trend and finished the nine-month period around 27 per cent up.

In the fourth quarter, the European stock markets staged a modest recovery again. The Volkswagen scandal and the Ukraine crisis, as well as the continuous influx of refugees, continued to be sources of uncertainty. Ultimately, however, the DAX rose by almost 10 per cent compared to the beginning of the year, while the TecDAX even managed to climb by some 33 per cent.

The freenet share

The freenet AG share rose by some 32 per cent over the course of the year, and thereby developed in line with its benchmark, TecDAX (+33 per cent), and comfortably exceeded the performances of the DAX (+10 per cent) and the European telecommunications index SXKP (+8.5 per cent). The increase in its price in 2015 once again confirmed the attractiveness of a long-term investment in the freenet share. The share fell to its low for the year of 23.24 euros on 6 January and reached its high of 33.01 euros on 5 August. A daily average of around 506 thousand freenet shares was traded on Xetra in 2015. Of the entire trading volume, some 59 per cent was handled via Deutsche Börse AG's platforms over the past year, while the remaining volume was traded via alternative trading venues ("darkpools").

Figure 1: **Performance of the freenet share in 2015**
(Indexed; 100 = Xetra closing price on 31 December 2014)



The freenet share began the new year with a Xetra opening price of 23.70 euros and rose by a significant 18 per cent in the course of the first quarter to 28.08 euros. The publication of the freenet Group's results for the financial year 2014 and the proposal of 1.50 euros per share made by the Executive and Supervisory Boards on the appropriation of profits met with a positive response on the capital market. Accordingly, the share developed almost in parallel to its comparative index, TecDAX, in the first three months of the past financial year. The SXKP Index, on the other hand, was up by only 15 per cent. The freenet share's average daily Xetra closing price in the first quarter was 26.23 euros and the average daily volume traded via the Xetra electronic trading platform was around 588 thousand units. The proportion of the aggregate traded volume accounted for by darkpools was around 41 per cent in the first quarter of 2015.

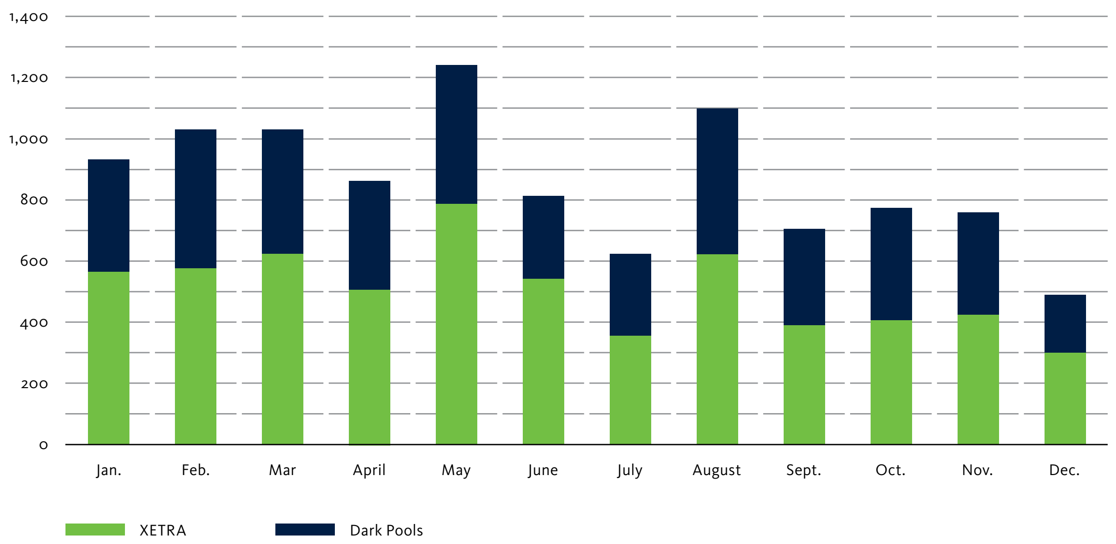
In the second quarter, too, the freenet share price continued with its upward trend from the previous quarter. The share commenced the second quarter with an opening price of 28.08 euros on the Xetra electronic trading platform and continued to make dynamic progress. On 19 May – shortly before the Annual General Meeting – the share reached its quarterly and half-year high of 32.34 euros. Following a slight price markdown in the wake of the dividend payment, the share remained at around the 30-euro mark until the end of the quarter and closed on 30 June at 30.22 euros. The freenet share price thereby increased by 7.6 per cent ex dividend in the second quarter, in the process outstripping the benchmark index, TecDAX, which was up by just 1.7 per cent in the same period. As a result, the SXKP Index remained at the same level as at the beginning of the quarter. The freenet share's average daily Xetra closing price in the second quarter was 30.08 euros, while the average daily volume was around 595 thousand units. In comparison with the first quarter, the proportion of the volume traded via darkpools decreased slightly to 38 per cent of the aggregate trading volume.

Following the 28 per cent increase in its price in the first half of 2015, the freenet share had to surrender part of its gains again in the third quarter. The share started the third quarter with an opening price of 30.22 euros on the Xetra electronic trading platform and initially showed a slight upward trend. Starting from its peak for the year of 33.01 euros on 5 August, the price fell to 26.05 euros as at 24 August before stabilising in the subsequent period and closing at 29.54 euros on 30 September. In contrast to the appreciable drop in the SXKP's price (about 10.8 per cent); the freenet share price fell by only a modest 3.7 per cent during the third quarter. In the same period, the TecDAX posted an increase of 4.5 per cent. The freenet share's average Xetra daily closing price in the third quarter was 29.75 euros. The average daily Xetra trading volume was around 453 thousand units during this period. The proportion of the aggregate traded volume accounted for by darkpools again increased slightly against the previous quarter and came to 43 per cent.

In October, the freenet share began a dynamic fourth quarter in which the previous quarter's losses were largely put into perspective. Following an initial slight decrease in its price to 27.60 euros in mid-October, the share again climbed above the 30-euro mark at the end of October and closed on 31 December at a price of 31.32 euros. The average Xetra daily closing price in the fourth quarter was 30.47 euros. An average of some 375 thousand freenet shares per day was traded on the Xetra electronic trading platform in this period. The proportion accounted for by darkpools remained at the third quarter's level of 43 per cent.

In the TecDAX's index ranking, the freenet Group was again among the five most valuable listed German technology companies as at the end of 2015: with regard to market capitalisation, the freenet Group was in fourth place with around four billion euros and in respect of the trading volume, which is similarly relevant for this index selection, the freenet Group was in fifth place with 3.8 billion euros.

Figure 2: **Average daily trading volume of the freenet share in 2015 in thousand**



Shareholder structure at freenet AG

freenet AG's share capital amounts to 128,061,016 euros and is divided into 128,061,016 no-par-value bearer shares. The proportional value of the share capital attributable to each share is 1.00 euro.

Voting rights disclosures

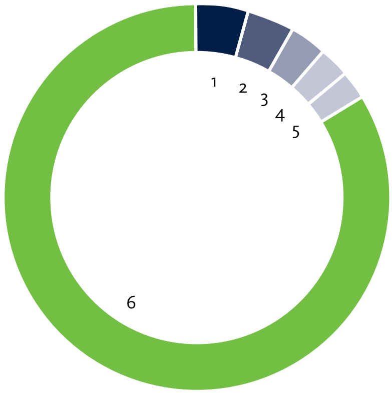
According to the voting rights disclosures received pursuant to Section 21 of the German Securities Trading Act (WpHG), freenet AG's shareholder structure changed as follows during the financial year 2015:

- In February, Allianz Global Investors (Germany) informed us that it had fallen below the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 17 February amounted to 4.98 per cent (6,379,221 voting rights).
- In February, Allianz Global Investors (Germany) informed us that it had exceeded the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 20 February amounted to 5.16 per cent (6,611,697 voting rights).
- In February, UBS Group (Switzerland) informed us that it had exceeded the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 24 February amounted to 3.84 per cent (4,917,036 voting rights).
- In February, UBS Group (Switzerland) informed us that it had fallen below the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 27 February amounted to 1.97 per cent (2,520,128 voting rights).
- In March, Deutsche Asset & Wealth Management Investment (Germany) informed us that it had fallen below the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 25 February amounted to 4.65 per cent (5,958,959 voting rights).
- In March, UBS Group (Switzerland) informed us that it had exceeded the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 20 March amounted to 3.03 per cent (3,882,763 voting rights).
- In March, UBS Group (Switzerland) informed us that it had fallen below the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 23 March amounted to 2.89 per cent (3,703,804 voting rights).
- In March, UBS Group (Schweiz) informed us that it had exceeded the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 26 March amounted to 3.03 per cent (3,881,955 voting rights).
- In April, UBS Group (Switzerland) informed us that it had fallen below the 3 per cent reporting. This revealed that its share of the voting rights in freenet AG on 27 March amounted to 2.65 per cent (3,398,308 voting rights).
- In April, BlackRock (USA) informed us that it had fallen below the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 31 March amounted to 2.96 per cent (3,789,344 voting rights).
- In April, BlackRock (USA) informed us that it had exceeded the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 14 April amounted to 3.01 per cent (3,851,546 voting rights).
- In April, BlackRock (USA) informed us that it had fallen below the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 16 April amounted to 2.98 per cent (3,821,543 voting rights).
- In May, Capital Group Companies (USA) informed us that it had exceeded the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 15 May amounted to 3.70 per cent (4,741,076 voting rights).
- In May, Flossbach von Storch SICAV (Luxembourg) informed us that it had fallen below the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 19 May amounted to 2.63 per cent (3,365,500 voting rights).
- In May, Capital Income Builder (USA) informed us that it had exceeded the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 19 May amounted to 3.26 per cent (4,180,133 voting rights).
- In June, BlackRock (USA) informed us that it had exceeded the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 10 June amounted to 3.08 per cent (3,940,155 voting rights).
- In September, Deutsche Asset & Wealth Management Investment (Germany) informed us that it had exceeded the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 3 September amounted to 5.23 per cent (6,703,469 voting rights).
- In October, Flossbach von Storch (Germany) informed us that it had fallen below the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 6 October amounted to 2.86 per cent (3,657,100 voting rights).
- In October, Flossbach von Storch Invest S.A. (Luxembourg) informed us that it had fallen below the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 6 October amounted to 2.86 per cent (3,657,100 voting rights).
- In October, BNP Paribas Investment Partners (France) informed us that it had exceeded the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 19 October amounted to 3.01 per cent (3,857,804 voting rights).

Current shareholder structure

The shareholder structure at the end of 2015 was therefore as follows:

Figure 3: **Shareholder structure of freenet AG on 31 December 2015**



1	**5.23 %**	Deutsche Asset & Wealth Investment GmbH*
2	**5.16 %**	Allianz Global Investors GmbH*
3	**3.70 %**	The Capital Group Companies, Inc.*
4	**3.08 %**	BlackRock, Inc*
5	**3.01 %**	BNP Paribas Investment Partners*
6	**79.82 %**	Other shareholders/free float**

* *including attributions according to German Securities Trading Act.*

** *The free float according to Deutsche Börse AG amounts to 89.61%.*

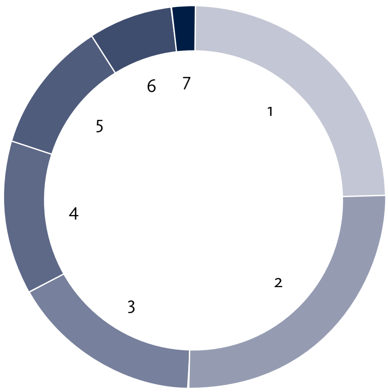
freenet AG's shareholder structure has not changed significantly compared to last year. Institutional investors remain the largest group of investors in freenet AG, again accounting for some 77 per cent. According to our findings, the institutional investors' shareholdings as at the balance sheet date are purely financial investments. While almost half of all the financial institutions with investments in the company were again pursuing a value-oriented investment approach, the proportion of growth-oriented financial investors decreased slightly compared to the previous year. The remaining financial investors were index- and/or returns-oriented or pursued specialised investment strategies.

Geographical distribution

An analysis of our shareholder structure carried out in August 2015 ("Shareholder Identification") shows how our share capital is distributed internationally. With 27 per cent of the share capital (previous year: 23 per cent), the North American continent still accounts for the highest proportion of financial investors. The proportion of financial investors from the UK and Ireland, however, decreased by 4 percentage points to the current level of 11 per cent. The share capital held by financial investors from the rest of Europe, on the other hand, increased slightly to 15 per cent (previous year: 13 per cent), while the proportion of financial investors from other countries decreased significantly from 7 per cent to 1 per cent.

The proportion of freenet shares held by investors from Germany totalled 43 per cent (previous year: 41 per cent). Of this, the largest proportion, 24 per cent, is held by German institutional financial investors. The investments held by German private investors decreased slightly and now account for 19 per cent of the company's share capital (previous year: 21 per cent). Finally, at 4 per cent, twice as many shares are held by private investors from the rest of Europe as in 2014.

Figure 4: **Geographical distribution of the freenet AG shareholder structure on 31 December 2015**



1	**27 %**	Financial Investors USA and Canada
2	**24 %**	German institutional investors
3	**19 %**	German retail investors
4	**15 %**	Financial Investors rest of Europe
5	**11 %**	Financial Investors UK and Ireland
6	**4 %**	Retail investors rest of Europe
7	**1 %**	Financial Investors rest of the world

Source: Retail investors according to share register; institutional and financial investors according to shareholder identification.

Earnings per share

The undiluted/diluted earnings per share amounted to 1.73 euros in the reporting year, compared with 1.93 euros in 2014. The reduction in consolidated result and thus in earnings per share is mainly attributable to higher tax expenses and depreciation. The basis for calculating the earnings per share is the weighted average of shares outstanding.

Table 1: **Earnings per share**

In EUR/as indicated	2015	2014
Undiluted earnings per share	**1.73**	**1.93**
Diluted earnings per share	**1.73**	**1.93**
Weighted average of shares outstanding in thousand (undiluted)	128,011	128,011
Weighted average of shares outstanding in thousand (diluted)	128,011	128,011

Dividend

On 21 May 2015, freenet AG's Annual General Meeting decided to pay a dividend of 1.50 euros per eligible no-par-value share for the financial year 2014, representing a pay-out ratio of 72.1 per cent of free cash flow. The dividend was distributed to the shareholders on 22 May 2015 through Clearstream Banking AG, Frankfurt am Main, by way of the respective custodian banks and financial institutions. The pay-out was made from the tax-specific contribution account in accordance with section 27 of the German Corporation Tax Act (KStG). This means that the dividend was again paid out without any deduction of capital gains tax and the solidarity surcharge.

The Executive Board and Supervisory Board are standing by their current dividend policy and intend to propose to the Annual General Meeting on 12 May 2016 the payment of a dividend for the 2015 financial year in the amount of 1.55 euros per no-par-value share from the retained profits. This corresponds to a dividend pay-out ratio of around 70 per cent of free cash flow.

To underline the sustainability of the business model, the Executive Board additionally intends to propose to the Supervisory Board and the 2017 Annual General Meeting that they distribute a dividend in the amount of 1.60 euros per share with eligibility for dividends for the financial year 2016. The Executive Board is thereby presenting its shareholders with the prospect of a dividend payout that represents a continuous increase in comparison with the previous years and with the dividend proposal for the financial year 2015.

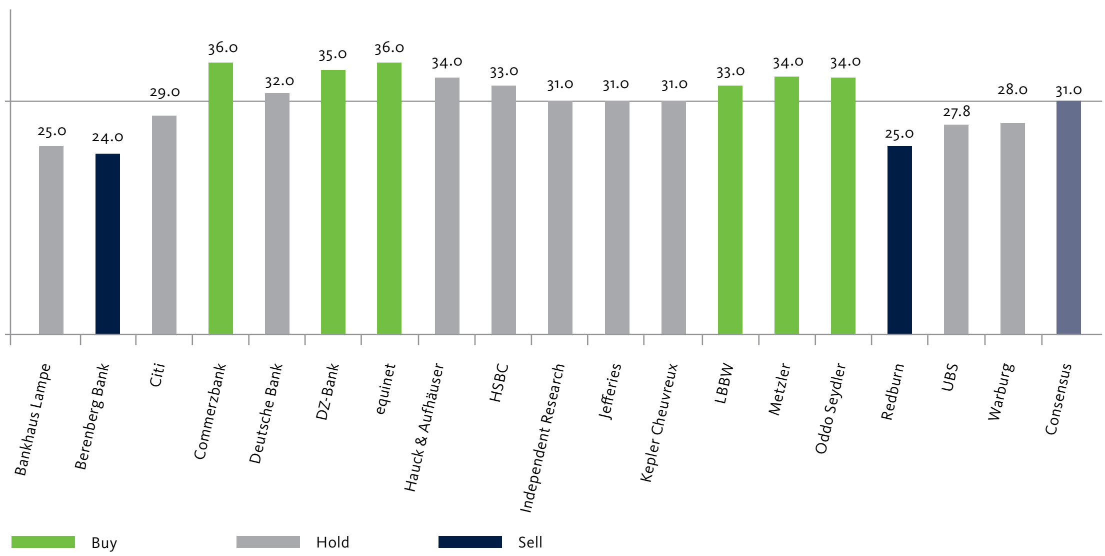
Analysts' recommendations

In the financial year 2015, the number of analyst firms that regularly publish reports on the commercial and financial situation of freenet AG increased from 15 to a total of 18. In August, the Kepler Cheuvreux and Jefferies institutes again included freenet AG in their coverage; Redburn published its first report about the company in November. Overall, the analysts published almost 90 commentaries and recommendations during the course of the year. This represents a decline of some 25 per cent compared to the previous year (previous year: 120 commentaries and recommendations). Two analyst firms issued more statements than in 2014, twelve analysts issued fewer, and one analyst published the same number of reports as in the previous year. A total of 14 analysts (previous year: 16 analysts) participated in the quarterly consensus forecasts in the past financial year. The median of all publications regarding the freenet share decreased from seven commentaries in 2014 to four and a half commentaries per broker in the financial year 2015.

In 54 per cent of all publications released in the course of the financial year 2015 (previous year: 50 per cent), the analysts recommended a "buy". The recommendation to "hold" was made in 38 per cent of the reports (previous year: 45 per cent). The number of recommendations to "sell" increased slightly over the previous year from five to eight per cent of the publications as a whole.

As at the end of 2015, a total of six analysts recommended buying the freenet share, ten recommended holding the share and two advised investors to sell it. The analysts' average target price for the share as at 31 December 2015 was 31.04 euros.

Figure 5: **Current recommendations for the freenet share (target prices in euro)**[1]



1 As of 31 December 2015.

Investor Relations

The IR activities at freenet AG are geared to maintain continuous and open dialogue with institutional and private investors, financial analysts and potential investors. In the financial year 2015, the Executive Board and the IR team therefore again took part in numerous investors' conferences and roadshows at the most important European stock exchanges as well as in New York. In this way, interested capital market participants had the opportunity to inform themselves comprehensively and at first-hand about the current development of business and the market as a whole, as well as about freenet AG's strategic orientation. In conjunction with this, the Executive Board conducted around 220 discussions with investors during the course of the year (previous year: around 340 investor discussions). In addition, the IR department maintained regular contact with private and institutional investors, as well as with analysts, by telephone and email.

The Executive Board and the IR team thereby again fulfilled the stringent requirements of transparent capital-market communication over the past year. In the current financial year, we want to intensify our IR activities further and stabilise our financial communication so that we can continue to ensure a reliable and prompt supply of information in the future.

Information about the freenet share

Master data	
Name:	freenet AG NA
Type of share:	No-par-value share
ISIN:	DE000A0Z2ZZ5
WKN:	A0Z2ZZ
Sector:	DAXsector Telecommunication, DAXsubsector Wireless Communication
Transparency standard:	Prime standard
Market segment:	Regulated market

Angaben zum Wertpapier	
Class	Registered shares without par value
Index	TecDAX, Midcap Market Index, CDAX, HDAX, STOXX Europe 600 Telecommunications (SXKP), Prime All Share, Technology All Share
Share capital:	128,061,016 euros
Quantity of shares:	128,061,016
Stock exchanges:	Regulated market/Prime Standard: Frankfurt Open Market: Berlin, Hamburg, Stuttgart, Düsseldorf, Hannover, Munich

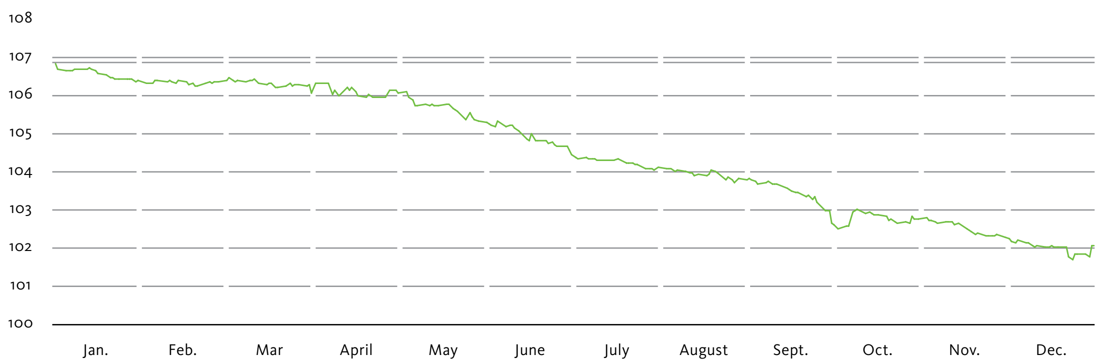
Trading parameters:	
Symbol:	FNTN
Reuters instrument code:	FNTGn.DE
Trading model type:	Continuous trading
Designated sponsors:	Oddo Seydler Bank AG, equinet Bank AG

Further information on the freenet share is available at www.freenet-group.de/investor

Corporate bond

In April 2011, freenet AG replaced its private equity financing by, among other things, successfully placing a five-year corporate bond with a volume of 400.0 million euros on the capital market. The interest coupon is 7.125 per cent per annum and the bond is due on 20 April 2016. At year-end 2015, the bond was quoted at 102.03 euros.

Figure 6: **Performance of the freenet corporate bond in 2015 (daily closing prices in euro)**



For more information about the freenet AG corporate bond, please refer to the following table:

Stock exchanges:	The regulated market of the Luxembourg stock exchange
Issue volume:	400.0 million euros
Denomination:	1,000 euros
ISIN:	DE000A1KQXZ0
WKN:	A1KQXZ
Term:	20 April 2011 to 20 April 2016
Coupon:	7.125 percent p. a.
Interest payments:	Annually, starting on 20 April 2012
Repayment price:	100.0 per cent
Security:	Non-subordinated corporate bond

Promissory note bond

In December 2012, freenet AG successfully placed a promissory note loan totalling 120.0 million euros that was marketed broadly by Commerzbank AG, Landesbank Baden-Württemberg and Landesbank Hessen-Thüringen Girozentrale. The non-callable financing instrument is divided into a five-year fixed tranche of 44.5 million euros, a five-year variable tranche of 56.0 million euros and a seven-year fixed tranche of 19.5 million euros. It was drawn over its entire volume at the lower end of the respective marketing range with a fixed coupon of 3.27 per cent p.a. for the five-year fixed tranche, a floating coupon of 2.82 per cent p.a. for the first six months of the floating five-year tranche, and a fixed coupon of 4.14 per cent p.a. for the seven-year fixed tranche. In the financial year 2014, the improved market environment made it possible to regroup the variable tranche. The margin was reduced by one percentage point for a portion amounting to 55.0 million euros. At the same time, the term was extended by two years for 45.0 million euros from this tranche. In 2015, 1.0 million euros from the variable tranche were paid back ahead of time. Accordingly, the aggregate sum represented by this promissory note loan is now 119.0 million euros.

Also in 2015, freenet AG successfully placed a further promissory note loan in the amount of 100.0 million euros, which in turn was marketed broadly by a consortium of banks. The non-callable financing instrument is divided into a five-year fixed tranche of 25.0 million euros, a five-year variable tranche of 25.0 million euros and a seven-year fixed tranche of 50.0 million euros. It was drawn over its entire volume at the lower end of the respective marketing range with a fixed coupon of 1.33 per cent p.a. for the five-year fixed tranche, a floating coupon of 1.01 per cent p.a. for the first six months of the floating five-year tranche, and a fixed coupon of 1.79 per cent p.a. for the seven-year fixed tranche.

Credit facility

The current syndicated loan agreement for the general financing of commercial activities was concluded in December 2013 with Commerzbank AG as the coordinating mandated lead arranger. In addition, Bayerische Landesbank, HSH Nordbank, Landesbank Baden-Württemberg, Nord LB and UniCredit also acted as mandated lead arrangers.

The existing facility makes available a total of 300.0 million euros to be drawn. Withdrawals are calculated with a margin on EURIBOR, which, given the company's current debt factor (net debt/EBITDA), amounts to 0.95 per cent.

The agreement is based on the usual market warranties, as well as information obligations and rules of conduct. The debt factor was fixed at a maximum of 2.5x and the equity ratio at a minimum of 30 per cent.

As at the end of 2015, the credit facility was completely unused.

Financial information online

Shareholders, bond creditors and interested members of the public can find detailed information about the freenet share and corporate bond on our website at *www.freenet-group.de/investor*.

In addition to company announcements, financial reports and capital market presentations, the information on offer includes Annual General Meeting documentation and a financial calendar. Regardless of the type of terminal being used, the website also features a variety of services and dialogue offers, including a contact and order form and an interactive share analysis tool.

Interested users can also learn more about the company and about freenet AG's press relations at *www.freenet-group.de/en*.

GROUP MANAGEMENT REPORT

CORPORATE PROFILE OF THE GROUP

Business model

In its capacity as an independent service provider, the freenet Group supplies its brands to the digital lifestyle growth market with integrated product worlds, customer-oriented services and affordable mobile tariffs for all German mobile networks.

The freenet Group offers its customers in Germany an extensive portfolio of services and products from the mobile voice and data services sector. It markets the services of the mobile communications network providers Deutsche Telekom, Vodafone and Telefónica Deutschland under its own name and for its own account through numerous sales channels. In addition to its own network-independent services and tariffs, the freenet Group also markets the original tariffs of German mobile communications network operators under its own name.

In addition, the company also supplies innovative digital applications relating to home automation and home security, health, data security, entertainment and infotainment – including the latest smartphones, tablets, notebooks and attractive accessories. With Gravis-Computervertriebsgesellschaft mbH ("GRAVIS"), one of the largest independent authorised Apple dealers in Germany, the Group occupies an outstanding market position in this area as well.

In the company's view, the key factors for its commercial success are customer development, monthly revenue per user in the Mobile Communications business and the development of digital lifestyle activities in the three strategic business areas Fitness/Wearables, Entertainment and SmartHome.

Customer proximity across all sales channels is indispensable for the success of the company's distinct competitive position as a digital lifestyle provider. With around 560 shops operated under the main brand mobilcom-debitel and 43 stores under the premium brand GRAVIS, plus a multiplicity of further distribution outlets for mobile communications in the specialised retail sector — including around 400 large electronic goods stores in Media-Saturn Deutschland GmbH exclusively for the T-Mobile and Vodafone networks — the freenet Group has a blanket presence in the stationary retail sector in Germany. At the same time, several sales brands of its own are being used successfully through a diversity of online sales channels. All in all, 4,367 employees in the freenet Group are working continuously on improving sales and service expertise.

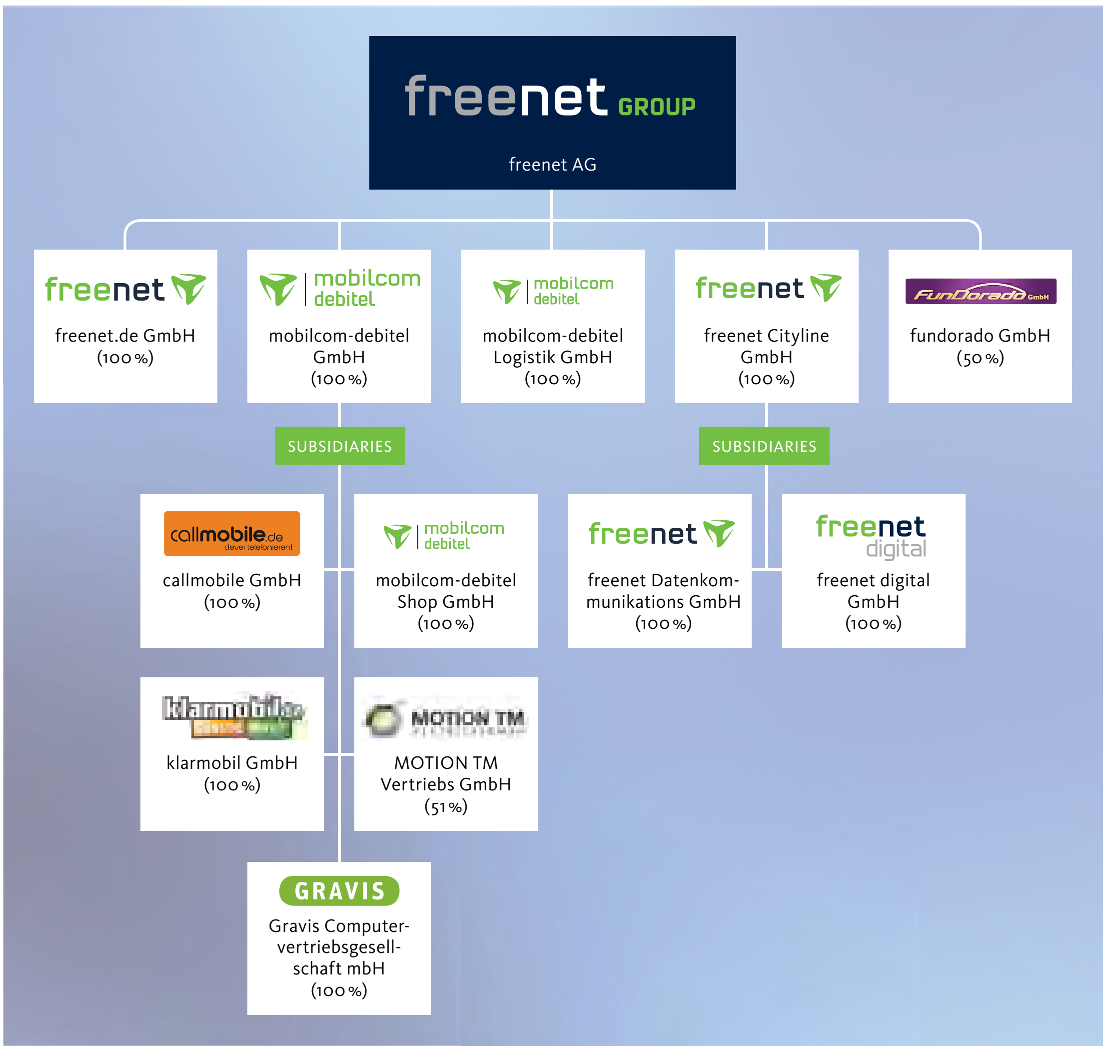
Marketing activities essentially focus on end customer business with private customers in Germany, an area which is split up into three customer sectors. The contract customers who are acquired predominantly via stationary sales outlets and the no-frills customers generated almost exclusively via online channels jointly comprise the non-financial performance indicator known as customer ownership, which is used as an internal control parameter. There is also a relevant number of prepaid customers.

Group structure and acquisitions

In line with the company's strategy, particularly with regard to further developing our digital lifestyle business activities and extending our attractive product portfolio for private households, the Group carried out a further company acquisition in 2015. With the 24.99 per cent interest in the share capital of EXARING AG, Munich, the Group has invested in an IPTV project. With an intelligent and powerful solution, EXARING AG intends to offer a TV solution of the highest quality and with attractive conditions to numerous reachable German households – combined with a range of advanced add-on functions.

The main Group companies as of 31 December 2015, measured in terms of their contribution to the main financial performance indicators of the Group, are unchanged compared with last year, and are set out in the following:

Figure 7: **Material Group companies of freenet AG as at 31 December 2015**



Segment specific disclosures

The organisation and management of freenet AG are not conducted along the lines of customer sectors or geographical territories. In compliance with freenet AG's internal management, a distinction is drawn between the "Mobile Communications" segment and the "Other/Holding" segment, even though the latter has only minor significance for the assessment of freenet AG's net assets, financial position and results of operations. The former is attributable to the original mobile communications activities as well as the still recent growth area of internet-based mobile applications (digital lifestyle products).

Corporate strategy

Of the mobile communications providers operating without their own network, the freenet Group is the leader in the German mobile communications market. It was again able to maintain its market position as a service provider in the financial year 2015 – despite a slight downturn in revenue.

In the financial year ended, the German consumer market for mobile communications and mobile internet was characterised by the increasing data-based use of smartphones and other high-performance mobile devices in different spheres of life. The providers of telecommunications services have strategically adapted their business models in order to enable customers to enter into their personal digital lifestyle and thus to benefit from the wide range of new added-value sources.

In this connection, the freenet Group has already established an early position as a digital lifestyle provider focusing on its core competences in this new sector of the market which is being created for private consumers in Germany.

By way of continuously optimising and extending its portfolio of digital lifestyle products and services, consistently taking advantage of existing strengths and competences as well as existing and new distribution channels, the Group is continuing its growth and is further expanding its leading position as a major digital player.

In the substantial selling power of the shops and distribution outlets operated under the main brand mobilcom-debitel, the premium brand GRAVIS and a well-balanced bundle of online sales brands and channels, the freenet Group has a sufficient mass at its disposal for the successful placement of innovative products and services on the digital lifestyle market.

The Executive Board has enhanced its strategy in this environment in order to increase the freenet Group's added value as an independent service provider by means of additional commercial activities relating to all aspects of mobile communications and mobile internet. The main strategic focus is on ensuring the further stabilisation of the customer base in the valuable contract customer and no-frills sectors (together: customer ownership) and also on ensuring the expansion of high-street sales in line with profitability considerations. Besides the further optimisation of the shops operated under the main brand mobilcom-debitel in respect of location, product and service portfolio and sales support, the further development of the GRAVIS stores as a premium supplier of digital lifestyle products from a variety of manufacturers is noteworthy in this context. The resultant cross-selling potential is to be strategically used mainly in customer ownership, for instance by way of the increasing marketing of integrated lifestyle product worlds. In the medium term, the freenet Group is going to expand not only its basic mobile communications business and the retailing of products covering all aspects of mobile communications, but also its product and service portfolio in the digital lifestyle sector — depending on the future demand patterns shown by private users. With no in-house products being developed, marketing activities are increasingly focused on partnerships with innovative manufacturers.

The further development of business in this area will depend on the future dynamics of this still young and fragmented market sector. However, the increasingly noticeable change in social living to a comprehensively interconnected way of life, summed up by the term the "Internet of Things" remains the firm foundation for the future value-oriented expansion of this business area.

Against this backdrop, the company is going to continue with and further refine its strategic alignment, also in the financial years ahead. In addition, the freenet Group is going to evaluate additional strategic fields of activity while applying strictly defined profitability and investment standards.

In implementing its strategy, the freenet Group devotes equal attention to the varied requirements and expectations of all interest groups. While the shareholders expect a reasonable and reliable overall return on their invested capital, the company's creditors are mainly concerned not just with an attractive interest rate on borrowed capital that is commensurate with the risks involved, but also with lasting assurance of adequate capacity for debt repayment. The freenet Group's customers are interested in up-to-date services and products with specific additional benefits, plus expert advice. The employees expect a far-sighted management that provides long-term job security with reasonable working conditions. That is why the freenet Group attaches special strategic importance to an open, respectful and appreciative corporate culture in the competition for qualified employees.

Management system

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

Taking account of the continuous expansion of our digital lifestyle activities in line with our key corporate strategy, we constantly check the composition of all our internal control parameters and will adjust these whenever a relevant need is identified. No changes have been made compared with the previous year.

Financial performance indicators

In order to measure the short-, medium- and long-term success of our strategic alignment and its operational implementation, we currently use the following key financial performance indicators:

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

Revenue

The freenet Group's traditional field of business is determined by products and services covering all aspects of mobile communications and mobile internet. The revenue generated here is shown in the Mobile Communications segment. The German mobile communications market is saturated and characterised by a small number of providers. As a result, there has long been a situation of predatory competition on the market with increasing pressure on prices, which tends to lead to a decrease in revenue.

In this environment, the Executive Board's strategy is geared towards the generation of additional sources of income to complement the Mobile Communications segment. This means that the revenue generated with digital lifestyle activities in the freenet Group has become more significant as a financial control parameter. In addition to EBITDA, the success of digital lifestyle activities will be reflected primarily in the company's future revenue trend.

EBITDA

EBITDA corresponds to the Group result before interest, taxes on income, depreciation and amortisation and generally constitutes a company's operational performance. EBITDA is therefore regarded as a key financial performance indicator both in the assessment of corporate developments over a number of periods and when comparing companies in the same market sector with one another.

While the mobile communications network operators post high capital expenditures every year for the expansion and maintenance of their networks, the freenet Group restricted itself in the past to annual investments of just over 20 to 30 million euros in the area of mobile communications within the scope of its corporate planning and management. As EBITDA focuses on the operating efficiency ascertained by the accounting process, however, this performance indicator makes comparability possible even independently of the different capital costs in the respective business models. Accordingly, EBITDA is also used for valuation purposes within the framework of corporate acquisitions and disposals.

Free cash flow

freenet AG defines free cash flow as cash flow from current operating activities, less the investments in property, plant and equipment and intangible assets impacting cash flow, plus the cash inflows from disposals of intangible assets and property, plant and equipment. This liquidity-oriented key performance indicator is an important supplement to the results-oriented assessment of a company's performance.

The free cash flow is of equal importance for the procurement of equity and borrowed capital. While the annual general meeting decides on the amount of the dividend distribution as part of freenet AG's retained profits in accordance with the German Commercial Code, the dividend payout ratio is disclosed in relation to the free cash flow. This creates a direct link to the cash inflow that was actually generated in the respective period. To improve shareholder orientation, the Executive Board has determined a distribution corridor of currently 50 to 75 per cent of free cash flow within the framework of its corporate management.

At the same time, the free cash flow is significant for providers of outside capital because it contains all of a company's operational payment obligations and as such is a benchmark for potential interest and redemption payments.

Postpaid ARPU

We define postpaid-ARPU as the monthly average revenue generated by each contract customer who has signed a 24-month contract. ARPU generally depicts the willingness of customers to pay appropriate monthly remuneration for the respective mobile communications services. Therefore, the revenue generated via the "mobile option" from the sale of mobile phones and/or smartphones does not flow into ARPU. Changes in the market and competitive situation in Germany have a significant impact on the development of ARPU.

Non-financial performance indicator

Given the company's strategic position as a digital lifestyle provider, both the financial performance indicators and customer ownership as a key non-financial performance indicator are used for control purposes in the freenet Group.

Customer ownership

The measurement of customer ownership, consisting of the valuable postpaid and no-frills sectors, is particularly significant for medium- and long-term corporate management. In the Mobile Communications segment, customer ownership in combination with the average revenue generated per user (ARPU) is a significant pillar of business.

In addition, customer ownership makes it possible to address customers in an individualised way with a view to cross-selling and up-selling. The media disruptions that result from multichannel selling are being overcome thanks to a variety of marketing measures. The successful launch of the click-and-collect system, in other words the payment and for collection of online orders in mobilcom-debitel shops, must likewise be seen against this background.

In the interests of its strategic commercial alignment as a digital lifestyle provider, freenet focuses on high-quality customer relations when acquiring new customers and managing existing customers.

Other control parameters

For managing the Group, freenet AG uses further control parameters in addition to the main financial and non-financial performance indicators. These parameters are used as an additional measure for the development of the freenet Group, and mainly cover the following areas:

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

Product brands, new products

freenet AG is increasingly also addressing the digital lifestyle growth market. In mobile communications/mobile internet, the company puts its faith in a multi-brand strategy so that it can serve all sectors of this market in a target-group-specific manner. Under its main brand mobilcom-debitel, the company markets the postpaid and prepaid tariffs for all German mobile communications networks, focusing on high-calibre contractual relationships. The major strengths of the brand include demand-oriented and independent customer advice relating to mobile communication products and services as well as maximum proximity to customers. This is achieved primarily by the approximately 560 shops operating under the main mobilcom-debitel brand, the company's presence in approximately 400 major electronics stores and also via a wide range of further high-street distribution outlets and retail partners.

In addition, the Group's discount brands – namely klarmobil, freenetmobile, callmobile and debitel light – focus on the no-frills sector: In this particular sector, customers are interested primarily in affordable tariffs, and are not so much interested in subsidised devices or special services. The discount tariffs are mainly distributed via the company's own online trading platforms.

For many years, mobile data services have been one of the areas of telecommunication which have been achieving the strongest growth. Accordingly, for freenet AG, these services also constitute a focal point of marketing the company's portfolio of products and services. In this context, in 2015, the company further enhanced its existing portfolio of flatrates/data tariffs for smartphones and other devices within the framework of numerous limited seasonal and special promotions; these generally comprised additional services or discounts in the individual tariffs.

At the same time, in its digital lifestyle division, freenet AG has been continuously expanding its range of innovative products and applications via the mobilcom-debitel and GRAVIS brands. Entertainment, data security, health/fitness, home automation and security have been the main aspects in this respect.

Partnerships

In June 2015, mobilcom-debitel started cooperation with "AudioBooks". This cooperation provides customers with access to approximately 30,000 audio books, and can also be used without a linked mobile contract – for a monthly fee of 9.99 euros with a monthly cancellation option; for contract customers of mobilcom-debitel, the price is reduced to 5.99 euros per month. The service was initially available free-of-charge in a test phase until the end of August 2015. The user is able to choose from 10,000 German audio books as well as an additional 20,000 foreign-language books, for instance in English, Spanish or Turkish. The audio book flatrate complements the extensive portfolio of existing digital lifestyle flatrates of mobilcom-debitel.

In mid-September 2015, the subsidiary GRAVIS agreed cooperation with DesignBar Solutions. This cooperation started in the GRAVIS flagship store on the Ernst-Reuter-Platz in Berlin: For the first time, customers are now able to print their own motifs and personal photos on their iPhone accessories at the "Designbar" which is integrated in the shop. This comprises a print unit, an operating terminal for selecting the desired motif and also the "Cloud Cube" – a key IT component. In addition to high-quality motifs of the Designbar, the customer's own photos which can be transmitted by Wi-Fi can also be used. For the individual design, GRAVIS offers a wide range of accessory products such as hard and soft cases or smartphone cases of DesignBar Solutions. The coordinated DesignBar components – consisting of print unit, ink and printed accessory – guarantee a high-quality long-life print image with precise details.

In December 2015, the company then started cooperation with Amazon Europe Core S.à.r.l. The key aspect of this strategic partnership is the pre-installation of the Amazon app on all android smartphones which are offered by mobilcom-debitel in its own approximately 560 shops as well as in the approximately 6,000 distribution outlets of its retail partners. In this way, the company ensures that mobile shopping is made easier for its customers, reducing to a small number of clicks the process of smartphone purchasing, for instance of books, digital entertainment, fashion, furnishings or products for every day use.

Sales activities

As has been the case in previous years, freenet AG in 2015 worked on continuously improving its sales strength by means of numerous internal investments and measures. Two key aspects in this respect were the restructuring of support and management for the high-street retail trade and also the start of the complex IT project “Omni Channel”.

Since mid-2015, mobilcom-debitel has been intensifying cooperation with particularly high-performance and loyal retail partners – the so-called LPP-Plus partners (LeistungsPartnerProgramm = performance partner programme). The aim is to discontinue the previous distinction made between these retailers and the company’s own shops or the directly controllable shops of the company. Both distribution channels will thus equally benefit from tried-and-tested best-practice solutions within the Group, and will now be directly supported by the same external support force. At the same time, mobilcom-debitel is introducing with its partner agencies a distribution stage which is positioned between the approximately 200 franchise shops and the LPP-Plus partners. As being part of the restructuring process, as many of the more than 100 LPP-Plus partners as possible are to be transferred to the model of the directly managed partner agencies.

In turn, the aim of the “Omni-Channel” project is to achieve optimum synchronisation of all interfaces, information levels, channels and procedures with the customer, and to maintain and coordinate them at all times. This ultimate commerce platform for instance comprises the following:

- an online facility for a potential customer to arrange an appointment in the nearest mobilcom-debitel shop,
- to place an instore online order for a smartphone which is not currently stocked in the shop,
- a facility for calling up and testing a basket of products in the shop requested by the customer, where this basket of products has been put together online,
- click & collect, i.e. a facility for the customer to personally collect products directly in the nearest shop, where the products have previously been orderd online – where possible with
- “same day delivery” , either in the shop or to the customer’s own home,
- a mobile PoS, with which the customer, in the case of marketing promotions for instance in pedestrian zones, is advised and is able to place orders directly on the tablet, in conjunction with
- a digital “pencil”, so that the individual aspects of advice and orders are subsequently also available in the nearby shop.

The very complex and sophisticated project was started with a test phase in the autumn of 2014, and was successfully implemented in initial areas in fiscal year 2015 with approximately 2,000 external man-days.

Research and development

As a service provider without its own network infrastructure, freenet AG does not maintain its own research and development department. In view of the rapid technological progress being made in telecommunications and in mobile voice and data services, however, the company concerns itself intensively with current developments in this area. The major objective is to maintain the company’s competitive position in this dynamic market environment in the long-term. It was against this backdrop that, in the financial year 2015, freenet AG addressed the continuously changing market and customer requirements by launching its own product and service portfolio covering all aspects of mobile communications, mobile internet and digital lifestyle.

In the digital lifestyle growth market, the freenet Group expanded its product offensive to include new offerings in the course of 2015. The key areas in this respect were entertainment, health, data security as well as home automation & security. In the case of some products, the company is involved in the final phase of development in order to guarantee maximum customer friendliness. At the same time, this also enhances the added value of the company achieved with marketing precisely these products.

In addition, within the framework of IT and strategy projects, the Group also carried out cash-effective investments totalling 11.5 million euros in 2015 (previous year: 13.3 million euros).

Employees

freenet AG was again a very popular employer in 2015. In the course of the year, the company received approximately 19,000 applications in relation to 1,153 job offers. The company also took on 102 trainees for commercial and technical operations as well as for logistics. In addition, the Group offers three different dual study programmes leading to Bachelor of Science or Bachelor of Arts degrees at universities of cooperative education. The company employs a wide range of basic and further training measures to satisfy its demand for specialists and suitably qualified young professionals, and also meets its social responsibility as a major and successful employer. In addition, mobilcom-debitel has received an award from IHK Kiel for its exemplary specialist training as a top training operation.

The Group's trainee programme made a successful start to the third stage in 2015. In the course of the programme, university and high school graduates are prepared for a specialist or key position within a pre-defined area within a period of twelve months. In addition to providing training in the specific area and the main interfaces, the programme also comprises enterprise-wide method training programmes and network meetings at different locations. In 2015, freenet AG received the prestigious Absolventa Award for the company's first class standards and implementations.

In addition, with "freenet Unternehmer", a new development programme started up in the Group in 2015. The aim of this programme is to strengthen commitment, personal initiative and entrepreneurial spirit in special key players in different areas of the Group and simultaneously strengthen their loyalty to freenet AG by encouraging them to initiate changes within the company and thus to become actively involved in shaping the development of the company.

In addition, within the context of constant change – particularly in the telecommunications' sector, the company continuously monitors the guiding principles and culture of freenet AG in order to establish whether they are up-to-date and also in order to identify any changes. The approximately 400 senior executives in the Group also have a key role to play in this respect. Various interdependent measures set out the relevant guiding principles and require the senior executives to be accountable, e.g. by way of senior executive workshops in the respective areas, focussing on thematic aspects and specific implementation. A newly designed senior executive manual (with the motto "WIR gehen in Führung"), guarantees the further transparency and internalisation of the management principles as well as the duties and responsibilities of the senior executive.

In 2015, the Group carried out a total of 204 qualification measures and 1,002 full-time employees took part in personnel development measures. An internal trainer team is also responsible for the specific qualification of the more than 2,000 employees of the shops and customer support.

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 debt ratio, interest cover and the equity ratio.

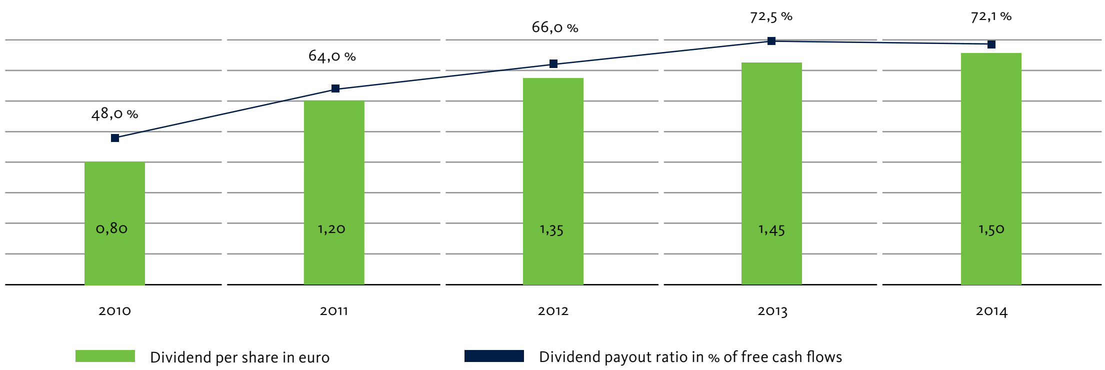
Table 2: **Key figures of financial management**

	2014	Target 2015	2015	Target 2016
Debt ratio	1.2	1.0 – 2.5	1.0	1.0 – 2.5
Interest Cover	9.0	> 5	8.4	> 5
Equity ratio in %	51.8	> 50	50.6	> 50

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). As the freenet Group's business model as a service provider in the Mobile Communications segment — unlike that of the network operators — does not require substantial investments and generates a stable cash inflow, its debt ratio is currently running at the lower end of the range 1.0 to 2.5 that has been declared as the target. The capital structure is optimised continuously within the framework of risk-oriented management. At the same time, however, the realisation of the corporate strategy requires a liquidity reserve that is always adequate and, in view of the company's current volume of business, is quantified at around 100 million euros. This also allows for the possibility of ongoing liquidity procurement from internal and outside funds. As a low debt ratio is attractive for providers of outside capital in particular, the cost of procuring outside capital can be optimised further in this way in the future. The development of interest cover, too, must be seen against this background (ratio of EBITDA to interest balance). In the process, observing an equity ratio of more than 50 per cent serves as an additional benchmark for effectively allocating corporate funding.

Finally, the Executive Board has defined a dividend policy that makes an attractive dividend yield possible for freenet's shareholders, without endangering the risk profile of freenet AG.

Figure 8: **Dividend policy KPIs**



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

Due to the positive business development in 2015, the Executive Board and the Supervisory Board are going to propose to the Annual General Meeting on 12 May 2016 the distribution of a dividend in the amount of 1.55 euros per share from retained earnings for the financial year 2015. This corresponds to a payout ratio of around 70 per cent of free cash flow.

To underline the sustainability of the business model, the Executive Board additionally intends to propose to the Supervisory Board and the 2017 Annual General Meeting to distribute a dividend in the amount of 1.60 euros per share with eligibility for dividends for the financial year 2016. The Executive Board is thereby presenting its shareholders with the prospect of a dividend payout that represents a continuous increase in comparison with the previous years and with the dividend proposal for the financial year 2015.

ECONOMIC REPORT

Macroeconomic conditions

The global political and economic tensions such as the armed conflict in Syria and the resultant floods of refugees, crisis in the Ukraine, the Greek government debt crisis and not least the economic slump in China had a negative impact on international stability in 2015. In addition, the considerable decline in prices for industrial raw materials, such as crude oil, and the diverging monetary policy of central banks resulted in uncertainty on the markets.

Within this context, most economic experts in the course of the year published less than optimistic expectations regarding the positive development of the global economy. According to the world economic outlook of the International Monetary Fund ("IMF") published in October 2015 and the world economic outlook update published in January 2016, global economic growth in 2015 will be only 3.1 per cent. In July 2015, the IMF was still anticipating growth of 3.3 per cent . The Organisation for Economic Cooperation and Development ("OECD") also downgraded its growth forecast in November 2015. Compared with the figure of 3.1 per cent which was forecast in July 2015, the OECD is now only anticipating global economic growth of 2.9 per cent for the year 2015. In 2014, growth of the global economy amounted to 3.4 per cent.

Approximately six years after the debt crisis, Europe has still not achieved full economic recovery. Nevertheless, the IMF and OECD are anticipating moderate economic growth of 1.5 per cent for the Eurozone for 2015. The reasons for the anticipated growth are said to be the low price of oil, the loose monetary policy of the European Central Bank and also the fact that the Euro has weakened against other currencies, for instance the US Dollar.

According to initial calculations of the Federal Office of Statistics, the German economy achieved sound growth in the course of 2015. The price-adjusted German gross domestic product ("GDP") achieved growth of 1.7 per cent on average in the course of 2015. This is roughly equivalent to the corresponding growth achieved in the previous year (+1.6 per cent). According to the Federal Office of Statistics, this constant economic growth over the course of the year is mainly due to the high level of consumer spending. On a price-adjusted basis, state consumption increased by 2.8 per cent (year-on-year), and private consumption increased by 1.9 per cent . The buying propensity of consumers is based on rising employment and higher wage and salary levels in conjunction with low inflation . Further drivers behind growth in German economic output included government and corporate investments – particularly in equipment – and also dynamic external trade. On a price-adjusted basis, exports of goods and services increased by a total of 5.4 per cent, and imports reported growth of 5.7 per cent.

Development of the telecommunications market in 2015

At the European level, the telecommunications market reported above-average growth in 2015, not least as a result of the low level of inflation and strong European domestic demand. In addition to the mainly positive market climate in Europe, a further reason for this above-average growth is the ongoing trend towards market consolidation.

In the course of various mergers and acquisitions, telecommunications companies in 2015 again established increasing positions in various markets in order to enable a range of various services to be offered “from a single source”. The ongoing trend towards increasingly powerful access points, the subject of convergence as well as the developments relating to the subject of “Internet of Things” continued to play a role in this respect. In this way, the various market players are adapting to the changed user needs by various means, including new business models and tariff structures. The overriding objective of these efforts is still to achieve a powerful infrastructure and also to unlock advantages of scale in order to significantly boost overall competitiveness.

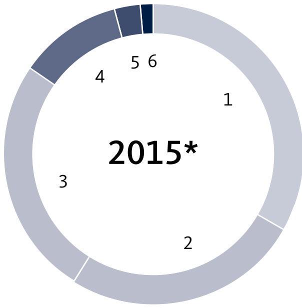
According to the 17th TK-Marktanalyse Deutschland 2015 that was published in October 2015 by the telecoms providers’ association (Verband der Anbieter von Telekommunikations- und Mehrwertdiensten e. V.; VATM) in collaboration with Dialog Consult GmbH (“Dialog Consult”), the market volume of telecommunications services in Germany has again decreased slightly. The overall volume has declined by 1.0 per cent to the current figure of 57.9 billion euros (previous year: 58.5 billion euros). Two opposite trends have become apparent in this respect: Whereas the revenue generated by the broadband cable network operators increased considerably by 9.8 per cent to 5.6 billion euros (previous year: 5.1 billion euros), the telecommunication revenue generated for the landline and mobile communications markets declined slightly. In the landline market, revenue of 33.1 billion euros was approximately 1.2 per cent down compared with the previous year figure (33.5 billion euros). Mobile communications revenue declined by 0.8 per cent to 24.8 billion euros (previous year: 25.0 billion euros).

The study author Prof Dr Torsten J. Gerpott considers that this development is mainly due to falling consumer prices and lower revenue generated by voice and SMS services as well as reductions in roaming and termination charges. There is also evidence of increasing customer concentration in the business client market. The considerable increase in revenue generated by mobile data services is also not able to provide adequate compensation for the downturn in mobile revenue, according to Prof Dr Gerpott.

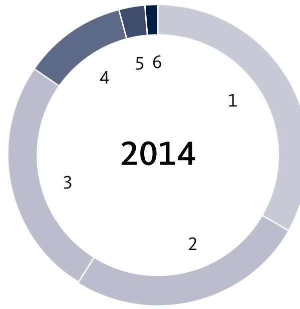
Taking into consideration the mobile providers without their own network and also taking account of the acquisition of the KPN subsidiary E-Plus by Telefónica Deutschland in 2014, mobile revenue is currently spread over six market players. With a market share of 32.7 per cent (previous year: 30.3 per cent), Telekom Deutschland is still the market leader, followed by Vodafone with a market share of 27.8 per cent (previous year: 28.6 per cent). According to estimates of VATM and Dialog Consult, Telefónica Deutschland currently occupies third place among German market players, with a market share of 22.6 per cent (previous year: 25.8 per cent).

Among the mobile providers without their own network, the freenet Group again dominates this mobile sector, with 12.1 per cent of the overall market (previous year: 11.3 per cent). The freenet Group is followed by United Internet and Drillisch AG with a market share of 3.6 per cent (previous year: 2.8 per cent) and 1.2 per cent (previous year: 1.2 per cent) respectively.

Figure 9: **Market shares in the cumulative German mobile communications market (incl. interconnection, wholesale and handsets)**



2015*		2014
32.70 %	1 – Deutsche Telekom	**30.30 %**
27.80 %	2 – Vodafone	**28.60 %**
22.60 %	3 – Telefónica Deutschland**	**25.80 %**
12.10 %	4 – freenet	**11.30 %**
3.60 %	5 – United Internet	**2.80 %**
1.20 %	6 – Drillisch	**1.20 %**



* *Estimate*

** *For convenience: Addition of the 2014 market shares of Telefónica Deutschland and E-Plus.*

Source: Dialog Consult/VATM - 17. TK-Marktanalyse Deutschland 2015, 16. TK-Marktanalyse Deutschland 2014.

Business with mobile internet access is becoming more and more significant. According to estimates of VATM and Dialog Consult, revenue generated with mobile data services in 2015 amounted to 10.6 billion euros, and accounted for approximately 43 per cent of the total revenue of mobile network operators generated in Germany. In the previous year, approximately 38 per cent (9.6 billion euros) of the entire market volume was attained. Accordingly, the average mobile data volume per SIM-card and month will increase further compared with the previous year, namely by approximately 30 per cent from 289 megabytes to 377 megabytes.

In addition to the increasing volume of data, the providers last year again focussed on ensuring the competitive provision of powerful devices and high-speed mobile data connections – such as the fourth generation mobile standard ("4G"). In 2015, progress achieved with LTE expansion as well as the start of the process of merging the O2 and E-Plus mobile networks (national roaming) resulted in increased competition among market players with regard to affordable 4G tariffs.

In 2015, in addition to the start of sales of new LTE-capable devices, for instance the iPhone 6s and iPhone 6s Plus, the German mobile market was also characterised by regulatory issues such as the frequency auction carried out by the Bundesnetzagentur (Federal Network Agency) and the abolition of roaming charges).

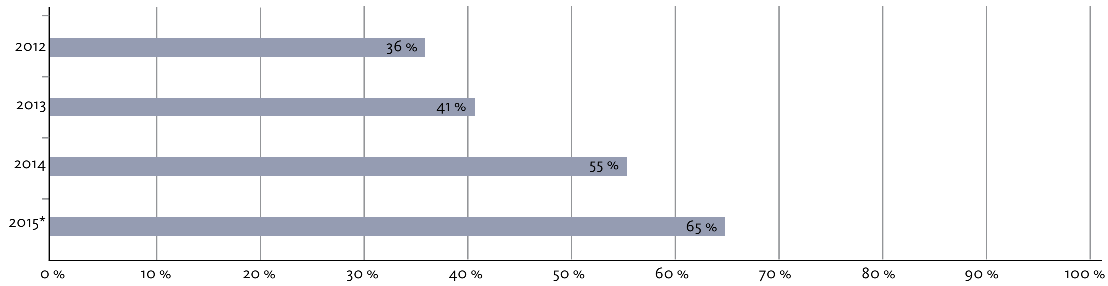
At the beginning of 2015, the European Parliament in Brussels adopted a resolution regarding the abolition of roaming charges starting in June 2017 and also the gradual reduction of the charges starting in April 2016. However, it should still be possible for the network operators to impose minor basic charges in the event of inappropriate or improper use of end user roaming services. The frequency auction carried out in June 2015 by the Bundesnetzagentur has set further foundations for expanding mobile broadband services. The auction of mobile frequencies between 700 and 1,800 megahertz for mobile broadband connections generated revenue of approximately 5.1 billion euros. Most of this revenue is to be channelled into subsidising the expansion of broadband – primarily in regions affected by weak infrastructure – in order to attain the German Government's aim of providing nation-wide coverage for German households with a data speed of 50 megabits per second by 2018.

In 2015, the world-wide number of mobile access points, which is estimated to be 7.4 billion (previous year: 7.1 billion), will for the first time exceed the probable global population of 7.3 billion people. This forecast has been derived from the Ericcson Mobility Report which was published in November 2015. Smartphone use in particular is becoming more and more significant. According to the study, the number of smartphones in 2015 will increase to 3.4 billion world-wide (previous year: 2.6 billion).

According to the Bundesnetzagentur, the number of mobile connection points in Germany amounted to 113.4 million in the third quarter of 2015. According to estimates of VATM and Dialog Consult, this figure will decline slightly to 112.7 million by the end of the year; this is equivalent to a minor increase of 0.1 million compared with the previous year , . In line with the world-wide trend, smartphone sales will also continue to rise in Germany. According to the trend study "Zukunft der Consumer Electronics – 2015"

(Future of Consumer Electronics – 2015) published in September 2015 by Deloitte and Bitkom, a smartphone was used by an estimated two-thirds of the population living in Germany in 2015. This is equivalent to approximately 45 million persons. The number of smartphones sold in Germany will increase from 24.4 million devices in 2014 to 25.6 million devices in 2015. The revenue generated with smartphones will rise from 8.5 billion euros in 2014 to an estimated 9.1 billion euros in 2015.

Figure 10: **Use of Smartphones in Germany 2012-2015**



** Estimate*
Source: Deloitte/Bitkom Trendstudie "Zukunft der Consumer Electronics – 2015"

Of the mobile devices currently networked on the market, such as tablets, laptops, netbooks and wearables, the smartphone has established itself as the main universal device. Whereas standard functions such as telephone calls and SMS are becoming less and less significant, the use of further digital lifestyle applications is increasing. The focus is shifting in the direction of the "Internet of Things", particularly in the fields of consumer electronics and smart home. Smartphone users can use various apps for instance for accessing social networks, listening to music, reading e-books, e-paper or messages, watching videos, using gaming products and navigation/card functions, receiving or sending e-mails and surfing in the Internet.

Business performance

The Group can draw a positive conclusion for the financial year 2015: We have attained or exceeded all of the objectives which we had set ourselves at the beginning of the financial year 2015 with regard to the main management parameters.

Consolidated EBITDA achieved in 2015 amounted to 370.2 million euros. It has increased by 1.3 per cent compared with the previous year (365.6 million euros), and is thus in line with our original target (370.0 million euros). A significant contribution to this was made by the 1.6 per cent increase in gross profit to 790.4 million euros.

The other earnings parameters have declined slightly compared with the previous year: After the deduction of depreciation and impairments, EBIT amounted to 298.8 million euros (previous year: 301.2 million euros). At 254.7 million euros, earnings before taxes on income (EBT) declined by 2.3 per cent compared with the previous year (260.6 million euros). The Group result for the financial year 2015 is reported at 221.5 million euros, a decline of 10.8 per cent compared with the previous year.

The free cash flow, one of the most important key performance indicators in the Group, amounted to 284.5 million euros in the reporting period (previous year: 266.6 million euros) and thereby slightly exceeded the forecast figure of 280.0 million euros. Net financial debt decreased from 426.6 million euros at the end of the financial year 2014 to the current figure of 369.2 million euros.

The customer portfolio in the key contract customer sector (postpaid) increased by 298,000 from 6.01

million customers to 6.31 million customers compared with the end of 2014. In conjunction with the slight increase in the no-frills customer portfolio, this has led to a customer ownership portfolio of 9.30 million as at the end of 2015, corresponding to an increase of 376,000 compared with the previous year. In this way, the target of a slight increase in customer ownership figures was achieved. In the year under review, monthly average postpaid-ARPU amounted to 21.4 euros, and was exactly in line with the corresponding previous year figure, thus meeting our original expectation.

In conjunction with the higher customer ownership figures, consolidated revenue increased by 2.5 per cent compared with the previous year, namely from 3,040.6 million euros to 3,117.9 million euros – we have thus exceeded our objective of reporting stable revenue.

Table 3: **Key performance indicators in 2015**

In EUR million/as indicated	2014	Forecast 2015	2015
Group revenue	3,040.6	stable	3,117.9
Group EBITDA	365.6	370.0	370.2
Free cash flow[1]	266.6	280.0	284.5
Customer Ownership in million	8.92	slight increase	9.30
Postpaid ARPU in EUR	21.4	stable	21.4

1 For a definition of free cash flow, see section „Financial performance indicators".

These results confirm the company's strategic alignment as a digital lifestyle provider covering the mobile communications and mobile internet sector and constitute a sound basis for continuing freenet AG's successful course over the coming months and years.

Key drivers of the business development

Customer base development in the Mobile Communications segment

Table 4: **Customer development in the Mobile Communications segment**

In million/as indicated	31.12.2015	31.12.2014	Change in %
Mobile Communications customers/cards	12.24	12.73	-3.9
Thereof customer ownership	9.30	8.92	4.2
Thereof postpaid	6.31	6.01	5.0
Thereof no-frills	2.99	2.91	2.7
Thereof prepaid	2.94	3.81	-22.8

In the financial year 2015, the process of acquiring new customers and managing existing customers will be characterised by focusing on sustainable customer relations. The success of this strategy is reflected in an above-average increase in postpaid customer numbers. The number of customers with 24-month contracts in this strategically important group will rise to 6.31 million by the end of the reporting year (previous year: 6.01 million). This is equivalent to an increase of approximately 5.0 per cent or 298,000 users. This development was underpinned by a targeted approach to customers through all sales channels in stationary retailing and on the mobilcom-debitel website, as well as through further improvement of the freenet Group's customer management.

All mobile communication tariffs with shorter durations distributed via the Group's discount brands are pooled in the no-frills sector. Despite the focus on postpaid contract customers, the number of customers in this sector also increased in the year under review, by approximately 78,000. As at the end of 2015, the customer portfolio in this customer group amounted to 2.99 million (previous year: 2.91 million).

The result of the strategy described above can be seen in a further increase in the non-financial performance indicator which is significant for the company, namely customer ownership, which represents the number of contract and no-frills customer groups. Compared with the figures for the previous year, the numbers have increased by approximately 376,000 customers from 8.92 million to 9.30 million. This is equivalent to growth of approximately 4.2 per cent.

The number of prepaid cards issued in the financial year ended, on the other hand, again decreased and amounted to 2.94 million as at the end of the year (previous year: 3.81 million). This decline is attributable to the network operators deactivating SIM-cards which have not been used (technical churn) and due to the decreasing activation of new customers.

Accordingly, the total number of mobile communication customers declined by approximately 491,000 customers, namely from 12.73 million in the previous year to 12.24 million at the end of December 2015.

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

The strategy of concentrating on valuable customers in the processes of acquiring new customers and managing existing customers has been successful; this is also demonstrated in the development of the average monthly revenue per contract customer ("postpaid-ARPU"). In the financial year 2015, postpaid-ARPU stabilised at 21.4 euros, roughly in line with the corresponding previous year level, whereas in previous years price pressure in the mobile communications sector had regularly resulted in significantly weaker ARPUs in certain cases. In the third quarter of 2015 and also in the fourth quarter of 2015, postpaid-ARPU was on both occasions higher than the figure for the respective previous year quarter.

No-frills ARPU decreased by 0.3 euros to 2.5 euros compared with the previous year. This development demonstrates the fact that price pressure is still high in the discount market in which the freenet Group mainly operates via a range of online distribution channels. The main factor in this area was the increased demand for attractive databased smartphone tariffs without the acquisition of new devices.

The average monthly revenue per prepaid customer (prepaid-ARPU) in the financial year 2015 (3.0 euros) was slightly above the previous year's level (namely 2.9 euros).

Table 5: **Monthly average revenue per user (ARPU)**

In EUR	2015	2014
Postpaid	21.4	21.4
No-frills	2.5	2.8
Prepaid	3.0	2.9

Digital lifestyle

In addition to optimising its core business of mobile communications the freenet Group has increasingly been concentrating on the young growth sector of internet-based mobile applications for private customers since 2012. For the freenet Group, digital lifestyle business, as part of the Mobile Communications segment, encompasses telecommunications, internet and energy plus all the services, applications and devices that are connected to the internet by way of a mobile device or can be controlled through such a device.

The existing digital lifestyle strategy is focused on the enhancement and broadening of the current product and service portfolio to include the overall field of digital lifestyle while making systematic use of existing strengths and areas of expertise.

The freenet Group is positioning itself in this growth market by means of partnerships; it does not carry out however any development works of its own. At the same time, the Group is enlarging and optimising its digital lifestyle sales territory, in particular via its own stores in premium locations which are operated under the premium brand GRAVIS and through the company freenet digital GmbH, which was acquired in the previous year and markets modern, digital entertainment formats and services.

Assets, financial and earnings position

Revenue and earnings position

Table 6: **The Group's key performance indicators**

In EUR '000s	2015	2014	Change
Revenue	3,117,892	3,040,585	77,307
Gross profit	790,417	778,057	12,360
EBITDA	370,178	365,607	4,571
EBIT	298,775	301,194	-2,419
EBT	254,691	260,633	-5,942
Group result	**221,460**	**248,163**	**-26,703**

GROUP REVENUE increased by 2.5 per cent compared with the previous year from 3,040.6 million euros to 3,117.9 million euros. This was achieved primarily as a result of higher customer ownership numbers (31 December 2015: 9.30 million customers – previous year: 8.92 million customers) in conjunction with a stable postpaid-ARPU (21.4 euros for 2015 and also for 2014) as well as higher digital lifestyle revenue.

The resultant **GROSS PROFIT** amounted to 790.4 million euros, representing an increase of 12.4 million euros compared with the corresponding previous year figure. The **GROSS PROFIT MARGIN** declined slightly by 0.2 percentage points to 25.4 per cent as a result of higher activation numbers which resulted in an increase in customer acquisition costs.

OTHER OPERATING INCOME declined compared with the previous year period by 13.3 million euros to 51.3 million euros. This development is mainly attributable to the downturn in income from advertising cost subsidies (to the extent not dependent on the activation of new customers), the decline in income from dunning charges and charges relating to returned direct debits as well as the one-off effect of 3.9 million euros which related to 2014 and which was connected with the derecognition of liability from the earn-out of the freenet digital Group (recognised in the income statement).

The **OTHER OWN WORK CAPITALISED** resulted, as in the previous year, from internally generated software in connection with IT projects and declined by 1.9 million euros to 11.5 million euros. **PERSONNEL EXPENSES** declined by 4.4 million euros from 199.7 million euros in 2014 to 195.2 million euros in 2015 as a result of a reduced number of employees in connection with the strategy of boosting the efficiency of our operating processes.

The **OTHER OPERATING EXPENSES** are stated as 287.9 million euros, and are roughly in line with the corresponding previous year level (290.9 million euros); in both years, they mainly comprise marketing costs, general administrative expenses (e.g. rents and ancillary costs of the shops and administration building), costs of allowances and bad debts, legal/consultancy fees, costs of billing, outsourcing and postage.

As a result of the effects referred to above, **GROUP EBITDA** totalled 370.2 million euros, 4.6 million euros more than its previous year's level of 365.6 million euros.

DEPRECIATION AND IMPAIRMENT WRITE-DOWNS have increased by 7.0 million euros compared with the previous year, namely to 71.4 million euros, mainly as a result of the increased inventories of software, licences and exploitation rights.

NET INTEREST INCOME, defined as the balance of interest income and interest expenses, has increased from -40.6 million euros in 2014 to -44.1 million euros, mainly due to the higher compounding of trade accounts payable, other liabilities and current tax liabilities.

This has resulted in **EARNINGS BEFORE TAX** of 254.7 million euros in 2015 – representing a decline of 5.9 million euros compared with the previous year (260.6 million euros).

INCOME TAX EXPENSES increased by 20.8 million euros compared with 2014 to 33.2 million euros. Current tax expenses increased compared with the previous year by 5.9 million euros to 35.2 million euros, mainly as a result of tax refunds for previous years in 2014. Income of 1.9 million euros from deferred taxes has also been netted in this position (previous year: 16.8 million euros). The decline in income from deferred taxes is mainly attributable to the, compared to the previous year, lower write-up recognised in relation to deferred tax assets in connection with tax loss carry forwards.

In consequence, **GROUP RESULT** after tax declined by 26.7 million euros, from 248.2 million euros in 2014 to 221.5 million euros in 2015.

Assets and financial position

Table 7: **Selected Group balance sheet figures**

Assets

In EUR million	31.12.2015
Non-current assets	1,916.7
Current assets	807.3
Total assets	**2,724.0**

In EUR million	31.12.2014
Non-current assets	1,872.2
Current assets	626.1
Total assets	**2,498.3**

Shareholders' equity and liabilities

In EUR million	31.12.2015
Shareholder's equity	1,379.0
Non-current and current liabilities	1,345.0
Total equity and liabilities	**2,724.0**

In EUR million	31.12.2014
Shareholder's equity	1,293.6
Non-current and current liabilities	1,204.7
Total equity and liabilities	**2,498.3**

As of 31 December 2015, the balance sheet total of the Group amounted to 2,724.0 million euros, and was thus 9.0 per cent higher than the corresponding balance sheet total of the previous year reference date (2,498.3 million euros).

NON-CURRENT ASSETS increased by 44.5 million euros to 1,916.7 million euros (31 December 2014: 1,872.2 million euros).

As in the previous year, this item was dominated by intangible assets and goodwill. The increase in non-current assets is mainly attributable to the increase of 68.0 million euros in intangible assets (to 458.1 million euros), which are primarily connected with the purchase price allocation on the occasion of the acquisition of EXARING AG. The intangible assets acquired in the course of this acquisition essentially comprise a beneficial right to use a line network as well as the right to purchase this line network after the expiry of the said right.

Property, plant and equipment are reported at 32.5 million euros as at 31 December 2015, thus slightly below previous year's level.

The decline of 22.5 million euros in deferred tax assets compared with the previous year reference date (to 177.3 million euros) is mainly attributable to the increase in deferred tax liabilities relating to temporary differences between the tax values and the carrying amounts of the assets and liabilities relating to the acquisition of shares in EXARING AG on the occasion of the purchase price allocation.

The non-current part of the trade accounts receivable, which were reported at 79.4 million euros as at 31 December 2015, almost the same as their previous year's level, result mainly from the mobile option – namely the offer made to our end customers enabling them to choose higher-value devices in return for an additional monthly fee. These receivables reflect those payment claims from the mobile communications contract that are allocated to the "higher-value mobile communications device" component and are operated by the customers during the term of the contract.

CURRENT ASSETS increased by 181.2 million euros to 807.3 million euros (31 December 2014: 626.1 million euros).

As in the preceding years, the dominant balance sheet item within current assets is trade accounts receivable. Trade accounts receivable are owed largely by end customers, network operators, traders and distributors and amount to 436.0 million euros as at 31 December 2015, 27.5 million euros higher than the previous year's figure. Most of this increase is attributable to receivables due from mobile end users, which have increased in line with the higher customer ownership numbers.

Inventories of 79.5 million euros are roughly in line with the corresponding previous year level (80.0 million euros). They consisted mainly of mobile phones and smartphones, computers and accessories.

Liquid assets are stated as 269.8 million euros as of 31 December 2015 (31 December 2014: 111.9 million euros). Whereas the Group reported an inflow of 314.9 million euros for cash flow from operating activities in 2015, it reported outflows of 28.5 million euros for cash flow from investing activities and 128.7 million euros for cash flow from financing activities.

On the liabilities' side of the balance sheet, there has been an increase in **EQUITY**. As of 31 December 2015, equity is stated as 1,379.0 million euros (31 December 2014: 1,293.6 million euros). The increase of 85.4 million euros is mainly attributable to the consolidated net income generated in 2015 (221.5 million euros), non-controlling interests in equity shown in relation to the acquisition of EXARING AG in the course of purchase price allocation (50.0 million euros) as well as the dividend payment made in 2015 in relation to the financial year 2014 (-192.0 million euros).

As a result, the equity ratio fell by 1.2 percentage points to 50.6 per cent, compared to 51.8 per cent as at the end of the previous year.

Total **NON-CURRENT AND CURRENT LIABILITIES** increased by 140.3 million euros from 1,204.7 million euros (as of 31 December 2014) to 1,345.0 million euros as of 31 December 2015.

As of 31 December 2015, financial debt was again the major item within non-current and current liabilities, and increased from 538.6 million euros in 2014 to 638.9 million euros in 2015. The increase in financial debt is attributable to a promissory note with a nominal amount of 100.0 million euros which was issued in May 2015.

The net debt of the Group has declined by 57.5 million euros to 369.2 million euros as of 31 December 2015. Accordingly, the debt ratio, which is expressed as the ratio between net debt and EBITDA, declined further from 1.17 in 2014 to 1.00 in 2015. In this context, please refer to the statements in the chapter "Financial management" in this Group management report.

As of the balance sheet date, trade accounts payable, other liabilities and accruals, and other provisions are reported at an aggregate amount of 622.4 million euros (31 December 2014: 568.0 million euros) and were therefore up by 54.4 million euros compared with the previous year. One of the major factors in this respect has been the increase in liabilities due to dealers, network operators and hardware manufacturers (mainly due to reference date factors).

Pension provisions declined by 8.2 million euros compared with the previous year to 51.2 million euros as at 31 December 2015, thanks mainly to the substantial rise in the discount rate.

Cash flow

Table 8: **The Group's key cash flow indicators**

In EUR million	2015	2014	Change
Cash flow from operating activities	314.9	294.5	20.4
Cash flow from investing activities	-28.5	-70.4	41.9
Cash flow from financing activities	-128.7	-222.9	94.2
Change in cash and cash equivalents	**157.8**	**1.2**	**156.6**
Free cash flow[1]	284.5	266.6	18.0

1 For a definition of free cash flow, see section "Financial performance indicators".

Compared with the corresponding period last year, **CASH FLOW FROM OPERATING ACTIVITIES** has increased by 20.4 million euros to 314.9 million euros. EBITDA has increased by 4.6 million euros compared with the previous year. Net working capital increased in 2015 by 10.3 million euros, compared with an increase of 29.0 million euros in the previous year. The increase of 10.3 million euros in net working capital in 2015 can be attributed mainly to the scheduled reduction of 25.0 million euros in liabilities and accruals vis-à-vis distribution partners arising from distribution rights impacting cash flows. This has been opposed mainly by the volume of factoring of mobile option receivables, which increased by 8.9 million euros compared with 31 December 2014 – please refer in this respect to note 34.6, Transfer of financial assets, of the notes to the consolidated financial statements.

In addition, there were net cash outflows in the financial year 2015 amounting to 44.3 million euros (previous year: 40.4 million euros) that resulted from income tax payments and refunds.

In 2015, the **CASH INFLOW FROM INVESTING ACTIVITIES** developed from -70.4 million euros in the previous year to -28.5 million euros. This resulted primarily from the cash outflow of 44.6 million euros in the previous year for the acquisition of the shares in the freenet digital Group as well as the takeover of shops belonging to reStore GmbH. In the year under review, cash inflows were also recorded from the sale of assets from “mds Repair/Service”. Please refer to our comments in note 24, assets classified as held for sale, of the notes to the consolidated financial statements.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets, increased in 2015 by 2.5 million euros over the previous year from 27.9 million euros to 30.4 million euros. The cash-effective investments were financed entirely out of own funds, and mainly related to self-created software in connection with the further development of our IT systems, the renewal and extension of the fittings of our mobile communications shops, the acquisition of rights as well as investments in EDP hardware.

The outflows for the acquisition of subsidiaries disclosed for 2015 relate to the acquisition of 24.99 per cent of the shares in EXARING AG – a total of 5.0 million euros was paid for this purpose in the financial year 2015, whereas the Group received liquid assets of 2.2 million euros via the initial consolidation of EXARING AG as of 31 December 2015 – resulting in outflows of 2.8 million euros for the acquisition of subsidiaries.

The cash inflows from interest reported within the cash flow from investment activities remained constant compared with the previous year at 1.3 million euros.

Compared with the corresponding period of the previous year, the **CASH FLOW FROM FINANCING ACTIVITIES** developed by 94.3 million euros, namely from -222.9 million euros to -128.7 million euros. This development is mainly attributable to the issue of a promissory note of 100.0 million euros (nominal) which took place in May 2015.

Compared with the previous year, redemption payments on financial liabilities increased by 0.9 million euros from 0.3 million euros to 1.3 million euros. In the financial year, the redemption payment mainly related to the promissory note which was placed.

Dividend payments burdened the cash flow from financing activities in the financial year ended in the amount of 192.0 million euros (previous year: 185.6 million euros).

In addition, interest payments amounting to 34.8 million euros, largely on long-term bank loans, arose in 2015, representing a decline of 2.2 million euros compared with the previous year.

FREE CASH FLOW, defined as cash flow from current operating activities, less investments in property, plant and equipment and intangible assets, plus the cash inflows from disposals of intangible assets and property, plant and equipment, amounted to 284.5 million euros in the financial year 2015. It increased by 18.0 million euros compared with 2014.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On 3 March 2016, mobilcom-debitel GmbH, a wholly-owned subsidiary of freenet AG, signed an agreement regarding the purchase of 100 per cent of the shares in the Media Broadcast Group. The Media Broadcast Group consists of two holding companies as well as the major operating company Media Broadcast GmbH, Cologne, and also other 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 acquisition is subject to the standard approvals under cartel law. When the transaction is completed, mobilcom-debitel GmbH will pay a price of approximately 100 million euros in cash for the acquisition of the shares, a price of approximately 195 million euros for acquiring a shareholder loan and will also repay liabilities due to banks. It is expected that the transaction will be completed by no later than April 2016.

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

The acquisition of the Media Broadcast Group, in conjunction with the previously acquired holding in EXARING AG, represents an important addition to the strategic development of freenet AG towards becoming the leading digital lifestyle provider in Germany. The entry into the new field of linear and internet-based TV is providing the Company with the opportunity of achieving further diversification in the digital lifestyle field and of developing new growth potential and sources of revenue. In total, freenet AG is confident that both transactions will make a positive contribution to consolidated revenue, EBITDA and free cash flow.

In addition, at the end of February 2016, the Company issued a promissory note a total volume of 560 million euros. This financing instrument is due to be repaid upon final maturity, and comprises a five-year fixed tranche of 264.0 million euros, a five-year variable tranche 179.0 million euros, a seven-year fixed tranche of 78.5 million euros, a seven-year variable tranche of 15.0 million euros and a ten-year fixed tranche of 23.5 million euros. The entire volume was taken up at the bottom end of the respective marketing range with a fixed coupon 1.03 per cent for the fixed five-year tranche, a variable coupon which is expected to be 1.00 per cent for the first six months of the variable five-year tranche, a fixed coupon of 1.45 per cent for the fixed seven-year tranche, a variable coupon which is expected to be 1.20 per cent for the first six months of the variable seven-year tranche and a fixed coupon of 1.95 per cent for the fixed ten-year tranche. The average is 1.12 per cent p.a. over the above maturities.

In addition, at the beginning of March 2016, freenet AG and mobilcom-debitel GmbH signed a facilities agreement with a syndicate of banks which enables these companies to draw down funds for possible acquisitions and current operations in three different tranches. The third tranche with a volume of 100.0 million euros comes with a variable coupon and has been issued in the form of a revolving credit facility, i.e. the funds can be drawn down and repaid at any time during the five-year term of the tranche. The first two loans are used as bridge financing for possible acquisitions and provide the funds required for the respective acquisition. Out of these two variable-interest tranches, the lending banks have so far provided funds of up to 240 million euros as a credit line; however, this has not yet been utilised by the companies, and also does not necessarily have to be used.

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 areas and units, the Executive Board ensures that it is informed 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 in 2015 again 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, the freenet Group 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 communication devices
- 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, and the further advance of smartphones as well as the linking of products continued in 2015. There is also a constantly expanding trend towards combining smartphones with wearables such as a smart watch or fitness trackers. All these aspects might have a positive impact on the anticipated development of revenue, EBITDA and free cash flow.

Furthermore, the effects of the trend towards 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.

Internal opportunities for freenet AG could emerge in particular from:

- the assessment and implementation of strategic options in the field of mobile communications and digital lifestyle, the continuous intensification of business relationships with suppliers for the stabilisation of existing and the development of new condition models,
- the consolidation and 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 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 the mobile communications and digital lifestyle areas, the implementation and marketing of new, innovative products and the enhancement of our own selling power could result 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. If the brands perform stronger than expected on the steadily growing discount market, this could lead to higher revenue and to improved results and higher free cash flow than had been forecast.

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

In 2015, 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 the freenet Group 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.

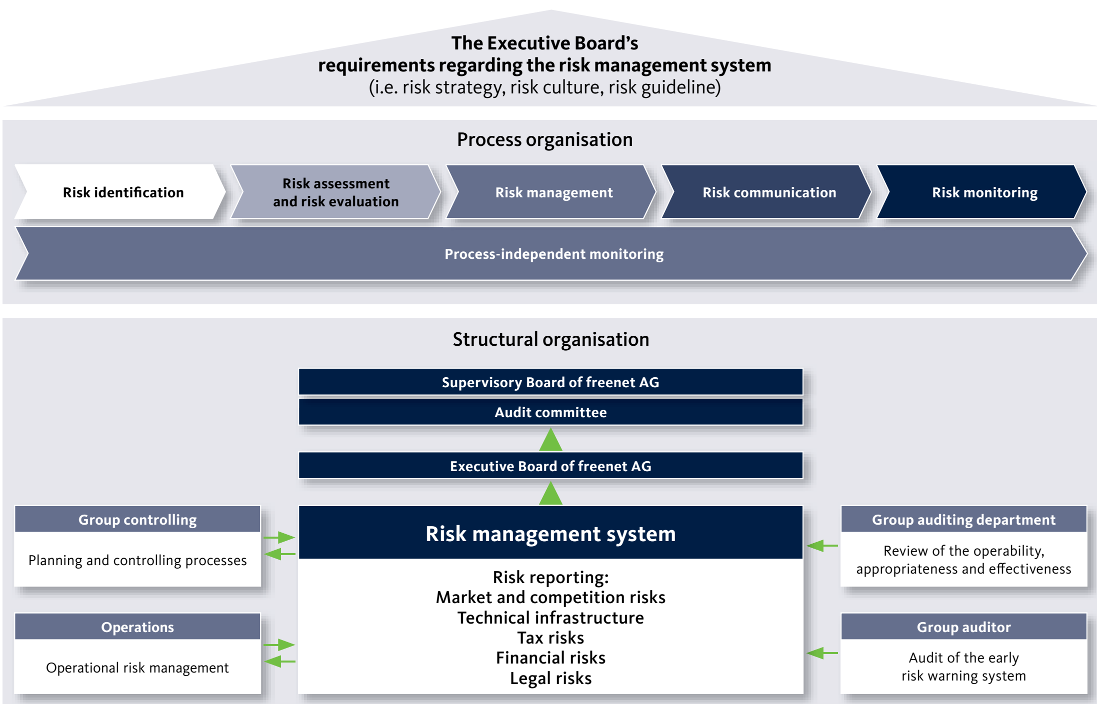
Risk management system

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, understandable manner to the responsible decision-makers in the company. The timely communication of risks to the responsible decision-makers is designed to ensure that appropriate steps are taken to deal with the identified risks, thereby averting damage to our company, our employees and our customers.

To this end, the freenet AG Executive Board has set up an efficient early warning, monitoring and management system within the Group that also 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 with 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 11: **Process and structural organisation of freenet AG's risk management system**

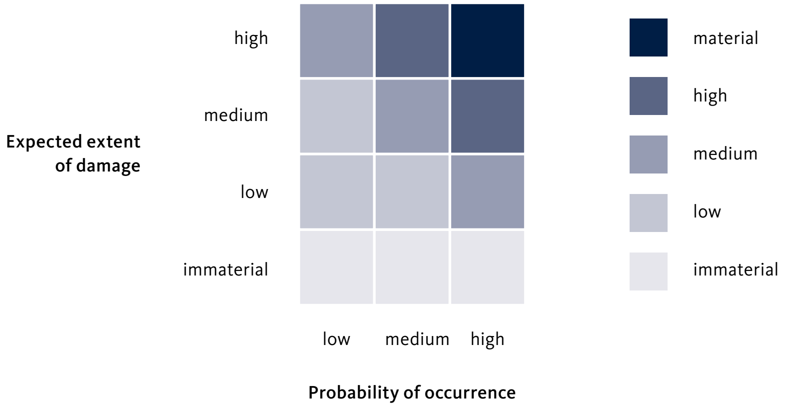
At least every six months, freenet AG's individual departments and subsidiaries identify or update existing and new risks that exceed a defined materiality threshold in formalised risk reports (risk identification). The risk reports describe the specific risks and the probability of their occurrence,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



their implications for the company, on the basis of standardised criteria (risk analysis and assessment) is investigated.

The risks within the freenet Group are assessed in accordance with the net principle, by which the risk is observed in conjunction with the reducing influence of any countermeasures that were implemented. The criteria “probability of occurrence” and “anticipated extent of damage” are used to assess the risks. In the process, risks with 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 12: **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 areas and units, the Executive Board ensures that all members are informed in a timely manner about operational developments. Current topics and future measures are also discussed at these scheduled meetings (part of risk communication).

Risks

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

The Mobile Communications segment is by far the most significant segment in the freenet Group in terms of both revenue and earnings. 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

A reduction in network operator premiums can lead to a higher capital commitment and marketing risk. The margins in mobile service provider business are also very much determined by the network operators and their defined tariff models. This aspect constitutes a medium risk for freenet AG. freenet AG is trying to minimise this risk by negotiating flexible purchasing terms and by continuously monitoring goal attainment for premium payments and renegotiating as and when necessary.

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 the freenet Group with a certain amount of protection. If conditions were to be reduced across the market, the conditions for the distribution partners would be adjusted. freenet AG considers that this risk is of a minor nature.

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.

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 might not 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 data centres and billing systems, are of major importance for the company's successful operation and continued existence. There is a low risk that network failures or service problems caused by system malfunctions or breakdowns might lead to a loss of customers. Apart from the decline in revenue that results from a loss of customers, a system breakdown means that freenet AG 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.

Tax risks

Loss carryforwards

If, within five years, over 25 per cent of the shares or voting rights in the company came to be held directly or indirectly by a single shareholder or by several shareholders with parallel interests (harmful acquisition of shares), any negative income (corporation and trade tax loss 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 different 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 in the freenet Group and hitherto ascertained separately by the tax authorities might be reduced or discontinued. All in all, this is regarded as a low risk.

Financial risks

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

Bad debt losses

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

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 the assets

In freenet AG's consolidated balance sheet, both goodwill and intangible assets such as customer relationships, trademark rights and usage rights 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.

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

The Group uses a variety of financial instruments to reduce the general liquidity risk. The liabilities due to banks shown under the financial debt result from a fixed-interest corporate bond (recognised as of 31 December 2015 incl. interest accruals: 419.5 million euros) which was included in the course of the refinancing in April 2011 and the promissory notes concluded in December 2012 and May 2015 (recognised as of 31 December 2015 incl. interest accruals: 219.2 million euros– of this figure, 79.9 million euros are attributable to two variable-interest tranches and 139.3 million euros are attributable to four fixed-interest tranches). The Group also has a revolving credit line amounting to 300.0 million euros that had not been drawn on by the end of the year 2015. With regard to the refinancing process which is about to take place, please refer to the section "Significant events after the reporting date" in this group management report.

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 Group's capital risk management is related to the shareholders' equity as shown in the consolidated balance sheet and to ratios derived therefrom. The primary objective of the Group's capital risk management is to guarantee compliance with the financial covenants contained within the credit agreements.

The main financial covenants are defined in relation to the Group's equity ratio and the debt 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 minor risks by having a mix of fixed- and variable-interest financial debt. Although the interest rate risks are not explicitly secured, the cash holdings, which are invested mainly at variable interest rates based on EONIA or EURIBOR, serve as a natural hedge and accordingly mitigate interest rate risks arising from the variable-interest financial debts.

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

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

Other financial risks

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

Some shareholders take the view that the capital increase through contribution in kind by mobilcom AG, the company's legal predecessor, in November 2000 was flawed and/or that the contribution in kind rendered was not of any value, with the consequence that on the one hand the company would still be entitled to compensation claims against France 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	low	medium	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	►
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 the assets	low	high	medium	►
Liquidity				
General liquidity risk	low	high	medium	►
Constraint of financial leeway	low	medium	low	►
Capital risk management	low	high	medium	►
Interest rate risk	medium	low	low	►
Other financial risks	low	immaterial	immaterial	►
Legal risks				
Settlement agreement with France Telecom	low	high	medium	►
Capital increase by way of contribution in kind	low	high	medium	►

Thanks to the risk management process that has been implemented and the monthly reporting system, the Executive Board has a good overall view of the risk situation presented here. Individual risks have changed only slightly compared with the previous year as far as their probability of occurrence or their impact are concerned. All in all, it can be assumed that the risks have no impact on the continued existence of the freenet Group. The Executive Board is convinced that if the risk management approach used to date is continued, 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 31 December 2015. Their potential effects on the general future development of the freenet Group and its financial and non-financial performance indicators are classified by the management in overall terms as low. The management is therefore expecting that the positive trend forecast will not be compromised significantly short of as a result of the aforementioned risks.

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
Arrow down: Classification in lower risk class

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

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

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

Structure of the Group accounting process

The accounting processes for the individual financial statements of freenet AG's subsidiaries are basically recorded by local accounting systems manufactured by SAP. freenet AG uses SAP's "EC-CS" ("SAP EC-COMPANIES") 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 Group internal auditing department reviews the accuracy and access authorisations of the SAP EC-CS consolidation system at regular intervals. freenet AG's Group auditor regularly inspects the interface between SAP-FI and the consolidation system SAP EC-CS, as well as the reconciliation from the subsidiaries' standardised reporting packages and freenet AG's consolidated financial statements.

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

The internal control activities aimed at 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.

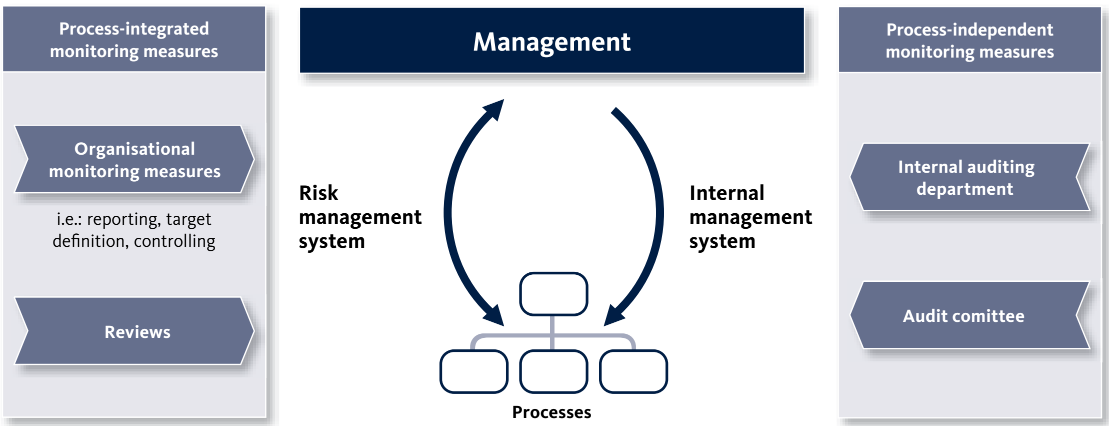
The regular elements in the Group's internal control system are aimed at achieving the extensive automation of the formation and cross-checking of all relevant data, from raw accounting data and customer invoicing to valuation allowances, accruals, depreciation and amortisation. These automated controls 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 the freenet Group's control environment with process-independent review activities.

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

Grafik 13: **Figure 13: Key features of the internal control system at freenet AG**



CORPORATE GOVERNANCE

In this section, the Executive Board reports — also on behalf of the Supervisory Board — on the Corporate Governance in the freenet Group in accordance with clause 3 .10 of the German Corporate Governance Code. The chapter also includes the corporate management statement issued in accordance with section 289a HGB.

freenet AG and its management and supervisory bodies are committed to the principles of good and responsible corporate management; they identify with the objectives of the German Corporate Governance Code and with the principles of transparent, responsible and value-appreciation-oriented management and supervision for the company. The Executive Board and the Supervisory Board, together with all managers and employees in the freenet Group, are obliged to pursue these objectives.

At its meeting on 10 December 2015, the Supervisory Board concerned itself with the provisions of the German Corporate Governance Code. The discussions focussed on the new recommendations included in the code regarding the introduction for a standard limit for membership of the Supervisory Board and the definition of the expected time to be spent on the Supervisory Board activities. Following intensive discussions, the Supervisory Board together with the Executive Board decided not to implement the recommendation for introducing a standard limit for membership of the Supervisory Board. The main reason for this decision was that the Executive Board and Supervisory Board had in previous years stated that they would not carry out recommendations for specifying specific objectives for the composition of the Supervisory Board and, on this basis, also rejected a standard limit for membership of the Supervisory Board with the same reason. The Supervisory Board has defined that the expected amount of time to be devoted to the activity as a member of the Supervisory Board is ten days per year under normal circumstances for the specific company. For memberships in committees, the expected amount of time is increased by two days per year for each expected committee meeting.

In the same meeting, the Supervisory Board adopted a resolution regarding the annual statement of compliance with the German Corporate Governance Code and continued the other stated differences and justifications from the previous years. The declaration of compliance from 10 December 2015 is included in the following corporate management statement and has been made permanently accessible on the company's website.

Corporate management statement

In the corporate management statement in accordance with section 289a HGB, freenet AG displays its current declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) and explains the relevant disclosures about corporate management practices that are applied over and above the statutory provisions. In addition, the working methods of the Executive and Supervisory Boards are described and the composition and working methods of the Supervisory Board's committees are disclosed. freenet AG made the following corporate management statement in accordance with section 289a HGB which is simultaneously a part of its management report for the financial year 2015.

Declaration in accordance with section 161 AktG

In the period between the publication of the last declaration of compliance on 5 December 2013 and 12 June 2015, freenet AG has followed the recommendations of the German Corporate Governance Code ("Code") as amended on 24 June 2014 and since 12 June 2015 has followed the recommendations of the Code as amended on 5 May 2015 with the following exceptions. In the absence of any other declarations by the company below, it will continue to comply with the recommendations of the Code as amended on 5 May 2015 until further notice

1. The company has taken out D&O insurance for its board members. No retention agreement has been signed with Supervisory Board members because it is not evident that this would represent an advantage for the company. It is taken for granted that all Supervisory Board members carry out their duties responsibly. In order to treat all the Supervisory Board members equally, moreover, any retention would have to be set at a uniform level, even though the members' personal financial backgrounds vary. A standard retention would therefore constitute different burdens for the individual Supervisory Board members. As their responsibilities are the same, this does not seem appropriate. (Code clause 3.8 (3))
2. The company has a strong commitment to transparent reporting. This also applies to the remuneration of the Executive Board members, the separate components of which are disclosed and discussed individually in the remuneration report. Nonetheless, the Executive Board and Supervisory Board have decided not to use the model tables in the remuneration report to depict the Executive Board's remuneration. Although the service contracts with the Executive Board members provide for caps, there is a risk that the disclosure of maximum amounts for share-based remuneration components creates an impression which is inconsistent with the actual assumptions for the performance of the share price. (Code clause 4.2.5 sentence 5 and 6)
3. The Supervisory Board considers the current Executive Board to be a success and is therefore striving for continuity on the Executive Board. In the opinion of the Supervisory Board, the selection of Executive Board members according to the criteria defined in 5.1.2 (1) of the Code is of secondary importance. These criteria were therefore not applied when the appointments of the Executive Board members were renewed in February 2014. (Code clause 5.1.2 (1))
4. No age limit has been set for members of the Executive Board and the Supervisory Board. It is not evident why qualified individuals with relevant professional and other experience should not be considered as candidates solely on the grounds of their age. (Code clause 5.1.2 sentence 8 and 5.4.1 sentence 2)
5. The Supervisory Board does not specify any concrete targets for its composition, as defined in clause 5.4.1 (2) and 5.4.2 sentence 1. It can therefore not follow the recommendations made in clause 5.4.1 (3). When proposing new members for election, the Supervisory Board has so far been guided solely by their suitability. The Supervisory Board is convinced that this has proven to be effective. It therefore sees no need to change the procedure. (Code clauses 5.4.1 (2), (3) and 5.4.2 sentence 1)
6. Clause 5.4.6 (2) of the Code recommends aligning performance-related pay for Supervisory Board members with the sustained performance of the company. The Supervisory Board's variable remuneration is set according to the dividend for the past financial year, in line with section 11 (5) of the company's articles of association. This form of variable remuneration has proven its worth in the past. Furthermore, the company's dividend policy as communicated to financial markets, which is based on free cash flow, is aligned with the company's sustained performance. Linking variable remuneration to this dividend strategy therefore also serves the company's sustained performance. For this reason, there is no intention of changing the Supervisory Board's variable remuneration. (Code clause 5.4.6 (2))

Relevant disclosures on corporate management practices

freenet AG has a uniform compliance system that is continuously expanded and enhanced. The freenet Group's chief compliance officer reports directly to the Executive Board. He helps the Executive Board to highlight the legal requirements that are relevant for freenet AG and to implement them accordingly within the freenet Group, as well as to adapt the compliance system to changing requirements. The chief compliance officer also reports regularly to the Supervisory Board's audit committee. The chief compliance officer informs the Supervisory Board whenever risks arise which endanger the continued existence of the freenet Group.

The freenet Group is wholeheartedly committed to upholding the prevailing laws and statutes. For the freenet Group, compliance means that statutory provisions are adhered to, the Group's own rules and in-house guidelines are observed and criminal acts are prevented. The company does everything it can to ensure that violations of compliance, such as fraud, corruption and anti-competitive practices, do not arise in the first place. As soon as misconduct and infringements of compliance become evident, these are brought to light and tackled decisively.

The freenet Group's managers set a good example in upholding compliance and ensure that any significant steps taken within their own fields of responsibility are in accordance with the respective statutory provisions and our own values and rules.

The compliance organisation can be approached by any contact person for advice on individual issues.

The Compliance department has developed a whistleblower tool and implemented it within the freenet Group. It enables whistle-blowers to give tip-offs anonymously whenever infringements of compliance come to their attention.

All tip-offs are investigated promptly as part of a transparent and accountable process in which the interests of the whistle-blower, the persons affected and the company are taken into account.

The aim is to enable the company to take systematic and appropriate action immediately when compliance is violated and thereby to avert damage to the freenet Group. In order to ensure the proper, swift handling of tip-offs in accordance with the whistle-blower process, the freenet Group has set up a whistle-blower committee. Permanent members of the whistle-blower committee are the chief compliance officer as well as the responsible head of internal auditing and the head of fraud management. The whistle-blower committee is responsible for the operational implementation of the whistle-blower process.

A centralised fraud management unit has also been set up. In addition to its coordinating function for the individual specialist fraud departments in the freenet Group, this unit is responsible in particular for the introduction and improvement of effective preventive measures and processes for preventing damage to the freenet Group caused by fraud.

The significance of data protection has increased continuously in recent years. The freenet Group is aware of its special responsibility with regard to the handling of the personal data of our customers, suppliers, contractual partners and employees. That is why we regard it as important to protect such data from unauthorised access and to give transparent reports on how we are dealing with the data entrusted to us. Operational responsibility for data protection resides with the Compliance department.

Working methods of the Executive Board and Supervisory Board

freenet AG's Executive Board and Supervisory Board work together in a close and trusting manner in their management and supervision of the company.

The Executive Board, as the parent company's management body, is obliged to serve the interests of the company and currently consists of three members. The Executive Board's work is governed by its rules of procedure. The members of the Executive Board are jointly responsible for corporate management as a whole. In other respects, each Executive Board member is responsible for his own sphere of business. The Executive Board members work together in a spirit of cooperation and inform one another in an ongoing fashion about facts and developments in their respective spheres of business at regular Executive Board meetings. In addition, the Executive Board members attend regular meetings of the specialist departments. As part of a distribution-of-business plan, the Supervisory Board determines the individual Executive Board members' areas of responsibility.

The Supervisory Board is convened at least twice in each calendar half-year. It generally makes its decisions at meetings requiring personal attendance, but also by way of telephone conferences or by written communications. The Supervisory Board regularly advises the Executive Board when the latter is making its decisions about the company's management and also supervises its management activities. The Executive Board includes the Supervisory Board in all decisions of a fundamental nature relating to the company's management and reports regularly about the business performance, the corporate planning, the strategic development and the situation of the company. The Supervisory Board conducts a detailed examination of all deviations of business performance from the plans and targets and discusses these with the Executive Board. It also conducts detailed checks on commercial transactions of significance for the company on the basis of Executive Board reports, takes counsel on such matters and makes decisions as and when required. Outside of the meetings, too, the Supervisory Board members were informed by the Executive Board about current business developments.

Composition and working methods of committees

The Executive Board has not constituted any committees.

The Supervisory Board has constituted a steering committee and four other committees. These committees prepare the topics and resolutions of the Supervisory Board which are due to be discussed in the plenum and in some individual areas are authorised to make decisions in place of the plenum. The committees carry out their work in meetings requiring personal attendance. In exceptional cases, however, the meetings can also be conducted by telephone. The committees discuss the items on their agendas and make decisions concerning these if required. The committee chairpersons report on the subject matter of the committee meetings to the Supervisory Board's plenum. With the exception of the Nomination Committee, all committees comprise equal numbers of shareholders' representatives and employees' representatives.

Steering committee

The steering committee discusses central themes and prepares Supervisory Board resolutions. It can take the place of the Supervisory Board, with the required approval of the Executive Board in accordance with the latter's rules of procedure, in deciding on measures and transactions of the Executive Board, insofar as the matter in question cannot be deferred and it is not possible for the Supervisory Board to make an appropriate decision within the time available.

Members: Dr Hartmut Schenk (Chairman), Prof. Dr Helmut Thoma, Birgit Geffke, Knut Mackeprang

Personnel committee

The personnel committee prepares the Supervisory Board's personnel decisions. It submits to the Supervisory Board proposals for decisions on the Executive Board's remuneration, the remuneration system and regular scrutiny of that system. The committee makes decisions in place of the Supervisory Board – but subject to mandatory responsibilities of the Supervisory Board – on Executive Board members' business that is relevant for personnel.

Members: Dr Hartmut Schenk (Chairman), Thorsten Kraemer, Claudia Anderleit, Birgit Geffke

Audit committee

The audit committee concerns itself with the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system and the internal auditing system, and financial statements auditing, in the latter case especially with regard to the auditor's independence and the additional services rendered by the auditor. It also concerns itself with compliance-related issues.

Members: Robert Weidinger (Chairman), Marc Tüngler, Ronny Minak, Michael Stephan

Mediation committee

The mediation committee is constituted in accordance with section 27 (3) of the German Co-determination Act (MitbestG) so that it can perform the task described in section 31 (3) sentence 1 MitbestG.

Members: Dr Hartmut Schenk (Chairman), Thorsten Kraemer, Knut Mackeprang, Gesine Thomas

Nomination committee

The nomination committee has the task of suggesting suitable candidates to the Supervisory Board for proposal to the Annual General Meeting in the run-up to new elections.

Members: Dr Hartmut Schenk (Chairman), Marc Tüngler, Sabine Christiansen (since 25 March 2015)

Retired: Achim Weiss (until 31 January 2015)

Definitions in accordance with section 76 (4) and section 111 (5) AktG

The Supervisory Board and Executive Board have each defined targets for the percentage of women in the Executive Board and in the two management tiers below the Executive Board:

	Target
Executive Board	0 per cent
Management tier 1 (direct reports)	25 per cent
Management tier 2 (heads of department)	27.5 per cent

The deadline for attaining all specified targets was defined as 30 June 2017.

Information required under takeover law according to section 315 (4) HGB

Composition of the subscribed capital

The subscribed capital (capital stock) of freenet AG amounts to 128,061,016 euros. It is divided up into the same number of no-par-value registered shares. Each share entitles its owner to one vote at the Annual General Meeting.

Restrictions on share transfer or voting rights

The Executive Board is not aware of any restrictions affecting the voting rights or the transferring of shares.

Equity participations exceeding 10 per cent of the voting rights

As at 31 December 2015, there were no equity participations exceeding 10 per cent of the voting rights at freenet AG.

Shares with special rights and controlling powers

There are no shares with special rights that confer controlling powers.

Type of voting rights control when employees hold an interest in share capital

If employees have an interest in the company's capital as shareholders, they cannot derive any special rights from this.

Appointment and dismissal of the members of the Executive Board, changes in the articles of association

The appointment and dismissal of the members of freenet AG's Executive Board shall be governed by sections 84 and 85 AktG and section 31 MitbestG in conjunction with section 5 (1) of the articles of association. The relevant provisions governing changes to the articles of association are sections 133 and 179 AktG and section 16 of freenet AG's articles of association.

Powers of the Executive Board to issue shares

The Executive Board, with the approval of the Supervisory Board, is authorised by a resolution of the Annual General Meeting of 23 May 2013 to increase the capital stock by issuing new shares against contributions in cash or kind up to a maximum sum of 12,800,000.00 euros until 5 June 2018 (authorised capital 2013).

In addition, on 13 May 2014, the annual general meeting adopted a resolution for the share capital to be increased by up to a total of 12,800,000.00 euros, consisting of 12,800,000 new no-par registered ordinary shares (conditional capital 2014). The purpose of the conditional capital increase is to enable no-par-value registered shares to be granted to the holders or creditors of convertible and/or option bonds which are issued on the basis of the authorisation as adopted by the annual general meeting of 13 May 2014 under agenda item 8, letter A) and which provides a conversion or option right in relation to the no-par-value registered shares of the company or which establishes a conversion or option obligation in relation to these shares. The Executive Board is authorised to stipulate all further details pertaining to the implementation of a conditional capital increase.

Powers of the Executive Board to repurchase shares

The Executive Board was authorised by a resolution of the annual general meeting of 13 May 2014 to acquire treasury stock up to 10 per cent of the current capital stock until 12 May 2019. This authorisation can be exercised by the company, by its subsidiaries, or by third parties for the account of the company or for the account of its subsidiaries. Acquisition of such stock shall be carried out at the discretion of the Executive Board through the stock market, by way of a public offer of purchase, through a public invitation to submit offers for sale, by issuing tender rights to the shareholders or by using equity derivatives (put or call options or a combination of the two). There is also the possibility of purchasing treasury shares in accordance with sections 71 et seq. AktG.

Change of control

The bank liabilities that the freenet Group utilises under the syndicated loan agreement can, under certain circumstances, be called in either wholly or partly. A right to call them in can arise if particular contractual restrictions and conditions to which freenet submitted itself when it took on the syndicated loan are violated. To some extent, freenet has no influence on the circumstances under which a right to call in the loan can accrue to the syndicate banks.

This applies in particular for the right to call in a loan in the event of a change in control at the company. Such a change of control comes about, provided that there is an obligation to submit a takeover bid, as soon as one or more persons acting in unison has acquired a majority at the Annual General Meeting. In the event of the syndicated loan agreement being terminated, freenet will bear the risk that subsequent financing for the redemption of the agreement will come about either on less favourable terms or not at all.

Compensation agreements of the company

In the event of a change of control, the stock appreciation rights can be exercised without the need for the waiting period to be observed.

Declaration in accordance with section 289a HGB

The declaration in accordance with section 289a HGB is published on the company's website at *www.freenet- group.de/en* in the Investor Relations/ Corporate Governance section.

Compensation report for the Executive Board and Supervisory Board

Executive Board compensation in accordance with HGB

The compensation paid to the members of the Executive Board consists of annual fixed compensation, annual variable compensation, and variable compensation with a long-term incentive effect. There are also pension commitments. The annual variable compensation amounts each result from an annual agreement on objectives in which regularly determined figures indicating the freenet Group's significant financial and non-financial performance indicators are defined as individual objectives. In the financial year 2011, a compensation programme with a long-term incentive effect, known as the "LTIP programme" ("LTIP Programme 1") was set up for the members of the Executive Board. On 26 February 2014, agreements were concluded with the members of the Executive Board regarding the service agreements which grant new LTIP ("LTIP Programme 2").

In the LTIP programmes, an LTIP account is maintained for each member of the Executive Board; in each financial year, depending on the extent to which particular objectives for the financial year in question have been attained, credit or debit entries are made in the accounts in the form of virtual shares. Then, within a predetermined period of time, cash payouts less taxes and charges can be made for each financial year, depending on the balance in the respective LTIP account. The magnitude of these payments is dependent on, among other things, the relevant share price at the time of the payout.

The compensation for the members of the company's Executive Board was broken down as follows in the reporting year and the preceding year; the tables used show the Executive Board compensation as defined in section 314 (1) no. 6a HGB in conjunction with DRS 17. These figures include the compensation paid in the course of the financial year. In accordance with section 314 (1) no. 6a HGB, changes in the value of the LTIP programmes that were not caused by a change in the exercise conditions are not disclosed.

Table 9: **Executive Board Compensation for financial year 2015 according to HGB**

In EUR '000s	Fixed compensation	Variable cash compensation	Total cash compensation	Granted compensation with long-term incentive effect	Total compensation in accordance with HGB
Christoph Vilanek	765	639	1,404	0	1,404
Joachim Preisig	544	512	1,056	0	1,056
Stephan Esch	492	256	748	0	748
Total	**1,801**	**1,407**	**3,208**	**0**	**3,208**

Table 10: **Executive Board Compensation for financial year 2014 according to HGB**

In EUR '000s	Fixed compensation	Variable cash compensation	Total cash compensation	Granted compensation with long-term incentive effect	Total compensation in accordance with HGB
Christoph Vilanek	767	659	1,426	5,545	6,971
Joachim Preisig	432	540	972	2,912	3,884
Stephan Esch	442	162	604	1,942	2,546
Total	**1,641**	**1,361**	**3,002**	**10,399**	**13,401**

In the financial year 2015, the Executive Board compensation in accordance with section 314 (1) no. 6a HGB amounted to 3,208 thousand euros (previous year: 13,401 thousand euros). The total for 2015 contains no compensation with long-term incentive effect; as such components had already been disclosed in the financial years in which the compensation instruments had been granted. In the financial year 2014, not only the subtotal of fixed components and other variable compensation, but also the fair value of the entire LTIP programme 2 as at the time of being granted on 26 February 2014, hence 10,399 thousand euros (of which 5,545 thousand euros is attributable to Mr Vilanek, 2,912 thousand euros to Mr Preisig and 1,942 thousand euros to Mr Esch), are accounted for in these compensation elements.

In the financial year 2015, there were cash payouts from the LTIP programmes in the amount of 2,324 thousand euros (previous year: 2,847 thousand euros), with Mr Vilanek receiving 0 thousand euros (previous year: 2,280 thousand euros), Mr Preisig receiving 1,603 thousand euros (previous year: 391 thousand euros) and Mr Esch receiving 721 thousand euros (previous year: 176 thousand euros). The cash payments to Mr Preisig and Mr Esch completely terminated their LTIP Programme 1 (target attainment years 2011 to 2014). As of the balance sheet date 31 December 2015, all three members of the Executive Board were included in LTIP Programme 2 – with the target attainment years 2014 to 2018 for Mr Vilanek and 2015 to 2019 for Mr Preisig and Mr Esch.

As at 31 December 2015, the provision in accordance with HGB for Mr Vilanek's LTIP programme was 2,347 thousand euros (previous year: 1,077 thousand euros), with Mr Preisig receiving 571 thousand euros (previous year: 1,551 thousand euros) and Mr Esch receiving 381 thousand euros (previous year: 698 thousand euros).

In November 2004, Mr Esch was granted an indirect pension commitment. In the financial year 2009, Mr Vilanek was granted an indirect pension commitment on the occasion of his appointment as chairman of the Executive Board as at 1 May 2009. freenet AG had taken on the pension commitment granted to Mr Preisig from the former debitel AG as at 1 September 2008. In February 2014, adjustments were made to all three Executive Board members' pension commitments. For further details, see the section "Compensation rules in the event of a cessation of employment".

As at 31 December 2015, the defined benefit obligation (DBO) relating to commercial law for Mr Vilanek amounted to 1,909 thousand euros (previous year: 1,290 thousand euros), the DBO for Mr Preisig totalled 2,424 thousand euros (previous year: 1,814 thousand euros) and Mr Esch's DBO came to 1,874 thousand euros (previous year: 1,345 thousand euros). The obligation amount for Messrs Spoerr, Krieger and Berger, as former Executive Board members, totalled 5,384 thousand euros as at 31 December 2015 (previous year: 4,232 thousand euros).

Current service time expenses of 662 thousand euros (previous year: 541 thousand euros) were recognised in total in personnel expenses for the members of the Executive Board as a result of the pension commitments. Of these, 282 thousand euros for 2015 (previous year: 146 thousand euros) were accounted for by Mr Vilanek, 219 thousand euros (previous year: 296 thousand euros) by Mr Preisig and 161 thousand euros (previous year: 99 thousand euros) by Mr Esch.

In 2015, the personnel expenses for the members of the Executive Board related to the pension commitments did not include any past service costs. In the previous year, past service costs of 1,375 thousand euros were recognised; of this figure, 306 thousand euros were attributable to Mr Vilanek, 941 thousand euros were attributable to Mr Preisig and 128 thousand euros were attributable to Mr Esch.

No loans were extended to any of the Executive Board members and no guarantees or other warranties were provided for the Executive Board members.

Executive Board compensation in accordance with DCGK

Within the meaning of clause 4.2.5 of the German Corporate Governance Code (DCGK), we hereby make the following disclosures about the compensation awarded to the members of the Executive Board for the financial year 2015 and the previous year, and about the compensation from actual payments to the members of the Executive Board in the financial year 2015 and the previous year.

Table 11: **Compensation awarded to the Executive Board for the financial year 2015 in accordance with DCGK**

In EUR '000s	Christoph Vilanek	Joachim Preisig	Stephan Esch	Total
Fixed compensation	750	530	480	1,760
Fringe benefits	15	14	12	41
Total	**765**	**544**	**492**	**1,801**
Annual variable compensation	500	400	200	1,100
Perennial variable compensation				
LTIP-programme 1	0	52	23	75
LTIP-programme 2	1,348	559	373	2,280
Total	**1,848**	**1,011**	**596**	**3,455**
Pension expense				
Current service cost	446	314	260	1,020
Past service cost	0	0	0	0
Total	**446**	**314**	**260**	**1,020**
Total compensation	**3,059**	**1,869**	**1,348**	**6,276**

Table 12: **Compensation awarded to the Executive Board for the financial year 2014 in accordance with DCGK**

In EUR '000s	Christoph Vilanek	Joachim Preisig	Stephan Esch	Total
Fixed compensation	750	418	430	1,598
Fringe benefits	17	14	12	43
Total	**767**	**432**	**442**	**1,641**
Annual variable compensation	500	400	120	1,020
Perennial variable compensation				
LTIP-programme 1	427	706	318	1,451
LTIP-programme 2	1,142	474	316	1,932
Total	**2,069**	**1,580**	**754**	**4,403**
Pension expense				
Current service cost	238	126	167	531
Past service cost	501	1,422	213	2,136
Total	**739**	**1,548**	**380**	**2,667**
Total compensation	**3,575**	**3,560**	**1,576**	**8,711**

Table 13: **Compensation from actual payments to the Executive Board in the financial year 2015 in accordance with DCGK**

In EUR '000s	Christoph Vilanek	Joachim Preisig	Stephan Esch	Total
Fixed compensation	750	530	480	1,760
Fringe benefits	15	14	12	41
Total	**765**	**544**	**492**	**1,801**
Annual variable compensation	639	512	256	1,407
Perennial variable compensation				
LTIP-programme 1	0	1,603	721	2,324
LTIP-programme 2	0	0	0	0
Total	**639**	**2,115**	**977**	**3,731**
Pension expense				
Current service cost	446	314	260	1,020
Past service cost	0	0	0	0
Total	**446**	**314**	**260**	**1,020**
Total compensation	**1,850**	**2,973**	**1,729**	**6,552**

Table 14: **Compensation from actual payments to the Executive Board in the financial year 2014 in accordance with DCGK**

In EUR '000s	Christoph Vilanek	Joachim Preisig	Stephan Esch	Total
Fixed compensation	750	418	430	1,598
Fringe benefits	17	14	12	43
Total	**767**	**432**	**442**	**1,641**
Annual variable compensation	659	540	162	1,361
Perennial variable compensation				
LTIP-programme 1	2,280	391	176	2,847
LTIP-programme 2	0	0	0	0
Total	**2,939**	**931**	**338**	**4,208**
Pension expense				
Current service cost	238	126	167	531
Past service cost	501	1,422	213	2,136
Total	**739**	**1,548**	**380**	**2,667**
Total compensation	**4,445**	**2,911**	**1,160**	**8,516**

Compensation rules in the event of a cessation of employment

Compensation provisions in the event of premature termination of employment contracts and pension plans are as follows:

Arrangements for the former Executive Board members Eckhard Spoerr, Axel Krieger and Eric Berger:

- From their 60th birthday, the abovementioned members of the Executive Board shall receive a pension amounting to 2.5 percent of final annual fixed salary for each year commenced on the Executive Board of the company or its legal predecessor freenet.de AG, to a maximum of one-third of final annual fixed salary (guaranteed pension).
- Surviving dependant pension for the spouse or life companion and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.

For the Chief Executive Officer Christoph Vilanek, the following rules apply from 1 January 2014:

- From his 60th birthday, Mr Vilanek shall receive a pension amounting to 2.7 percent of final annual fixed salary for each contractual year commenced on the Executive Board of the company, to a maximum of one-third of final annual fixed salary (target pension).
- Surviving dependant pension for the spouse or life companion, and orphan's pension for any children until the end of their schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension or the value of pension entitlements Mr Vilanek would obtain if he were to die.
- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the position is revoked, Mr Vilanek can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to clause 626 BGB, or that the revocation of his appointment to the position does not form part of the termination of the service contract on the part of the company, for which there is good cause under clause 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

The following rules have applied for Executive Board member Stephan Esch since 1 January 2015 (agreement dated 26 February 2014):

- From his 60th birthday, Mr Esch shall receive a pension amounting to 2.5 percent of final annual fixed salary for each contractual year commenced on the Executive Board of the company or its legal predecessor freenet.de AG, to a maximum of one-third of final annual fixed salary (guaranteed pension).
- Surviving dependant pension for the spouse or life companion and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the position is revoked, Mr Esch can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to clause 626 BGB, or that the revocation of his appointment to the position does not form part of the termination of the service contract on the part of the company, for which there is good cause under clause 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

The following rules have applied for Executive Board member Joachim Preisig since 1 January 2015 (agreement dated 26 February 2014):

- On reaching the age of 60, Mr Preisig shall receive a retirement pension in the amount of 2.5 per cent of his last annual fixed salary for each year of his Executive Board duties or part thereof for the company, and/or previously at Debitel AG, but no more than one-third of the last annual fixed salary (guaranteed pension).
- Surviving dependant pension for the spouse or life companion and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- Upon his departure on reaching the age of 60, Mr Preisig shall receive a retirement pension amounting to 9,333.0 euros (monthly retirement pension commitment) from the Debitel pension fund. If he leaves early, Mr Preisig shall receive a pension, after reaching the age of 60 and once the conditions prerequisite to non-forfeiture arise, which is calculated according to legal requirements; the guaranteed pension is calculated on a pro rata basis in line with the actual length of service. All claims of Mr Preisig, his spouse or a domestic partner with rights as beneficiary, and any surviving dependants from the Debitel pension fund shall be offset against all aforementioned claims arising from the current contract of employment.
- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the position is revoked, Mr Preisig can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to clause 626 BGB, or that the revocation of his appointment to the position does not form part of the termination of the service contract on the part of the company, for which there is good cause under clause 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

There are no service contracts with any subsidiaries of freenet AG.

Compensation for the Supervisory Board

The Supervisory Board compensation is governed by the articles of association, and consists of three components:

- Basic compensation
- Attendance fees
- Performance-linked compensation.

The Supervisory Board's members receive from the company fixed basic compensation of 30,000 euros for each full financial year of their Supervisory Board membership.

The chairperson of the Supervisory Board receives double this amount, the vice chairperson one-and-a-half times this amount.

In addition, every Supervisory Board member receives an attendance fee of 1,000 euros for each Supervisory Board meeting that he/she attends. Supervisory Board members who belong to a Supervisory Board committee – with the exception of the committee constituted in accordance with section 27 (3) of the German Co-determination Act (Mitbestimmungsgesetz) – receive in addition an attendance fee of 1,000 euros for each meeting of the respective committee that they attend. The committee chairperson receives double this amount.

Within the framework of a voluntary restriction imposed on its own activities, the Supervisory Board has decided that no compensation shall be payable for participation in telephone meetings of the Supervisory Board or its committees or for participation by telephone in meetings requiring physical attendance.

After the end of each financial year, the Supervisory Board's members also receive variable, performance-linked compensation in the amount of 500 euros for each 0.01 euro dividend in excess of 0.10 euro per no-par-value share in the company which is distributed to shareholders for the financial year ended. The amount of the compensation is limited to that which is payable in the form of basic compensation. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one-and-a-half times this amount.

For their activities during the financial year 2015, the members of the company's Supervisory Board received fixed compensation of 403 thousand euros plus attendance fees amounting to 90 thousand euros. In addition, profit-linked compensation of 403.1 thousand euros was also recorded as a cost. The extent to which this performance-based compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2015. The aggregate compensation paid for Supervisory Board activities thereby amounted to 896.1 thousand euros.

Furthermore, Supervisory Board members are reimbursed for expenses incurred in connection with the performance of their official duties, as well as for value added tax.

No loans were extended to any of the Supervisory Board members and no guarantees or other warranties were provided for the Supervisory Board members.

Individualised figures for the last two financial years are shown in the following tables. Please note that rounding differences may result from the format used for presenting subtotals and sum totals; this is because the figures have been rounded to one position after the decimal point.

Table 15: **Compensation for financial year 2015**

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr Hartmut Schenk	60.0	14.0	60.0	134.0
Knut Mackeprang[1]	45.0	5.0	45.0	95.0
Claudia Anderleit[1]	30.0	7.0	30.0	67.0
Birgit Geffke[1]	30.0	9.0	30.0	69.0
Thorsten Kraemer	30.0	7.0	30.0	67.0
Ronny Minak[1]	30.0	8.0	30.0	68.0
Michael Stephan[1]	30.0	8.0	30.0	68.0
Prof. Dr Helmut Thoma	30.0	5.0	30.0	65.0
Gesine Thomas[1]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	8.0	30.0	68.0
Robert Weidinger	30.0	12.0	30.0	72.0
Sabine Christiansen	25.5	3.0	25.6	54.1
Total	**400.5**	**90.0**	**400.6**	**891.1**
Former Members				
Achim Weiss	2.5	0.0	2.5	5.0
Total	**403.0**	**90.0**	**403.1**	**896.1**

1 Employee representative in accordance with section 7 (1) clause 1 no. 1 MitbestG of 4 May 1976.

Table 16: **Compensation for financial year 2014**

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr Hartmut Schenk	60.0	12.0	60.0	132.0
Knut Mackeprang[1]	45.0	6.0	45.0	96.0
Claudia Anderleit[1]	30.0	6.0	30.0	66.0
Birgit Geffke[1]	30.0	8.0	30.0	68.0
Thorsten Kraemer	30.0	5.0	30.0	65.0
Ronny Minak[1]	30.0	8.0	30.0	68.0
Michael Stephan[1]	30.0	7.0	30.0	67.0
Prof. Dr Helmut Thoma	30.0	5.0	30.0	65.0
Gesine Thomas[1]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	8.0	30.0	68.0
Robert Weidinger	30.0	11.0	30.0	71.0
Achim Weiss	30.0	4.0	30.0	64.0
Total	**405.0**	**84.0**	**405.0**	**894.0**

1 Employee representative in accordance with section 7 (1) clause 1 no. 1 MitbestG of 4 May 1976.

FORECAST

The market in 2016

In view of the macro-economic climate which is characterised by economic and political crises and the associated decline in growth in the emerging countries, several economic research institutions have downgraded their forecasts for the future development of the world economy. For the year 2016, the IMF and the OECD are predicting growth of only 3.4 per cent and 3.3 per cent, respectively for world-wide economic output. In the summer of 2015, both institutions had been predicting growth of 3.8 per cent for global GDP.

For the Eurozone, the IMF is more optimistic mainly in view of the development in the price of oil, the current interest rate policy of the ECB, the low rate of inflation and the weakening of the Euro. With growth of 1.7 per cent, the institution expects to see a slight improvement in the economic situation in 2016, following a forecast increase of 1.5 per cent in economic output for the year 2015. According to the IMF and the German government, economic growth in Germany in 2016 will be roughly in line with the corresponding growth in the Eurozone. The average real gross domestic product is accordingly expected to increase by 1.7 per cent (as was the case in 2015). According to the German government, the ongoing economic momentum in Germany will be driven primarily by the domestic economy. Particular mention has to be made of the positive development in consumer spending and investment in residential housing as a result of a labour market which continues to be robust, particularly in the services sector. The results of the consumer climate study for Germany, published by the Gesellschaft für Konsumforschung ("GfK" – consumer research association) in January 2016 are also pointing to moderate economic growth and a stable consumer climate with a slight increase in consumer sentiment in 2016. According to the GfK, there has also been a positive development in buying propensity, whereas the savings rate is still at a moderate level as a result of the continuing phase of low interest rates.

In addition to the consumer climate, the development of the German telecommunications market is also significant for the business activities of freenet Group. According to VATM, the cumulative market volume of the German telecommunications market in 2016 will again contract slightly, with a decline of approximately one per cent compared with 2015. The end user prices will again decline in the current year according to VATM: In the landline/broadband sector, the decline of approximately 0.5 to 0.6 per cent is expected to be somewhat less than the corresponding figure for the mobile telecommunications sector, where prices are expected to decline between 1.2 and 1.4 per cent. According to VATM, customer concentration in the business client sector and also the decline in the traditional services of telephony and SMS are further reasons for the decline in volume in the telecommunications market.

On the other hand, there is evidence of a trend towards increased mobile data use with increasing data volumes and higher transmission speeds. In this context, broadband expansion and also the promotion of new mobile standards are key elements of the investment strategy of the German government. The frequency auction in June 2015, at which frequencies of the "Digital Dividend 2" were also auctioned for the first time, has laid the foundation for further expansion of the mobile networks. According to VATM, mobile data traffic per SIM card and month in 2015 increased by approximately 30 per cent compared with the previous year, namely 377 megabytes. According to the market research company Gartner, the main driver behind this development is the increasing demand for video and music streaming services. Accordingly, there has also been a continuous increase in revenue generated with mobile data services in recent years. In 2015, according to VATM estimates, this revenue accounted for approximately 43 per cent of the overall revenue of the mobile network operators, and has accordingly increased by approximately 1.0 billion euros compared with the previous year. Smartphones are used as the main devices in this respect. This is also the conclusion of the study "Global Mobile Consumer Survey 2015" published in September 2015 by the consultants Deloitte, which surveyed 2,000 consumers with regard to aspects such as patterns of use, household equipment or openness with regard to new mobile telecommunications products and services. According to the survey results, the smartphone has replaced the laptop as the most common device category. In addition to current and powerful devices and rising data volumes, the issue of data speed is also becoming more significant.

According to the Deloitte survey, the number of LTE users in Germany increased by 14 percentage points compared with the previous year, namely to 22 per cent. The significant increase is mainly attributable to the form of new tariffs offered by the network operators. Marketing efforts concentrate on postpaid contracts in conjunction with (usually free) LTE provision.

In connection with the anticipated decline in the market volume and the further decline in end user prices, this digital change is resulting in increased innovation pressure in the traditional mobile communications sector. The telecommunication providers are increasingly responding with the development of new business models.

In this context, the developments related to digital lifestyle and the "Internet of Things" are becoming increasingly important. The focus is on the digitally networked private home. German households are currently equipped with differing ranges of products and services for digital network in the fields of consumer electronics, smart home, health and safety. According to the Deloitte-survey, hardware with networking capability ("IoT devices") are currently used mainly in the field of entertainment. TVs with internet capability and games consoles are the clear leaders of the field in terms of presence. A TV screen is preferred by a majority of German households as the device for receiving film and video services. This trend is the basis of internet-based TV, in which moving images are transmitted via internet protocol ("IPTV"). In addition to the established video-on-demand services, IPTV offers interactive communication and information products and services, and also permits catch-up and high resolution TV with a wide variety of programmes.

Compared with internet-capable TVs, networked hardware has so far not been very established in the fields of smart home and wearables. Smartwatches and fitness trackers have been relatively minor products in recent years. However, according to the study entitled "Future of Consumer Electronics – 2015" published jointly by the sector association Bitkom and the consultant Deloitte, there are signs of a turnaround in this respect. Among wearables, fitness trackers are the most successful product category, with sales of 650,000 units in 2014. An increase of 65 per cent to one million devices is expected to be seen in 2015. Accordingly, the revenue generated with fitness trackers in 2015 is expected to increase by 82 per cent to a probable 70.8 million euros. With regard to smart watches, sales in 2015 will more than triple compared with 2014; the revenue generated with such sales is expected to rise by a factor of six compared with 2014. For 2015, it is anticipated that a potential revenue volume of 169.2 million euros will be generated with a total of 645,000 smart watches which are sold. In the opinion of the authors of the study, the fact that approximately 40 per cent are interested in intelligent watches also underlines the ongoing strong growth potential.

As a further result of the study, the authors emphasise that the market prospects for smart home have improved compared with the prior year. According to the study, approximately 500,000 German households will be networked in 2015; however, the one-million level is expected to be attained by no later than the year 2020. According to the joint study, the growth drivers for smart home products and applications are the increasing availability of high-speed broadband connections as well as new solutions and less expensive products and services. In addition, the combination of user-friendliness and security as well as the willingness of potential consumers to pay for smart home are further major factors of success in this respect. The joint publication of Deloitte and the Technische Universität Munich, entitled “Smart Home from the Consumer Point of View” confirms that consumers are fundamentally willing to pay for smart home complete packages. The study has established that almost one quarter of the persons surveyed would pay more than 30 euros for such a complete package.

In summary, the following assumptions in particular are seen as material for the derivation of forecasts for the freenet Group:

- Continuing slight decrease in cumulative market volume for telecommunications
- Slightly lower end user prices in the mobile communications sector in conjunction with ongoing international market consolidation and increasing significance of data tariffs
- Strong growth rates in new market sectors related to digital lifestyle and the “Internet of Things”
- Increased consumption and payment propensity of private households, particularly for products and applications in the field of the intelligent home.

freenet Group

In the Mobile Communications segment, the freenet Group operates as an independent service provider on a saturated market characterised by high intensity of competition. The slightly declining cumulative market volume is still under pressure to consolidate from the supplier side and influenced by falling aggregate consumer figures on the consumer side.

The freenet Group combats this development by focussing on valuable customer relations (“customer ownership”) in acquiring new customers and in managing existing customers. The company also uses the resultant cross-selling potential for expanding its digital lifestyle business activities. As a result of its early strategic decision to focus on being a digital lifestyle provider, the freenet Group already has a broad portfolio of innovative digital lifestyle products and services. With its products and services in the fields of entertainment, smart home, health and safety, the company addresses a young market characterised by strong growth rates. The revenue generated by the marketing of existing digital lifestyle products and services however currently makes only a marginal contribution to the overall business volume of the freenet Group.

The declared aim of the freenet Group is to further strengthen its market position as a digital lifestyle provider and to achieve stronger growth than the overall market in the new digital lifestyle market sectors. The development of new and innovative business areas closely related to the core business of the freenet Group is particularly important in this respect.

With the investment in the EXARING AG and the acquisition of Media Broadcast Group described in the report of significant events after the reporting date of the Group management report, the freenet Group has set a new foundation for attaining this objective. Both transactions constitute an important enhancement for our company in its strategic development as a digital-lifestyle provider in Germany. EXARING AG has its own IPTV infrastructure and platform for innovative solutions related to the broadcasting of moving images in linear and digital TV. The Media Broadcast Group is the largest German service provider for video and audio broadcasts, and offers a wide range of distribution platforms from a single source. In the TV field, the company operates primarily in the field of terrestrial dissemination (“DVB-T”); it also offers a range of hybrid value-add services, such as access to media libraries, entertainment and information services as well as additional TV channels available in web stream form.

Entering the new area of linear and internet-based television will open up the possibility for the company to diversify further within the Digital Lifestyle business and cultivate new growth potential and sources of income.

The successful business strategy of the freenet Group continues to be based on an efficient distribution network which is consistently being expanded. For this purpose, the company with its multiple brand strategy uses high-street outlets as well as online channels for marketing its mobile and digital lifestyle portfolio. With a clear focus on customer service, the company will in future continue to focus on the individual needs of its customers and participate in the growth of the digital lifestyle market with customised products and services.

The business outlook of the freenet Group for the financial year 2015 that was forecast with the help of the defined performance indicators in the Group management report accompanying the consolidated financial statements for the financial year 2014 has proved to be accurate – the forecast targets by the Executive Board have been met respectively slightly exceeded.

Table 17: **Development of the key performance indicators**

In EUR million/as indicated	Forecast of 2014[1] 2015	2016	2015	Change in %	Forecast of 2015 2016
Financial performance indicators					
Group revenue	stable	slight increase	3,117.9	2.5	moderate increase
Group EBITDA	370	375	370.2	1.3	slightly above 400
Free cash flow[2]	280	285	284.5	6.7	around 300
Postpaid ARPU (in EUR)	stable	stable	21.4	0.0	stable
Non-financial performance indicator					
Customer Ownership (in million)	slight increase	slight increase	9.30	4.2	slight increase

1 In accordance with the Group management report accompanying the consolidated financial statements for 2014.
2 For a definition of free cash flow, see section “Financial performance indicators”.

Based on the positive business results for 2015 and against the background of the acquisition of Media Broadcast Group and the investment in EXARING AG, the Executive Board additionally resolved to adjust the guidance for the financial year 2016 that was communicated in the Group management report pertaining to the consolidated financial statements for the financial year 2014.

The company is now aiming for a moderate increase of Group revenue in 2016 (previously: slight increase), EBITDA of slightly above 400 million euros (previously: around 375 million euros) and free cash flow of some 300 million euros (previously: around 285 million euros). The targets for the development of the performance indicators postpaid ARPU and customer ownership in the financial year 2016 remain unchanged: The company is remaining true to its expectation for a stabilisation of postpaid ARPU at the level of 2015 and a slight increase in customer numbers in the customer ownership area compared to the financial year 2015.

By focussing on maintaining existing and acquiring new valuable customer relations, the company further aims to combat the forecast decline in end user prices and the generally identified trend towards lower postpaid-ARPU in the mobile telecommunications market. 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. freenet faces the overall decreasing subscriber base in the mobile communications market with various sales activities to the same extent as in 2015. In addition, the company expects to see the increasing development of new sources of revenue by way of marketing innovative products and services for mobile digital lifestyle applications, among other things in the new TV business area. Further comments concerning the future development of performance indicators which are not relevant for management purposes are detailed in the economic report.

Overall guidance of the Group's expected development

The Executive Board of freenet AG expects to see a positive overall development of the company. In the company's core mobile telecommunications segment, the strategy of focusing on sustainable customer relations in the fields of postpaid and no-frills (together: customer ownership) has proved to be successful. The company will continue to follow this fundamental strategy in future in order to protect its established position in the mobile telecommunications market.

By strategically focussing itself as a comprehensive digital lifestyle provider at an early stage, the freenet Group has also established a position in new and rapidly expanding market sectors related to mobile applications and the "Internet of Things". The company will continue to utilise this existing growth potential in future by way of marketing innovative digital lifestyle products and services.

The assurance and expansion of sustainable profitability and strong cash flow constitute the basis for the strategic direction of freenet AG. The company focusses on the expansion of its product portfolio and the internal and external development of new business areas in line with stringent profitability and investment requirements. With its investment in EXARING AG and the acquisition of Media Broadcast Group, the freenet Group has taken an initial step and invested in two very promising TV business models. The new business area related to linear and internet-based TV is opening up a new dimension of digital lifestyle for the freenet Group on the way to becoming the leading provider of digital lifestyle products and services in Germany.

Büdelsdorf, 3 March 2016
The Executive Board

Christoph Vilanek　　Joachim Preisig　　Stephan Esch

CONSOLIDATED FINANCIAL STATEMENTS

OVERVIEW

CONSOLIDATED INCOME STATEMENT

for the period from 1 January to 31 December 2015

In EUR '000s/as indicated	Note	1.1.2015 – 31.12.2015	1.1.2014 – 31.12.2014
Revenue	4	3,117,892	3,040,585
Other operating income	5	51,268	64,527
Other own work capitalised	6	11,470	13,338
Cost of material	7	-2,327,475	-2,262,528
Personnel expenses	8	-195,235	-199,677
Depreciation and impairment write-downs	9	-71,403	-64,413
Other operating expenses	10	-287,913	-290,911
Operating result		**298,604**	**300,921**
Share of results of associates accounted for using the equity method	17	171	273
Interest receivable and similar income	11	418	1,715
Interest payable and similar expenses	12	-44,502	-42,276
Result before taxes on income		**254,691**	**260,633**
Taxes on income	13	-33,231	-12,470
Group result		**221,460**	**248,163**
Group result attributable to shareholders of freenet AG		220,969	247,465
Group result attributable to non-controlling interest		491	698
Earnings per share in EUR (undiluted)	14.1	**1.73**	**1.93**
Earnings per share in EUR (diluted)	14.2	**1.73**	**1.93**
Weighted average of shares outstanding in thousand (undiluted)		128,011	128,011
Weighted average of shares outstanding in thousand (diluted)		128,011	128,011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2015

In EUR '000s	1.1.2015 – 31.12.2015	1.1.2014 – 31.12.2014
Group result	221,460	248,163
Change in fair value of available-for-sale financial instruments	-57	-43
Currency difference	168	353
Income tax recognised in other comprehensive income	-34	-93
Other comprehensive income/to be reclassified to the income statement in the following periods	**77**	**217**
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. IAS 19 (2011)	8,376	-12,475
Income tax recognised in other comprehensive income	-2,521	3,749
Other comprehensive income/not to be reclassified to the income statement in the following periods	**5,855**	**-8,726**
Other comprehensive income	**5,932**	**-8,509**
Consolidated comprehensive income	**227,392**	**239,654**
Consolidated comprehensive income attributable to shareholders of freenet AG	226,901	238,956
Consolidated comprehensive income attributable to non-controlling interest	491	698

CONSOLIDATED BALANCE SHEET

as of 31 December 2015

Assets

In EUR '000s	Note	31.12.2015	31.12.2014
Non-current assets			
Intangible assets	15,16	458,089	390,137
Goodwill	15,16	1,153,985	1,153,298
Property, plant and equipment	15,16	32,542	34,307
Investments in associates accounted for using the equity method	17	1,760	1,519
Other investments	18	1,517	1,534
Deferred income tax assets	19	177,337	199,853
Trade accounts receivable	21	79,438	79,581
Other receivables and other assets	21	12,045	11,950
		1,916,713	**1,872,179**
Current assets			
Inventories	20	79,468	79,996
Current income tax assets	23	3,058	1,826
Trade accounts receivable	21	436,009	408,482
Other receivables and other assets	21	18,910	23,879
Cash and cash equivalents	22	269,761	111,944
Assets classified as held for sale	24	101	0
		807,307	**626,127**
		2,724,020	**2,498,306**

Shareholders' equity and liabilities

In EUR '000s	Note	31.12.2015	31.12.2014
Shareholders' equity			
Share capital	25.1	128,061	128,061
Capital reserve	25.2	737,536	737,536
Cumulative other comprehensive income		-15,363	-21,295
Retained earnings	25.3	474,577	445,625
Capital and reserves attributable to shareholders of freenet AG		**1,324,811**	**1,289,927**
Capital and reserves attributable to non-controlling interest		54,224	3,693
		1,379,035	**1,293,620**
Non-current liabilities			
Trade accounts payable	27	0	540
Other payables	27	42,452	38,351
Borrowings	29	218,382	518,223
Deferred income tax liabilities	19	6	123
Pension provisions	30	51,191	59,346
Other provisions	31	8,044	9,097
		320,075	**625,680**
Current liabilities			
Trade accounts payable	27	443,718	369,931
Other payables	27	107,975	124,318
Current income tax liabilities	28	32,465	38,663
Borrowings	29	420,532	20,333
Other provisions	31	20,220	25,761
		1,024,910	**579,006**
		2,724,020	**2,498,306**

SCHEDULE OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2015

In EUR '000s	Share capital	Capital reserve	Cumulative other comprehensive income: Revaluation reserve	Cumulative other comprehensive income: Currency difference	Cumulative other comprehensive income: Valuation reserve in accordance with IAS 19	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
As of 1.1.2014	**128,061**	**737,536**	**-69**	**0**	**-12,717**	**383,776**	**1,236,587**	**2,995**	**1,239,582**
Dividend payment	0	0	0	0	0	-185,616	-185,616	0	-185,616
Group result	0	0	0	0	0	247,465	247,465	698	248,163
Recognition of actuarial losses acc. IAS 19 (2011)[1]	0	0	0	0	-8,726	0	-8,726	0	-8,726
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	247	0	0	247	0	247
Sub-total: Consolidated comprehensive income	0	0	-30	247	-8,726	247,465	238,956	698	239,654
As of 31.12.2014	**128,061**	**737,536**	**-99**	**247**	**-21,443**	**445,625**	**1,289,927**	**3,693**	**1,293,620**

In EUR '000s	Share capital	Capital reserve	Cumulative other comprehensive income: Revaluation reserve	Cumulative other comprehensive income: Currency difference	Cumulative other comprehensive income: 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**
Initial consolidation of subsidiaries	0	0	0	0	0	0	0	50,040	50,040
Dividend payment	0	0	0	0	0	-192,017	-192,017	0	-192,017
Group result	0	0	0	0	0	220,969	220,969	491	221,460
Recognition of actuarial losses acc. IAS 19 (2011) [1]	0	0	0	0	5,855	0	5,855	0	5,855
Change in fair value of available-for-sale financial instruments[1]	0	0	-40	0	0	0	-40	0	-40
Foreign currency translation[1]	0	0	0	117	0	0	117	0	117
Sub-total: Consolidated comprehensive income	0	0	-40	117	5,855	220,969	226,901	491	227,392
As of 31.12.2015	**128,061**	**737,536**	**-139**	**364**	**-15,588**	**474,577**	**1,324,811**	**54,224**	**1,379,035**

1 Figures are balanced with income tax in other comprehensive income

CONSOLIDATED STATEMENT OF CASH FLOWS

for the period from 1 January to 31 December 2015

In EUR '000s	Note	1.1.2015 – 31.12.2015	1.1.2014 – 31.12.2014
Result before interest and taxes (EBIT)		**298,775**	**301,194**
Adjustments			
Depreciation and impairment on items of fixed assets	9	71,403	64,413
Share of results of associates accounted for using the equity method	17	-171	-273
Gains on the disposal of fixed assets		-413	-393
Increase in net working capital not attributable to investing or financing activities	20, 21, 27, 30, 31, 33.1	-10,316	-29,047
Other con-cash components		0	-1,000
Tax payments	13,19	-44,340	-40,407
Cash flow from operating activities	33.1	**314,938**	**294,487**
Investments in property, plant and equipment and intangible assets		-31,384	-28,768
Proceeds from the disposal of property, plant and equipment and intangible assets		981	832
Payments for the acquisition of subsidiaries	36	-2,775	-44,587
Proceeds from the sale of subsidiaries		100	640
Proceeds from the sale of assets classified as held for sale	24	3,349	0
Return on capital from associates accounted for using the equity method		0	150
Payments in shareholders' equity, accounted for using the equity method	17	-70	0
Interest received		1,345	1,347
Cash flow from investing activities	33.2	**-28,454**	**-70,386**
Dividend payments to company owners and minority shareholders		-192,017	-185,616
Proceeds from new borrowings		99,400	0
Cash repayments of borrowings	29	-1,256	-315
Interest paid		-34,794	-36,992
Cash flow from financing activities	33.3	**-128,667**	**-222,923**
Cash-effective change in cash and cash equivalents		**157,817**	**1,178**
Cash and cash equivalents in the beginning of the period		**111,944**	**110,766**
Cash and cash equivalents at the end of the period		**269,761**	**111,944**

Composition of cash and cash equivalents In EUR '000s	31.12.2015	31.12.2014
Cash and cash equivalents	269,761	111,944
	269,761	**111,944**

Composition of free cash flow In EUR '000s	31.12.2015	31.12.2014
Cash flow from operating activities	314,938	294,487
Investments in property, plant and equipment and intangible assets	-31,384	-28,768
Proceeds from the disposal of property, plant and equipment and intangible assets	981	832
Free cash flow (FCF)	**284,535**	**266,551**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF FREENET AG FOR THE FINANCIAL YEAR 2015

1. General information

1.1 Business activity and accounting standards

freenet AG ("the company"), the parent company of the Group ("freenet"), is headquartered in Büdelsdorf, Germany. The company was founded in 2005 and is registered with Kiel District Court under HRB 7306. The Group provides telecommunications services in Germany and focuses mainly on mobile communications/mobile internet and digital lifestyle.

The consolidated financial statements for the financial year 2015 were prepared in accordance with the IFRS accounting standards promulgated by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as applicable in the European Union as at 31 December 2015. The provisions of German commercial law to be applied in accordance with section 315a HGB were additionally taken into consideration.

The consolidated financial statements were prepared in euros, the company's functional currency. All amounts are stated in thousands of euros (EUR '000s) or millions of euros (EUR million), as applicable.

The consolidated financial statements were prepared on the basis of historical cost – subject to the limitation that certain financial assets are shown at fair value. The annual financial statements of the companies included in the consolidated financial statements are subject to uniform accounting and valuation principles. They have been prepared as at the same balance sheet date as the consolidated financial statements.

The consolidated financial statements are submitted to the electronic Federal Gazette.

The following table shows the new or modified standards (IAS/IFRS) and interpretations (IFRIC) whose application is mandatory from 1 January 2015 and their respective impact on the Group:

Standard/interpretation		Mandatory application	Adoption by EU Commission	Effects
IFRIC 21	Levies: Recognition of Obligations for Paying Public Levies	17.6.2014	13.6.2014	None
IAS 19	Amendments to IAS 19, Employee Benefits	1.7.2014	17.12.2014	No material effects
Diverse	Annual Improvements Project 2010 to 2012 – Improvements of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 9, IFRS 13 and IAS 16, IAS 37, IAS 38, IAS 39)	1.7.2014	17.12.2014	No material effects
Diverse	Annual Improvements Project 2011 to 2013 – Improvements of IFRS (IFRS 1, IFRS 3, IFRS 13, IAS 40)	1.7.2014	18.12.2014	No material effects

The following table shows the new or modified standards (IAS/IFRS) and interpretations (IFRIC) whose application was not yet mandatory in the 2015 financial year and their respective impact on the Group:

Standard/interpretation		Mandatory application	Adoption by EU Commission	Effects
Diverse	Annual Improvements Project 2012 to 2014 – Improvements of IFRS (IFRS 5, IFRS 7 and IAS 19, IAS 34)	1.1.2016	15.12.2015	No material effects
IFRS 11	Amendments to IFRS 11: Balancing an acquisition of shares in Joint Operations	1.1.2016	24.11.2015	Depending on the nature and type of future transactions
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1.1.2016	2.12.2015	None
IAS 16 and IAS 41	Amendments to IAS 16 and IAS 41: Bearer Plant	1.1.2016	23.11.2015	None
IFRS 10, IFRS 12 and IAS 28	Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception	1.1.2016	Pending	None
IAS 27	Amendment to IAS 27: Equity method in separate financial statements	1.1.2016	18.12.2015	None
IAS 1	Amendment to IAS 1: Disclosure-Initiative	1.1.2016	18.12.2015	No material effects
IAS 12	Amendment to IAS 12: Recognition of deferred tax assets from non-realised losses	1.1.2017	Pending	No material effects
IFRS 15	Revenue from contracts with customers (incl. amendments to initial applying date)	1.1.2018	Pending	Material effects; Subject to audit by management
IFRS 9	Financial Instruments	1.1.2018	Pending	No material effects
IFRS 16	Leases	1.1.2019	Pending	Material effects; Subject to audit by management
IFRS 10 and IAS 28	Amendments to IFRS 10 and IAS 28: Sales or contributions of assets between an investor and its associate / Joint Venture	Pending	Pending	None

The Group applied all of the accounting standards which have been mandatory since 1 January 2015. Their application had no material impact on these consolidated financial statements.

On 13 January 2016, the IASB published the standard IFRS 16 (Leases). The IFRS 16 replaces the previous standard regarding the recognition of leases (IAS 17) as well as the interpretations IFRIC 4 (Determining whether an Arrangement Contains a Lease), SIC-15 (Operating Leases – Incentives) and SIC-27 (Evaluating the Substance of Transactions Involving the Legal Form of a Lease). The standard will be the subject of mandatory adoption starting 1 January 2019. Voluntary early adoption is permitted, but not if IFRS 15 (Revenue from Contracts with Customers) is also adopted at that time.

The major innovations introduced by IFRS 16 relate to recognition at the lessee. Accordingly, for all leases, the value of assets for the acquired rights and liabilities for payment obligations which have been entered into must be recognised in the balance sheet of the lessee. No distinction is made between operating leases and finance leases. Exemptions are allowed for low-value leased assets and for short-term leases. The regulation regarding the recognition of assets in the balance sheet of the lessor remains virtually unchanged.

As a result of the introduction of IFRS 16, the disclosures in the notes to financial statements have been extended. The overriding objective is to enable the reader to assess the impact of existing leases on the company.

As a result of major operating lease obligations in the freenet Group, the adoption of the new regulations regarding the recognition of leases has a material impact on the consolidated financial statements.

On 28 May 2014, the IASB published standard IFRS 15. IFRS 15 provides a standard body of rules for all questions arising from the reporting of revenue from contracts with customers. The requirements stipulated in IFRS 15 must be applied in a standardised manner for different transactions and across all sectors, thereby improving the global comparability of revenue-related disclosures made by companies. The only exceptions are contracts covered within the scope of IAS 17 (Leases), IFRS 4 (Insurance Contracts) and IFRS 9 (Financial Instruments). IFRS 15 replaces the previous standards and interpretations for the reporting of revenue, and therefore IAS 11 (Construction Contracts), IAS 18 (Revenue), IFRIC 13 (Customer Loyalty Programmes), IFRIC 15 (Agreements for the Construction of Real Estate), IFRIC 18 (Transfers of Assets from Customers) and SIC-31 (Revenue – Barter Transactions Involving Advertising Services). The first time application must generally be retrospective, although Appendix C contains a number of simplifications for the transition to IFRS 15.

The new model provides for a five-stage scheme. According to this, the customer contract and the performance obligations contained therein must first be identified. The remuneration agreed for this purpose must then be ascertained and matched with the separate performance obligations. Finally, revenue must be recorded for each performance obligation as soon as the agreed performance has been rendered or the customer has been granted the power of disposal over it. In connection with this, a distinction is made between performances related to a particular point in time (e. g. delivery of mobile communications hardware) and performances related to a period of time (e. g. offer of mobile communications services over 24 months). With the new regulations on income recognition, the recognition of revenue in many cases – especially in the case of “multi-component” contracts with a number of different contractual performances – no longer corresponds to the invoice amount conveyed to the customer, with the result that among other things, changes regarding the amount and the time of the revenue recognition and revenue adjustments might occur because of contractual modifications.

Another significant consequence of IFRS 15 is the obligation to capitalise customer acquisition costs and customer retention costs and to amortise them thereafter.

On the basis of this new balance sheet accounting, enhanced disclosures in the notes will also be required. Among other things, comments concerning the times when the various types of performance obligations are fulfilled and concerning the contractually agreed payment plans will be required. Outstanding performance obligations must be explained with regard to the transaction price still to be allocated to them and the outstanding fulfilment period.

The IT introduction project associated with the IFRS 15 was started in the freenet Group at the end of 2012, and is at an advanced stage as of 31 December 2015. The process of drawing up the various specialist concepts and also the IT conceptions has essentially been completed. The project is currently in the implementation and test phase. As a result of this introduction project, the IT system landscape of the freenet Group will be extended by new systems, which for instance are used for determining fair values of mobile telecommunications hardware and mobile tariffs, determining the various indicators for the planned application of the portfolio method within the IFRS 15, calculating the accounting records and also calculating the costs of acquiring customers.

With many of our postpaid end customers, the freenet Group generates service revenue from mobile and digital lifestyle services with the end customer, and also sells the corresponding device to the customer. In general, cross subsidy arrangements are used for pricing these two elements, i.e. the tariff and the device. Under the terms of the IFRS 15, a higher level of revenue will be reported with regard to the hardware revenue which is generated immediately upon the sale, whereas the revenue reported in relation to the monthly tariff revenue will be lower than is the case at present. In addition, the revenue recognised in relation to every customer contract throughout the entire duration of the contract will be the same as that which is already recognised. The only difference will be in relation to the time at which the revenue is realised: The application of the new standard means that the revenue for our postpaid activities will tend to be realised at an earlier stage than is the case at present. In the consolidated income statement, the obligation to capitalise and write down the costs of acquiring customers means that the gross profit and EBITDA will tend to rise; on the other hand, the write-downs will also tend to increase.

On 30 July 2015, the IASB published the standard draft ED/2015/6, Clarifications to IFRS 15. This sets out proposals for revising some of the comments and examples of the areas of identifying performance obligations, principal versus agent consideration, license revenue as well as exemption regulations regarding initial adoption, and proposals were also made regarding the inclusion of further examples. These proposals do not result in any significant change to the specialist concept for our Group.

1.2 Consolidated companies

The consolidated financial statements include as subsidiaries all companies which are controlled by the Group. For a complete list of all companies included in freenet AG's consolidated financial statements, please consult the disclosures made in accordance with section 315a HGB in note 37.

IFRS 11 stipulates that there are two forms of joint arrangements, depending on the form of the rights and obligations resulting from the joint arrangement in question: Joint operations and joint ventures. freenet AG has reviewed its joint arrangements and identified them as joint ventures.

Associated companies are defined as companies over which the Group exerts a significant influence but which are not controlled by the Group; this usually involves a share of between 20 and 50 per cent in their voting rights.

The companies 01019 Telefondienste GmbH, 01024 Telefondienste GmbH, freenet.de GmbH, freenet Cityline GmbH, freenet Datenkommunikations GmbH, 01050.com GmbH, tellfon GmbH, 01083.com GmbH, new directions GmbH, freenet Direkt GmbH, mobilcom-debitel GmbH, MobilCom Multimedia GmbH, mobilcom-debitel Shop GmbH, Stanniol GmbH für IT & PR, Gravis – Computervertriebsgesellschaft mbH ("GRAVIS"), MFE Energie GmbH, freenet digital GmbH, iLove GmbH, Quaid Media GmbH, Motility GmbH, klarmobil GmbH and callmobile GmbH will make use of the exemption rules specified in section 264 (3) HGB for the annual financial statements for the period ending on 31 December 2015.

1.3 Consolidation principles

Companies are included for the first time in the consolidated financial statements (full consolidation) with effect from the date on which the possibility of control over the subsidiary is transferred to the Group. They are deconsolidated as of the time when such control has ceased to apply. The company is said to control another entity if it is able to exercise control over the entity in which it holds an equity interest, is exposed to fluctuating returns from that holding, and can influence the level of returns as a result of its control. Control is normally associated with a share of more than 50 per cent of the voting rights. In order to assess whether a situation of control exists, however, due consideration is also given to the existence and impact of potential voting rights, rights resulting from other contractual agreements, and, if applicable, any other facts and circumstances that indicate the possibility of control. The Group therefore also carries out an assessment to determine whether the prevailing situation constitutes control if the parent company holds fewer than 50 per cent of the voting rights but is able to direct the company's most important activities. A situation of control might also apply as a result of, for example, voting rights agreements or enhanced minority rights. freenet AG carries out a reassessment if there are indications that there have been changes to one or more of the criteria of control. Non-controlling interests are disclosed separately on the balance sheet.

The purchase method was applied to the capital consolidation.

The acquisition cost of a business combination is determined by the sum of the fair values of the assets assigned, the liabilities incurred and/or acquired and any equity instruments issued for acquisition purposes. In addition, the acquisition costs include the fair values of all recognised assets and liabilities that result from an agreement concerning a contingent consideration.

All of the acquired company's identifiable assets, liabilities and contingent liabilities that meet the recognition criteria stipulated by IFRS 3.37 are disclosed separately at their fair value, irrespective of the extent of any minority interests. For each corporate acquisition, the Group decides on an individual basis whether the non-controlling shares in the acquired company which are not controllable are recognised at fair value or on the basis of the percentage of net assets attributable to the acquired company.

Acquisition-related costs are recognised as expenses when they are incurred.

When options are granted to enable non-controlling shareholders to tender further shares in Group companies, how the options are recognised depends on how opportunities and risks arising from these shares are assigned. If the opportunities and risks are transferred to the freenet Group, this is reflected in a corresponding reduction in the share of the Group's equity which is attributable to the non-controlling shareholders. In such cases, only a financial liability in relation to the option obligation is recognised. If the opportunities and risks are retained by the non-controlling shareholder, the equity which is attributable to the non-controlling shareholders is recognised. In this case, the financial liability relating to the option obligation is recognised to the disadvantage of the equity attributable to the shareholders of freenet AG. The financial liability is initially valued at the present value of the estimated repurchase amount on the expected date of exercise and subsequently measured at amortised cost using the effective interest rate method and taking into account any possible changes in the repurchase amount.

Transactions with non-controlling interests without loss of control are treated as transactions with equity providers from the Group. If the acquisition of a non-controlling interest results in a difference between the amount that is paid and the corresponding share in the carrying amount of the subsidiary's net assets, such a difference is recognised in equity. Profits and losses which occur upon the disposal of non-controlling interests are also recognised in equity.

Goodwill is recognised as that portion of the asset value at the time of acquisition, as determined in the initial valuation, which is in excess of the purchaser's share of the net fair value of the acquired company's identifiable assets, liabilities and contingent liabilities. Any excess in the share of the net fair value of the acquired company over the acquisition costs is recognised immediately as income.

Investments in associates as well as joint ventures are disclosed in the consolidated financial statements using the equity method, with the recognised values of the shareholdings being increased or reduced annually by the proportion of the changes in equity at the respective company which is attributable to the freenet Group. The Group's share of the profits and losses of associates and joint ventures is recognised in the income statement from the time when the associate is acquired. Goodwill arising from the acquisition of associates and joint ventures is not disclosed separately. If the Group's share of the losses of an associate or a joint venture is equal to or higher than the value of its shareholding in that company, the Group does not recognise any further proportional losses. After the amount recognised for the shareholding is reduced to zero, additional losses are recognised as a liability only to the extent that the company has entered into legal or constructive obligations or has made payments for the associate or joint venture.

If the Group loses control over a company, its remaining share is revalued at fair value and the resulting difference is recognised as profit or loss. In addition, all amounts shown under other comprehensive income in relation to that company are recognised as if the parent company had immediately disposed of the corresponding assets and liabilities. This means that a profit or loss that had previously been recognised in other comprehensive income is no longer recognised in equity, instead being shown under earnings.

Intra-Group profits and losses, revenue, expenses and income as well as trade accounts receivable and liabilities between the consolidated companies are eliminated. The elimination of intra-Group results is also applicable for joint ventures and associates.

2. Accounting and valuation methods

The following accounting and valuation methods were applied during the preparation of these consolidated financial statements. The accounting and valuation methods have basically been used continuously since last year. Regarding the changes, please refer to note 1.1, Business activity and accounting standards, and 2.18, Comparative figures, of these notes.

2.1 Recognition of revenue and expenses

The Group largely provides services for a short period. Revenue is recognised when the services have been rendered in full, provided that the amount of revenue can be determined reliably and it is sufficiently probable that a future economic benefit will accrue to the company. Services rendered but not yet invoiced are accrued separately in the consolidated financial statements. Revenue is disclosed net of value added tax and cash discounts. Revenue comprises the fair value of the consideration that has been, or will be, received for the sale of products and services within the framework of normal business activity.

The bulk of the Group's revenue is generated from a large number of end customers, with the remaining revenue accounted for by corporate customers.

Supplementary notes on revenue recognition (for a breakdown of business sectors consult note 3, Segment reporting):

Revenue in the Mobile Communications segment is generated by the spectrum of mobile communications services on offer, one-off provision charges and the sale of mobile terminals and accessories. Mobile Communications revenue (voice communication as well as data transmission) consists of monthly charges, charges for special features and connection and roaming charges. The charges generated by mobile communications services are recognised as revenue over the period during which the services are provided. Revenue from the sale of mobile terminals and accessories is recognised when the products are delivered to the customer or the distributor.

Customer acquisition costs, which consist mainly of the costs incurred in acquiring the mobile devices and the dealer commissions, are usually recognised immediately as expenses when customers have signed up. In the case of particular agency services provided by dealers, for whom the amount of sales commission depends on the newly acquired customers remaining in the Group's customer base and also on the level of future Group revenue generated with the newly acquired customers, the purchased services are recognised partially as expenses in the income statement rather than being recognised in full at the point where the customers are acquired. The remaining costs are recognised over the life of each new customer's contract. The amount recognised immediately as expenditure in the income statement at the point when the customer is acquired depends on the extent of the service rendered by the dealer at the point at which the customer is acquired in relation to the dealer's entire service over the customer's contractual life.

Certain end user contracts in the Mobile Communications segment are multiple-component contracts within the meaning of IAS 18.13. The "relative fair value method" is used for revenue generated with multiple-component contracts. The Group applies the US-GAAP guideline ASC 605-25 (formerly EITF 00-21) in accordance with IAS 8.10 et seq. The price for the entire multiple-component business is broken down over the various valuation entities on the basis of the proportional fair values. The amount of revenue to be recognised in relation to the elements that have already been supplied is limited to the level of revenue that is not dependent on services to be provided in the future (known as "cash restriction").

The Group receives commission revenue from the operators of mobile communications networks in particular for newly acquired customers and for contract extensions. Commission revenue for new customers is recognised as soon as a new customer is provided with network access by a network provider. The commission claims are based on contractually defined qualitative and quantitative characteristics such as the number of new customers per quarter or the average revenue per customer. In addition, market development funds for individual advertising campaigns are also provided by the network operators and, if the granting of the funds is linked to the activation of new customers, these are recognised in revenue. Insofar as claims extend beyond the period in which the services were rendered, commission revenue is accrued accordingly.

2.2 Borrowing costs, interest expenses and interest income

Borrowing costs are capitalised if a qualified asset is on hand. In the financial year 2015, as in the previous year, no borrowing costs capable of being capitalised were incurred. Other borrowing costs are recognised as expenses in the period of their occurrence.

2.3 Intangible assets

Goodwill is tested for impairment at least once a year as well as with indications of impairment and is shown at original cost less cumulative impairment.

For this purpose, goodwill is allocated to cash-generating units. It is allocated to those cash-generating units or groups of cash-generating units which are expected to derive a benefit from the merger that gave rise to the goodwill. With regard to the specific allocation, please refer to note 15, Intangible assets, property, plant and equipment, and goodwill, and note 16, Impairment test for non-monetary assets.

One trademark with a substantial residual carrying amount is an asset with an indefinite useful economic life, which is not depreciated but rather subject to an impairment test once a year or if there are any indications of impairment. An indefinite useful life has been chosen because no steady loss of value is discernible in relation to this asset and no time limit could be applied to its useful life.

The other trademarks, on the other hand, have definable lifespans. These trademarks are carried at their historical cost and are amortised on a scheduled straight-line basis over their anticipated useful economic lives of 36 to 90 months. On the balance sheet date 31 December 2015, the remaining useful life of these trademarks was between 1 and 27 months.

Licences, software and rights are shown at historical cost and are amortised on a scheduled straight-line basis over their expected useful economic life, which is generally three years for software and one to ten years for licences and rights.

Costs incurred in developing and/or maintaining software programs are generally recognised as expenses in the year in which they are incurred. If the costs are clearly attributable to a definable software product that can be used by the company, and if the product's overall expected economic benefit is greater than the costs incurred, the costs are capitalised as intangible assets in the category "internally generated software". The development costs are not capitalised until the point in time when the product's technical and economic feasibility can be proven. These costs include, for example, the personnel costs of the software development team and any expenses incurred for services and fees during the production of the asset. They also contain an appropriate portion of relevant overheads. Capitalised software development costs are subject to straight-line depreciation over the duration of their likely useful lives of three years.

Customer relationships are amortised on a scheduled straight-line basis over a period of 36 to 60 months. On the balance sheet date 31 December 2015, the remaining useful life of the customer relationships recognised in the balance sheet was between 1 and 37 months.

Distribution rights are amortised on a scheduled straight-line basis over the expected duration of the underlying agreements (48 months). On the balance sheet date 31 December 2015, the remaining useful life of the distribution rights recognised in the balance sheet was 19 months.

2.4 Property, plant and equipment

Property, plant and equipment are valued at their acquisition or production cost less scheduled straight-line depreciation and, if applicable, impairments. The useful economic lives assumed for the depreciation of assets correspond to the assets' expected useful lives within the company. In the calculation of depreciation, any residual values were disregarded on grounds of immateriality.

The residual carrying amounts and useful economic lives are reviewed as at each balance sheet date and adjusted where applicable.

Scheduled depreciation of property, plant and equipment is generally based on the following useful lives:

Asset	Useful life
Buildings	25 to 33 years
Technical equipment and machinery	6 to 8 years
Motor vehicles	3 to 6 years
IT equipment	3 years
Telecommunications equipment and hardware	2 to 5 years
Leasehold improvements	3 to 10 years

2.5 Impairment of non-monetary assets

Non-monetary assets are always impaired if the carrying amount exceeds the recoverable amount. The recoverable amount is defined as the higher of the fair value of the asset, less costs to sell, and the value in use.

An impairment test must be carried out if events or changed circumstances (triggering events) indicate that the asset's value might be impaired. Goodwill and intangible assets with indefinite useful lives must be tested for impairment once a year in accordance with IAS 36.

If the reason for impairment no longer applies, the asset's value is written up to a figure not exceeding the amortised cost. This is not applicable for goodwill, as no write-up is permissible.

2.6 Leases

2.6.1 The Group as lessee

The Group decides on a case-by-case basis whether assets are to be leased or purchased. For non-current assets, specific rules apply to motor vehicles (operating leases) and to factory and office equipment (purchase), with the exception of IT hardware and telecommunications equipment.

Leases that the Group enters into as the lessee are classified as either operating leases or finance leases, depending on whether all the significant risks and opportunities associated with the ownership of the leased property are transferred. Payments made in connection with an operating lease (possibly net after taking account of incentive payments made by the lessor) are recognised as expenses in the income statement using the straight-line method over the duration of the lease.

In accordance with IAS 17, the leased assets which are attributable to the Group as the beneficial owner under finance leases are capitalised at the lower of fair value of the leased asset and the present value of the minimum lease payments, and are depreciated over the shorter of their normal useful life and the term of the lease. Accordingly, the liability arising from the lease is classified as a liability and reduced by the repayment portion of the lease instalments that have already been paid. The interest portion of the lease instalments is recognised under expenses. As of the closing date 31 December 2015, no contract was classified as finance lease.

2.6.2 The Group as lessor in finance leases

When the beneficial ownership of an asset is transferred to the contractual partner or customer, the Group reports a receivable due from the lessee in accordance with IAS 17. The receivable is shown in the amount of the net investment value as of the time when the contract is concluded. Lease instalments which are received are split into an interest component, which is recognised in the income statement, and a redemption component. The interest components are recognised as financial income spread over the relevant periods. As at the closing date 31 December 2015, comparable to the closing date 2014, there are no contracts in which the Group is classified as the lessor in finance leases.

2.7 Investments in associates and joint ventures

Ongoing equity investments in associates and joint ventures are recognised through an individual financial statement prepared for the respective associates or joint ventures in accordance with IFRS and the Group's accounting and valuation methods. With regard to the principles of consolidation using the equity method, please refer to note 1.3, Consolidation principles.

2.8 Financial instruments

2.8.1 Definition and classification

A financial instrument is any contract that simultaneously gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity. For the purposes of measurement, financial assets and financial liabilities are normally broken down into the following categories:

- Financial assets measured at fair value through profit or loss
- Loans and receivables
- Held-to-maturity financial assets
- Available-for-sale financial assets
- Financial liabilities, measured at amortised costs.

How the financial assets and financial liabilities are classified depends on the individual purposes for which they were acquired. The management determines how the financial assets and financial liabilities are to be classified upon initial recognition.

2.8.2 Financial assets measured at fair value through profit or loss

This category comprises two subcategories: Financial assets which are classified as held-for-trading right from the start, and financial assets which are classified as "measured at fair value through profit or loss" right from the very beginning. A financial asset is assigned to this category if it is basically acquired with the intention of being sold in the near future or if the financial asset is designated accordingly by management. Derivatives are likewise included in this category.

As at the balance sheet date, there are no financial assets measured at fair value through profit or loss.

2.8.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not listed on an active market. They arise if the Group provides money, commodities or services directly to a debtor without any intention of trading the receivables. They are classified as current assets, with the exception of those which do not fall due until twelve months after the balance sheet date. The latter are shown under non-current assets. Loans and receivables are shown in the balance sheet under trade accounts receivable, other receivables and other assets, and cash and cash equivalents.

Liquid assets consist of cash and cash equivalents comprising cash, demand deposits and other current highly liquid financial assets with a maximum original term of months.

Loans and receivables also include services which have been rendered but which have not yet been billed, although a contractual claim exists for them.

2.8.4 Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed terms on the basis of which the Group management intends, and is able to hold them until their maturity. Held-to-maturity financial assets – with the exception of those that fall due within twelve months of the balance sheet date and are correspondingly shown as current assets – must be shown under non-current assets.

At present, the Group does not classify any financial instruments as held-to-maturity.

2.8.5 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which either have to be classified under this category or have not been classified under any of the other categories shown. They are assigned to non-current assets provided that management does not have the intention of selling them within twelve months from the balance sheet date.

This category includes shares in affiliated companies, investments and securities. The available-for-sale financial assets that existed on the balance sheet date are shown under other financial assets and under other receivables and other assets.

2.8.6 Financial liabilities, measured at amortised costs

Financial liabilities are based on contractual agreements regarding the payment of liquid assets or the rendering of other financial assets to a third party. A financial liability is recognised when freenet becomes the contracting party.

The financial liabilities as of the balance sheet date are disclosed in the trade accounts payable, financial debt and the other liabilities and deferred items.

2.8.7 Measurement of financial instruments

Regular purchases and sales of financial assets are shown as of the trade date, i.e. the day on which the Group enters into an obligation to buy or sell the asset. Financial assets that do not belong to the “measured at fair value through profit or loss” category are initially shown at their fair value plus transaction costs.

Financial assets which are designated as “measured at fair value through profit or loss” are initially shown with their fair value; corresponding transaction costs are expensed in the income statement.

Financial assets measured at fair value through profit or loss are subsequently measured at fair value. Any profit or loss resulting from the subsequent measurement of financial assets held for trading is recognised in the income statement. After initial recognition, loans and receivables are shown at amortised cost using the effective interest rate method less valuation allowances for impairment. Profits and losses are recognised in the result for the period if the loans and receivables are derecognised, impaired or amortised.

After initial recognition, held-to-maturity investments are shown at fair value plus transaction costs. Profits and losses are recognised in the result for the period if the held-to-maturity investments are derecognised, impaired or amortised.

After initial recognition, available-for-sale financial assets are shown at their fair value, with unrealised profits or losses being recognised directly in other comprehensive income, under the revaluation reserve. Dividends due on available-for-sale equity instruments must be shown in the income statement as other income at the point at which the Group's legal claim for payment arises.

Shares in affiliated companies, investments and securities are generally shown at acquisition costs, unless it is possible to determine their fair values reliably. The shares are not listed and there is no active market for them; neither is there any intention to sell them at present. If there are indications that fair values are lower, these are used.

Upon initial recognition, financial liabilities measured at amortised cost are shown at the fair value of the consideration received less the transaction costs associated with borrowing. In the subsequent period, the financial liabilities are shown at amortised cost using the effective interest rate method. Profits and losses are recognised in the income statement when the liabilities are derecognised or amortised. Non-current liabilities are shown in the balance sheet at amortised cost. Any differences between historical cost and the repayment amount are recognised in accordance with the effective interest rate method. Current liabilities are shown in the amount due for repayment or fulfilment. Loan liabilities are classified as current liabilities provided that the Group does not have the unconditional right to postpone settlement of the liability to a point in time at least twelve months after the balance sheet date. Derivative financial instruments are measured on the basis of future cash flows. Accordingly, derivative financial instruments can also be shown as financial liabilities. Financial liabilities arising from finance leases are shown at the present value of the minimum lease payments.

2.8.8 Impairment of financial assets

As at every balance sheet date, a check is carried out to determine whether there are any objective indications of impairment affecting a financial asset or a group of financial assets. In the case of equity instruments that are classified as available-for-sale financial assets, a significant and permanent decline in their fair value to a level below the cost of these equity instruments is regarded as an indication that the equity instruments are impaired. If there is such an indication with regard to available-for sale assets, the cumulative loss – measured as the difference between the carrying amount and the present value of the estimated future cash flows – is derecognised from equity and shown in the income statement. Once impairments of equity instruments have been recognised in the income statement, they are not subsequently reversed.

Unlisted shares which are classified as available-for-sale are an example of the equity instruments described in the previous paragraph. In the case of such shares, any significant or continuing reduction in the fair value of the securities to a level below the purchase price of the shares must be regarded as an objective indication of impairment. If no market prices are available, other methods, e.g. the DCF method, are used to determine any need for impairment.

An impairment of trade accounts receivable is recognised if there are objective indications that the due amounts are not fully recoverable. Considerable financial difficulties faced by a debtor, an increased probability that the debtor will become bankrupt or will have to go through some other restructuring process, as well as any breach of contract, e. g. default or late payment of interest or redemption payments, are regarded as indications of the existence of impairment.

With some categories of financial assets, for example trade accounts receivable, assets for which no impairment has been determined on an individual basis are tested for impairment on a portfolio basis. Examples of objective indications of impairment affecting a portfolio of receivables are the Group's experience with payment inflows in the past, an increase in the frequency of default on payment within the portfolio over the average duration of a loan, and evident changes in the national or local economic climate that are associated with defaults on receivables.

The carrying amount of the receivable is reduced by using an impairment account. If a receivable has become irrecoverable, it is derecognised from the impairment account. Subsequent payment inflows in relation to previously derecognised amounts are shown in the income statement under impairments of trade accounts receivable.

2.8.9 Derecognition of financial assets

Financial assets and liabilities are netted and shown as a net amount in the balance sheet only if there is a legal entitlement to such treatment and if it is intended that the position will be settled on a net basis or that the associated liability will be settled simultaneously with the realisation of the asset.

2.8.10 Netting of financial instruments

Financial assets and liabilities are netted and shown as a net amount in the balance sheet only if there is a legal entitlement to such treatment and if it is intended that the position will be settled on a net basis or that the associated liability will be settled simultaneously with the realisation of the asset.

2.9 Inventories

Inventories are shown at the lower of purchase and production cost and the net realisable value on the balance sheet date. The net realisable value is defined as the estimated recoverable proceeds less costs to be incurred.

2.10 Foreign currency transactions

The items included in the annual financial statements of each Group company are valued on the basis of the currency corresponding to the currency of the primary economic environment in which the company operates (functional currency). The consolidated financial statements are prepared in euros, which constitute the reporting currency of freenet AG.

Foreign currency transactions are translated into the functional currency using the exchange rates applicable on the date of the transaction. Profits and losses that result from the fulfilment of such transactions, and also from the process of converting monetary assets and liabilities denominated in foreign currency as at the reference date, are recognised in the income statement. The volumes of foreign currency transactions in the financial year 2015 were negligible.

The earnings and balance sheet items of all Group companies that have a functional currency other than the euro are converted into euros using the modified reference date method. Any resulting currency translation differences are recognised in equity until the disposal of the subsidiary and reported as a separate component of equity.

2.11 Shareholders' equity

Ordinary shares, capital reserves, revaluation reserves, retained earnings and minority interests are shown as shareholders' equity. After the deduction of applicable current taxes, costs of capital increases are recognised directly in shareholders' equity under capital reserves.

2.12 Pension provisions

Pension provisions are recognised and measured in accordance with IAS 19. The pension provision shown in the balance sheet is equivalent to the actuarial present value of the defined benefit obligation on the balance sheet date less the fair value of the plan assets. The present value of the defined benefit obligation is calculated every year by an independent actuarial expert using the projected unit credit method. This method takes account not only of the pensions and acquired vested interests known on the balance sheet date; it also includes anticipated future increases in pensions and salaries.

Actuarial gains and losses which are based on experience-related adjustments and changes to actuarial assumptions are shown in equity under other comprehensive income in the period in which they arise.

Differences between the theoretical and actual income from plan assets are recognised in equity under other result in the period in which they arise.

Pension commitments are subject to the regulations of the Betriebsrentengesetz (Company Pensions Act). If the pension plans provide for pension benefits, there is the biometric risk of longevity. There are further risks in terms of pension adjustment obligations due to the development of inflation as well as salary-linked commitments related to the development in salaries.

Past service cost is recognised immediately in the income statement. The service cost is shown under personnel expenses and the interest portion of the addition to provisions is shown in financial results.

Contributions to defined-contribution benefit plans are recognised in the income statement in the year in which they occur.

2.13 Provisions

Provisions are formed for legal or constructive obligations towards third parties of uncertain timing and/or amount which arise as a result of past events, where it is more likely than not that settlement of the obligation will lead to an outflow of assets and where a reliable estimate of the extent of the obligation can be made. The provisions are valued using the best possible estimate of the obligation as at the balance sheet date, taking the discounting of non-current obligations into account.

If there are several similar obligations, the probability of an asset charge based on this group of obligations is ascertained. A provision is classified as a liability even if there is only a minor probability of an asset charge in relation to individual obligations included in this group.

Restructuring provisions basically comprise severance payments to employees. Provisions for contingent losses mainly concern vacancy costs, negative-margin tariffs and payments for the premature termination of rental agreements.

According to IAS 16, the purchase costs of leasehold improvements include costs expected for obligations to remove tenant fittings. In accordance with IAS 37, a provision is therefore created to cover the present value of these obligations if an outflow of resources is likely; this provision is created at the point at which the obligations arise. Changes in the value of an existing provision, in other words changes in the fulfilment amount and/or the discount rate, are recognised by means of an adjustment to the book value of the leasehold improvements (upper limit: recoverable amount; lower limit: zero).

2.14 Employee participation programmes

In the financial year 2015, there were or are two long-term incentive programmes ("LTIP programmes") of freenet AG as employee participation programmes in the Group.

The accounting and valuation methods of these employee participation programmes are described below:

In the financial year 2011, a new compensation programme with a long-term incentive effect, known as the "Programme 1" was set up for the members of the Executive Board. On 26 February 2014, agreements concerning the contracts of employment that grant new LTIPs ("Programme 2") were concluded with the members of the Executive Board.

In the LTIP programmes, an LTIP account is maintained for each member of the Executive Board; in each financial year, depending on the extent to which particular objectives for the financial year in question have been attained, credit or debit entries are made in the accounts in the form of virtual shares. Then, within a predetermined period of time, cash payouts less taxes and charges can be made for each financial year, depending on the balance in the respective LTIP account. The magnitude of these payments is dependent on, among other things, the relevant share price at the time of the payout. The provision is measured at the fair value of the virtual shares that will probably become vested. For details, please refer to our explanations to note 26 "Employee participation programmes".

2.15 Deferred and current taxes on income

Deferred taxes are recognised for tax loss carry-forwards and, using the liability method, for all temporary differences between the tax balance sheet values and the carrying amounts of assets and liabilities as well as tax loss carry-forwards. Deferred taxes are measured at the tax rates (and tax laws) that apply or have been substantively enacted on the balance sheet date and that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets in relation to allowable temporary differences are recognised to the extent that deferred tax liabilities are still in existence. If the amount of the deferred tax assets in relation to allowable temporary differences exceeds this figure, the deferred tax assets are only recognised to the extent that it is likely that the deferred tax assets will be used by future profits. Deferred tax assets in relation to any tax loss carry-forwards, too, are capitalised only to the extent that it is likely that they will be utilised by future profits. The profits expected for the future are based on the company's forecast for pre-tax earnings applicable as at the balance sheet date.

Deferred tax liabilities which result from temporary differences in connection with holdings in subsidiaries and associates are recognised, unless the time at which the temporary differences are reversed can be determined by the Group and it is likely that the temporary differences will not reverse in the foreseeable future as a result of this influence.

Current tax expenses are calculated in accordance with the German tax regulations which are applicable as at the balance sheet date or which will be applicable in the near future. The management regularly reviews tax declarations, particularly with regard to issues that are subject to interpretation, and, if appropriate, forms provisions based on the amounts that will probably have to be paid to the fiscal authorities.

2.16 Judgements, forward-looking assumptions and estimates

The presentation of the net assets, financial position and results of operations in the consolidated financial statements depends on the recognition and valuation methods used and on forward-looking assumptions and estimates. The actual amounts may diverge from the estimates. The significant estimates and associated assumptions set out below, as well as any uncertainties with regard to the chosen accounting and valuation methods, are of crucial importance for a correct understanding of the underlying risks of financial reporting as well as the impact that these estimates, assumptions and uncertainties might have on the consolidated financial statements.

The valuation of property, plant and equipment and intangible assets involves estimates for determining the fair value at the time of acquisition if the assets were acquired as part of a business combination. The anticipated useful life of such assets must also be estimated.

With regard to the forward-looking assumptions made within the framework of the tests relating to potential goodwill impairments (book value as of 31 December 2015: 1,154.0 million euros; previous year: 1,153.3 million euros) as well as impairments of intangible assets with an indefinite useful economic life (book value as of 31 December 2015: 293.2 million euros, previous year: 293.2 million euros), please refer to note 16, Impairment test for non-monetary assets.

A sensitivity analysis regarding the impairment tests for the assets allocated to the cash-generating unit (CGU) “Mobile Communications” has established that the fair value less costs to sell would decline by approximately 248 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 295 million euros if the WACC were to decline by 0.5 percentage points, and that, if earnings before interest and taxes (EBIT) were to be reduced or increased by 10 per cent in the planning period, the fair value less costs to sell would decrease by approximately 565 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 672 million euros (if the WACC simultaneously were to be reduced by 0.5 percentage points); this would not result in any impairment with regard to the assets allocated to this CGU.

A sensitivity analysis regarding the impairment tests for the assets allocated to the cash-generating unit “Online” has established that the fair value less costs to sell would decline by approximately 8 million euros if the WACC were to be increased by 0.5 percentage points and would increase by 9 million euros if the WACC were to decline by 0.5 percentage points, and that, if earnings before interest and taxes (EBIT) were to be reduced or increased by 10 per cent in the planning period, the fair value less costs to sell would decrease by approximately 19 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 22 million euros (if the WACC simultaneously were to be reduced by 0.5 percentage points); this would not result in any impairment with regard to the assets allocated to this CGU.

An assessment of the value of the receivables and other assets was carried out in order to determine suitable valuation allowances for trade accounts receivable and other assets. These assessments were based largely on past experience, as well as on the age structure and status of receivables in the dunning and collection process.

With regard to the trade accounts receivable arising from multiple-component agreements in relation to the offer for end customers to select more valuable mobile devices in return for an additional monthly payment (mobile option), and in order to determine the fair value of those receivables, assumptions were made about the duration and risk-adjusted interest rate to determine the present value of the anticipated future payment flows arising from these agreements. This interest rate takes the maturities of these interest rates into account, as well as their default risk. A sensitivity analysis in relation to this interest rate has established that these receivables would have been 1.0 million euros lower if the interest rate had increased by 0.5 percentage points and would have been 1.0 million euros higher if the interest rate had decreased by 0.5 percentage points.

With regard to the accrual of purchased services from sales commissions for the various products offered by the Group, estimates are made on the basis of past experience to assess the probability with which final commissions, which can no longer be cancelled, become payable.

In the case of particular agency services provided by dealers, for whom the amount of sales commissions depends on the newly acquired customers remaining in the Group’s customer base and also on the level of future Group revenue generated with the newly acquired customers, the purchased services are recognised partially as expenses in the income statement rather than being recognised in full at the point at which the customers are acquired. The remaining costs are recognised over the life of each new customer’s contract. The amount recognised immediately as expenditure in the income statement at the point at which the customer is acquired depends on the extent of the service rendered by the dealer at the point where the customer is acquired in relation to the dealer’s entire service over the customer’s contractual life. The amount which is recognised in this way is essentially an assessment of the future average revenue of the Group generated with the end users acquired by this dealer and also based on cost estimates of the value of that part of the dealer's consideration that is generated during the contractual life of the customer whom the dealer acquired.

The recognition and calculation of provisions depend on estimates. In particular, provisions for legal disputes are formed on the basis of the assessment by the lawyers representing the Group companies.

Regarding the formation of the provision for contingent losses for any vacancy of rented shops and/or office buildings, assumptions were made in respect of the possibility of these premises being sublet in the future. With regard to the valuation of the provision for contingent losses for reducing the landline/internet network, an assumption was basically made concerning the residual terms of particular rental agreements and therefore the extent of future losses in this field. With regard to the formation of provisions for contingent losses in relation to anticipated losses from negative-margin tariffs, assumptions were made largely in respect of how long customers will spend in these tariffs in the future.

With regard to the assumptions and estimates made in the valuation model used for determining the provision for the LTIP programme as at 31 December 2015, please refer to note 26, Employee participation programmes.

With regard to pension provisions and similar obligations, note 30 describes how forward-looking assumptions were made for the valuation of the provisions for pensions and similar obligations. This involves the estimation of a discount rate, the pension trend, the assessment of the future development of the beneficiary's pensionable income and an assessment of the beneficiary's life expectancy. A sensitivity analysis came to the conclusion that if the discount rate were to increase by 1.0 percentage points, the present value of the funded and unfunded obligations would be reduced by 10,032 thousand euros, while a decrease of 1.0 percentage points in the discount rate would increase the present value of the funded and unfunded obligations by 13,316 thousand euros. With regard to further sensitivity analyses pertaining to the pension obligations, please refer to note 30, Pension provisions and similar obligations, of the notes to the consolidated financial statements.

There are commercial transactions for which it is not possible to determine the definitive taxation during the normal course of business. The Group determines the amount of the provisions for anticipated tax audits on the basis of estimates as to whether, and if so to what extent, additional taxes on income will become due. Insofar as the definitive taxation for these transactions differs from the figure originally assumed, this will have an impact on the current and deferred taxes on income in the period in which the taxation is definitively determined.

The deferred tax assets in relation to loss carry-forwards are based on corporate planning for the four subsequent financial years involving forward-looking assumptions about, for example, the macroeconomic trend and the development of the telecommunications market. With regard to the amount of the capitalised deferred taxes on loss carry-forwards and to the amount of the loss carry-forwards in relation to which no deferred tax assets were recognised, please refer to note 19, Deferred tax assets and deferred tax liabilities. A sensitivity analysis carried out in relation to the deferred tax assets has established that the deferred tax assets would increase by approx. 20.2 million euros if the trade income or corporation tax income were to increase by 10 percent in the relevant planning period, and that they would decline by approx. 20.2 million euros if the trade income or the corporation tax income were to decline by 10 percent in the relevant planning period.

2.17 Assets classified as held for sale

Discontinued operations and held-for-sale non-current assets, which are classified under IFRS 5 as held- for-sale, are shown at the lower of carrying amount and fair value less costs to sell if it is generally more likely that their carrying amount can be realised by way of a sale than by further use. At the time of reclassification to the discontinued operations and held-for-sale non-current assets, there is no further scheduled depreciation of the assets in question.

The held-for-sale assets or the held-for-sale group of assets are reclassified as "Continued operations" when the criteria of IFRS 5 are no longer satisfied. The assets or the group of assets are shown at the lower of carrying amount less scheduled depreciation or revaluations which would have been carried out if the assets or group of assets had not been classified as discontinued operations, and the recoverable amount at the time of reclassification. The adjustments to the revaluation of the group of assets are shown in the income statement as part of continued operations.

2.18 Comparative figures

Compared with the previous year, the group of consolidated companies has changed due to the acquisition of EXARING AG, Munich (referred to in the following together with its subsidiary Synergy Networks GmbH, Leipzig, as "EXARING"); initial consolidation from 31 December 2015). We have described the assets and liabilities as of 31 December 2015 at fair values under note 36, Company acquisitions. Beyond that, comparability with the consolidated financial statements as at 31 December 2014 is not significantly impaired with regard to the net assets, financial position and results of operations.

3. Segment reporting

IFRS 8 stipulates that by means of internal management, operating segments must be distinguished from Group segments whose operating results are reviewed regularly by the company's main decision-making body with regard to decisions affecting the allocation of resources to this segment and the measurement of its profitability.

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

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

The "Other/Holding" segment includes other business activities in addition to the aforementioned operating activities. These primarily include freenet AG's activities as a holding company (with the provision of intra-Group services in central divisions such as Legal, HR and Finance). The segment revenue of 87.2 million euros (previous year: 81.2 million euros) reported for the "Other/Holding" segment in 2015 is attributable to operating activities (81.2 million euros; previous year: 76.7 million euros) and other business activities with (6.0 million euros; previous year: 4.5 million euros). Of the figure of 54.6 million euros (previous year: 55.8 million euros) reported for gross profit for the "Other/Holding" segment in 2015, 55.5 million euros (previous year: 56.6 million euros) is attributable to the operating activities and -0.9 million euros (previous year: -0.8 million euros) is attributable to the other business activities. The EBITDA of -12.6 million euros reported for the "Other/Holding" segment in 2015 (previous year: -12.9 million euros) was accounted for by operating activities to the extent of 11.2 million euros (previous year: 9.3 million euros) and by other business activities (-23.8 million euros; previous year: -22.2 million euros). The EBIT of -24.0 million euros reported for the "Other/Holding" segment in 2015 (previous year: -23.3 million euros) is accounted for by operating activities to the extent of 0.5 million euros (previous year: -0.4 million euros) and by other business activities in the amount of -24.5 million euros (previous year: -22.9 million euros).

Each of the two segments provides, or used to provide, services to the other segment. These services were charged on the basis of transaction prices which are customary on the market.

Income and expenses are allocated to the segments on the basis of selected criteria and commercial relevance. For purposes of segment reporting, the values and measurements shown for the assigned expenses and income do not differ from the values and measurements shown in the consolidated balance sheet and the consolidated income statement, as was the case last year.

A breakdown by individual products or services of revenue earned with third parties is shown in note 4, Revenue. A more extensive breakdown based on individual products or services is not available.

The freenet Group engages in mass-market business that focuses primarily on private customers. Accordingly, the Group is not dependent on individual customers.

Segment report for the period from 1 January to 31 December 2015

In EUR '000s	Mobile communications	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**3,051,499**	**66,393**	**0**	**3,117,892**
Intersegment revenue	9,695	20,768	-30,463	0
Total revenue	**3,061,194**	**87,161**	**-30,463**	**3,117,892**
Cost of materials, third party	**-2,303,816**	**-23,659**	**0**	**-2,327,475**
Intersegment cost of materials	-14,535	-8,942	23,477	0
Total cost of materials	-2,318,351	-32,601	23,477	-2,327,475
Segment gross profit	**742,843**	**54,560**	**-6,986**	**790,417**
Other operating income	50,800	6,452	-5,984	51,268
Other own work capitalised	9,180	2,290	0	11,470
Personnel expenses	-154,951	-40,284	0	-195,235
Other operating expenses	-265,111	-35,772	12,970	-287,913
Share of results of associates accounted for using the equity method	0	171	0	171
Segment EBITDA	**382,761**	**-12,583**	**0**	**370,178**
Depreciation and impairment write-downs	-60,000	-11,403	0	-71,403
Segment EBIT	**322,761**	**-23,986**	**0**	**298,775**
Group financial result				-44,084
Taxes on income				-33,231
Group result				**221,460**
Group result attributable to shareholders of freenet AG				220,969
Group result attributable to non-controlling interest				491
Zahlungswirksame Investitionen	**27,177**	**4,207**		**31,384**

Segment report for the period from 1 January to 31 December 2014

In EUR '000s	Mobile communications	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**2,981,084**	**59,501**	**0**	**3,040,585**
Intersegment revenue	7,576	21,687	-29,263	0
Total revenue	**2,988,660**	**81,188**	-29,263	**3,040,585**
Cost of materials, third party	**-2,243,818**	**-18,710**	**0**	**-2,262,528**
Intersegment cost of materials	-13,088	-6,709	19,797	0
Total cost of materials	-2,256,906	-25,419	19,797	-2,262,528
Segment gross profit	**731,754**	**55,769**	**-9,466**	**778,057**
Other operating income	58,744	10,186	-4,403	64,527
Other own work capitalised	9,928	3,410	0	13,338
Personnel expenses	-150,635	-49,042	0	-199,677
Other operating expenses	-271,250	-33,530	13,869	-290,911
Share of results of associates accounted for using the equity method	0	273	0	273
Segment EBITDA	**378,541**	**-12,934**	**0**	**365,607**
Depreciation and impairment write-downs	-54,009	-10,404	0	-64,413
Segment EBIT	**324,532**	**-23,338**	**0**	**301,194**
Group financial result				-40,561
Taxes on income				-12,470
Group result				**248,163**
Group result attributable to shareholders of freenet AG				247,465
Group result attributable to non-controlling interest				698
Investments	**23,701**	**5,067**		**28,768**

4. Revenue

A classification of the revenue totalling 3,118 million euros (previous year: 3,041 million euros) by segment is set out in note 3, Segment reporting.

Of the external revenue generated in the Mobile Communications segment, 1,752 million euros (previous year: 1,729 million euros) was basically accounted for by service revenue, 616 million euros (previous year: 596 million euros) by fees for premiums and commissions and 634 million euros (previous year: 615 million euros) by revenue from the sale of mobile communications devices, computers/IT products and accessories.

5. Other operating income

Other operating income consists mainly of income from dunning charges and charges for reversing direct debits, income from the charging-on of expenses, market development funds (insofar as not linked to new customer activation) and income from charging employees fees for the use of company cars.

6. Other own work capitalised

Other own work capitalised is accounted for mainly by the development of software in the Mobile Communications segment. This work is connected almost entirely with strategic projects.

The capitalised costs comprise the directly attributable individual costs, which are largely consulting fees and personnel expenses, and the directly attributable overheads.

7. Cost of materials

The cost of materials is broken down as follows

In EUR '000s	2015	2014
Costs of purchased goods	659,937	671,548
Costs of purchased services	1,667,538	1,590,980
Total	**2,327,475**	**2,262,528**

The cost of purchased goods largely consists of the cost prices for sold mobile communications devices, computers/ IT products and bundles from prepaid operations.

The cost of purchased services mainly comprises mobile communications charges, commissions and premiums for sales partners.

8. Personnel expenses

Personnel expenses are broken down as follows:

In EUR '000s	2015	2014
Wages and salaries	165,860	168,082
Social contributions and expenses for retirement pensions	29,375	31,595
Total	**195,235**	**199,677**

An average of 4,560 persons was employed in the freenet Group in the financial year 2015 (previous year: 4,908). At the end of the financial year, the Group employed 4,367 persons (previous year: 4,826). Of this figure, 27 (previous year: 33) were senior executives and 306 (previous year: 323) were apprentices or students of the vocational academy as of 31 December 2015.

The Group's employee participation programmes resulted in personnel expenses as per IFRS 2 amounting to 2,157 thousand euros (previous year: 3,313 thousand euros).

For an explanation of the employee participation programmes, please refer to the statements in notes 2.14 and 26, Employee participation programmes.

Personnel expenses also comprise an expense of 1,122 thousand euros for defined benefit plans (previous year: 2,749 thousand euros), see also note 30, Pension provisions and similar obligations.

Personnel expenses include a figure of 13,514 thousand euros as the employer's social insurance contribution as costs of defined contribution benefit plans (previous year: 14,002 thousand euros).

9. Depreciation and amortisation

The following table sets out the composition of depreciation and amortisation:

In EUR '000s	2015	2014
Amortisation on intangible assets	60,480	52,641
Impairment write-downs on intangible assets	0	368
Depreciation on property, plant and equipment	10,743	11,404
Impairment on property, plant and equipment	180	0
Total	**71,403**	**64,413**

The increase in amortisation of intangible assets is attributable primarily to the acquired rights.

The impairments of intangible assets in the previous year concern a software product that is no longer used.

The depreciation recognised in relation to property, plant and equipment relates to tenant fittings in stores which are no longer used.

10. Other operating expenses

Other operating expenses consist mainly of marketing costs (96,671 thousand euros in 2015 compared with 93,591 thousand euros in 2014), legal and consulting fees, administration costs (e. g. rents and ancillary costs at the shops and administrative buildings), impairment costs and default on receivables, as well as costs of billing, outsourcing and postage.

In the financial year, costs of valuation allowances and the write-off of receivables totalling 44,396 thousand euros (previous year: 37,748 thousand euros) were incurred. These expenses were attributable almost exclusively to trade accounts receivable.

A total of 33,324 thousand euros was recognised in the income statement in connection with rental agreements and leases (previous year: 35,271 thousand euros).

11. Interest and similar income

Interest and similar income consists of the following items:

In EUR '000s	2015	2014
Interest receivable from banks, debt collection and similar income	393	1,224
Interest of tax fund	25	491
Total	**418**	**1,715**

12. Interest and similar expenses

Interest and similar expenses are broken down as follows:

In EUR '000s	2015	2014
Interest payable and similar costs	35,063	35,091
Compounding of liabilities	6,790	4,405
Interest on pension obligations	1,106	1,309
Interest expense of additional tax payments and similar expenses	719	818
Other	824	653
Total	**44,502**	**42,276**

Of the interest expenses shown for 2015 as a result of the compounding of liabilities, the sum of 6,695 thousand euros (previous year: 4,255 thousand euros) is attributable to the compounding of trade accounts payable, other liabilities and current income tax liabilities, while 95 thousand euros (previous year: 150 thousand euros) are attributable to the compounding of other provisions.

13. Taxes on income

Taxes on income comprise paid and outstanding taxes on income, plus deferred taxes.

In EUR '000s	2015	2014
Current tax expenses for the financial year	-35,173	-33,305
Tax income for previous years	8	4,018
Deferred tax income due to the write-up of deferred tax assets	3,840	12,165
Deferred tax expenses (previous year: tax income) due to temporary differences	-2,270	3,181
Deferred tax income attributable to rate changes	364	1,471
Total	**-33,231**	**-12,470**

For further disclosures concerning deferred taxes, please refer to note 19, Deferred tax assets and liabilities.

Applying the average tax rate of the consolidated companies to the Group result before taxes on income would result in anticipated tax expenses of 76.7 million euros (previous year: 78.3 million euros). The difference between this amount and the actual tax expense of 33.2 million euros (previous year: 12.5 million euros) is shown in the following reconciliation:

In EUR '000s/as indicated	2015	2014
Earnings before taxes	254,691	260,633
Expected tax expenses applying a tax rate of 30.10 % (previous year: 30.05 %)	-76,662	-78,320
Change in the allowance for deferred tax assets and non-recognised deferred tax assets in relation to losses carried forward	54,960	61,707
Tax effect on non-deductible expenses and tax-free income	-11,901	-1,346
Effects due to changes in tax rate	364	1,471
Tax income for previous years	8	4,018
Actual tax expense	**-33,231**	**-12,470**
Effective tax rate in %	13.05	4.78

For the Group companies, a corporation tax rate of 15.0 per cent (previous year: 15.0 per cent) was used in the financial year 2015 for calculating the current and deferred taxes on income. A solidarity surcharge of 5.5 per cent in relation to the corporation tax as well as an average trade tax assessment rate of 407.48 per cent (previous year: 406.88 per cent) were also used. The deferred taxes in the financial year 2015 were calculated using an average rate of 30.10 per cent (previous year: 30.05 per cent). This increase of 0.05 percentage points in the average tax rate is attributable to the above-mentioned increase in the average trade tax rate.

14. Earnings per share

14.1 Undiluted earnings per share

Undiluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation during the financial year. In the future, it is possible that the undiluted earnings per share may decrease as a result of the possible utilisation of conditional capital. For more information, please refer to the statements in note 25.5, Conditional capital.

	2015	2014
Group result attributable to shareholders of freenet AG in EUR '000s	220,969	247,465
Weighted average of shares outstanding	128,011,016	128,011,016
Earnings per share in EUR (undiluted)	**1.73**	**1.93**

14.2 Diluted earnings per share

Diluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation increased by potentially diluting shares.

As at 31 December 2015, there are neither actual nor potential dilution effects.

	2015	2014
Group result attributable to shareholders of freenet AG in '000s	220,969	247,465
Weighted average of shares outstanding	128,011,016	128,011,016
Weighted average of shares outstanding plus number of diluting shares	128,011,016	128,011,016
Earnings per share in EUR (diluted)	**1.73**	**1.93**

15. Intangible assets, property, plant and equipment and goodwill

Movements in property, plant and equipment and intangible assets are shown in the statement of changes in fixed assets.

The most significant carrying amount in the intangible assets is for trademark rights arising from the purchase price allocation on the occasion of the acquisition of the debitel Group in the financial year 2008.

The following table sets out the carrying amounts of these intangible assets from purchase price allocations:

In EUR '000s	31.12.2015	31.12.2014
Trademarks	296,641	302,886
User charges	72,296	0
Customer relations	8,219	13,015
Software	5,555	7,382
Total	**382,711**	**323,283**

In addition to the intangible assets from various purchase price allocations, further intangible assets of 75.4 million euros are shown as of 31 December 2015 (31 December 2014: 66.9 million euros), including distribution rights of 46.3 million euros (previous year: 39.5 million euros).

The recapitalisation and its prolongation agreed in 2015 of the exclusive distribution right with Media Saturn Deutschland GmbH, which became effective in 2013, had resulted in a carrying amount of 38.6 million euros as at 31 December 2015.

No impaired intangible assets were in existence as at 31 December 2015.

The composition of the cash generating units (CGU) has been adjusted to reflect that of internal corporate management in these consolidated financial statements. In the first quarter of 2015, the CGUs "freenet digital" (relevant carrying amount of goodwill as of 31 December 2015: 29,162 thousand euros) and the CGU "portal" (relevant carrying amount of goodwill as of 31 December 2015: 588 thousand euros) were merged to form the CGU "online" as the sectors were reorganised. The previous year figure has been adjusted due to considerations of comparability.

The goodwill in the balance sheet apportioned to CGUs is shown below:

In EUR '000s	31.12.2015	31.12.2014 adjusted
Mobile Communications	1,119,396	1,119,396
Online	29,750	29,750
TV	687	0
Other	4,152	4,152
Total	**1,153,985**	**1,153,298**

The purchase price allocation on the occasion of the acquisition of EXARING resulted in goodwill of 687 thousand euros, which is shown under the new CGU "TV". In connection with this, please refer also to the statements in note 36, Company acquisitions, of these notes.

The CGU "TV" as well as the one summarised under "Others" are allocated to the segment "Others/Holding".

In the financial year and in the previous year, the income statement was not affected by research and development costs.

16. Impairment test for non-monetary assets

In accordance with the provisions of IAS 36, we hereby provide the following disclosures on asset impairment testing:

Goodwill of 1,119,396 thousand euros (previous year: 1,119,396 thousand euros) was allocated to the CGU "Mobile Communications", which belongs to the Mobile Communications segment, and a trademark right as an intangible asset with an undefined useful economic life in the amount of 293,204 thousand euros (previous year: 293,204 thousand euros).

The fair value less costs to sell has been used as the recoverable amount of the "Mobile Communications" CGU. Planning that covers the period up to and including 2019 and was approved by management was used to calculate the fair value. The detailed planning phase was extrapolated in perpetuity. This is equivalent to level 3 of the fair value hierarchy in accordance with IFRS 13.

Planning is based on detailed assumptions derived from previous experience and future expectations in relation to the main result and value drivers. In principle, the gross profit of the "Mobile Communications" CGU can be broken down into two earnings flows: the contribution made to earnings by new customers, and customer retention. These are opposed by the costs for purchased services, particularly with regard to the mobile network operators. The costs of acquiring and retaining customers dominate the contribution to earnings made by new customers and customer loyalty. On the other side are costs for procuring hardware and for dealer commissions to be paid to sales partners as a result of the acquisition or loyalty programmes. In the course of the planning period, the freenet Group is anticipating slightly lower costs of acquiring customers, slightly higher customer retention costs, a moderate increase of Group revenue for 2016, further slight savings in terms of overhead costs as well as a stabilisation of the postpaid ARPU in 2016. In addition, the Group is expecting to see a slightly increase in the customer ownership base (postpaid and no-frills) in 2016. A forecast consolidated EBITDA of slightly above 400 million euros as well as a free cash flow of around 300 million euros have been used by the freenet Group as the basis for 2016. Group EBITDA and free cash flow will be generated predominantly within the "Mobile Communications" CGU. The freenet Group expects that, within the mobile telecommunications CGU, there will be an increase in the contributions made to revenue and earnings by the digital lifestyle products in the planning period.

The WACC after tax derived in relation to the specific risk structure of the "Mobile Communications" CGU on the basis of market data and used in the course of determining the fair value is 6.23 per cent (previous year: 6.37 per cent). With regard to the capitalisation rate in the subsequent phase (as from 2020), a discount of 0.5 per cent has been assumed as a result of growth assumptions (previous year: 0.5 per cent).

The impairment test carried out in 2015 in relation to the "Mobile Communications" CGU confirmed that no impairment has to be recognised in relation to the goodwill allocated or to the trademark right with an undefined useful life.

Goodwill of 29,750 thousand euros was allocated to the CGU "Online" (31 December 2014 adjusted: 29,750 thousand euros – with regard to the previous year adjustment, please refer to note 15 of the notes to these consolidated financial statements). The "Online" CGU is part of the "Other/Holding" segment. The fair value less costs to sell has been used as the recoverable amount of the "Online" CGU. Planning that covers the period up to and including 2019 and was approved by management was used to calculate the fair value. The detailed planning phase was extrapolated in perpetuity. This is equivalent to level 3 of the fair value hierarchy in accordance with IFRS 13.

Planning for the "Online" CGU is based on detailed assumptions derived from previous experience and future expectations in relation to the main result and value drivers. These are essentially the revenue and gross profits generated by the individual end products, differentiated in accordance with the respective sales markets. The freenet Group is assuming that the “Online” CGU will generate increasing revenue, gross profits and contributions to EBITDA in the planning period.

The WACC after tax derived in relation to the specific risk structure of the “Online” CGU on the basis of market data and used in the course of determining the fair value is 7.72 per cent. With regard to the capitalisation rate in the subsequent phase (as from 2020), a discount of 0.5 per cent has been assumed as a result of growth assumptions.

The impairment test carried out in 2015 in relation to the “Online” CGU confirmed that no impairment is required for the goodwill allocated.

The consolidated financial statements as at 31 December 2015 include other goodwill for various CGUs in the amount of 4,839 thousand euros, all of which is allocated to the “Other/Holding” segment.

All in all, the impairment of non-monetary assets in the Group in the financial year 2015 amounted to 0.2 million euros (previous year: 0.4 million euros). These relate to tenant fittings in stores which are no longer used.

17. Companies included using the equity method

No associates are included in the consolidated financial statements for the period ending on 31 December 2015.

In the consolidated financial statements as at 31 December 2015, FunDorado GmbH, Hamburg (“FunDorado”), including its subsidiaries and investments, is included as a joint venture. The freenet Group holds 50 per cent of the shares in FunDorado (previous year: 50 per cent). FunDorado operates a fee-based internet portal. In 2006, FunDorado had acquired a 50 per cent stake in Net Con Media s.r.o., based in Hlučín in the Czech Republic (“NetCon”). The company produces content that is designed for use primarily in FunDorado’s fee-based internet portal. NetCon in turn holds 100 per cent of its distribution company siXXup new Media GmbH, Pulheim, Germany (“siXXup”).

In 2013, FunDorado acquired a 50 per cent stake in Funview GmbH, Hamburg.

FunDorado is included in the consolidated financial statements using the equity method. In 2015, FunDorado, including its subsidiaries and investments, generated earnings of 171 thousand euros (previous year: 273 thousand euros). These are solely earnings from continuing operations shown in the income statement; the companies therefore did not generate any other results from changes in value recognised directly in equity.

The carrying amount of the Group’s investment in FunDorado, including its subsidiaries and investments, was 1,760 thousand euros as at 31 December 2015 (previous year: 1,519 thousand euros). The increase of 241 thousand euros, with profit shares disclosed as 171 thousand euros, is attributable to the fact that freenet AG in 2015 made an additional cash payment of 70 thousand euros into the capital reserve of FunDorado.

As at 31 December 2015, there were no contingent liabilities or capital commitments in connection with the Group interests in these joint ventures.

18. Other financial assets

The other financial assets recognised as at the balance sheet date mainly comprise fixed-income bonds with long-term maturities of 1,014 thousand euros (previous year: 1,031 thousand euros); these serve as rental security for shops and are measured at fair value. In addition, there is a dormant holding with an unchanged carrying amount of 500 thousand euros which has been measured at its acquisition cost in light of an absent market.

An impairment of 100 per cent was recognised in the financial year 2011 in relation to the investment in Pocketfilm Media Entertainment GmbH, Frechen, Germany, in view of its significantly poor earnings prospects – this assessment has not changed as at 31 December 2015. This investment's historical cost amounts to 398 thousand euros.

As at the balance sheet date, no impairments had been carried out for the other financial assets – with the exception of the impairment pertaining to Pocketfilm Media Entertainment GmbH in 2011.

The other financial assets are broken down as follows:

In EUR '000s	31.12.2015	31.12.2014
Dormant holding	500	500
Other holding	3	3
Other financial assets, measured at cost of purchase	**503**	**503**
Fixed-income bonds	1,014	1,031
Other financial assets, in equity measured at fair value	**1,014**	**1,031**
Total	**1,517**	**1,534**

19. Deferred tax assets and liabilities

The deferred tax assets and liabilities, taking account of the temporary differences in accordance with the liability method, were taxed at an overall rate of 30.10 per cent (previous year: 30.05 per cent).

The following amounts are shown in the consolidated balance sheet:

In EUR '000s	31.12.2015	31.12.2014
Deferred tax assets	177,337	199,853
Deferred tax liabilities	-6	-123
Total	**177,331**	**199,730**

The overhang of deferred tax assets for the corporation tax and trade tax group of freenet AG which are recognised (177.3 million euros; previous year: 199.7 million euros) is classified as short-term (47.5 million euros; previous year: 44.5 million euros) and long-term (129.8 million euros; previous year: 155.2 million euros) as a result of the anticipated use of tax loss carry-forwards.

Changes in the deferred income tax assets and liabilities in the financial year 2015 are shown in the following table:

In EUR '000s	1.1.2015	Change in group of consolidated companies	Shown directly in other result	Adjustment	Expenses and income from taxes on income	31.12.2015
Property, plant and equipment	1,925	0	0	0	-1,545	380
Intangible assets	-119,268	-21,761	0	-154	254	-140,929
Financial assets	-11	0	0	0	-3	-14
Loss carry-forwards	285,713	0	0	0	4,326	290,039
Pension provisions	10,111	0	-2,521	154	-34	7,710
Other provisions	4,048	0	0	0	-2,245	1,803
Other liabilities	-507	0	0	0	408	-99
Borrowings	337	0	0	0	76	413
Other assets and liabilities	17,382	0	-51	0	697	18,028
Total	**199,730**	**-21,761**	**-2,572**	**0**	**1,934**	**177,331**

The expenses and income from income tax amounting to 1,934 thousand euros (previous year: 16,817 thousand euros) are shown in the consolidated income statement as deferred income taxes under “Taxes on income”. They basically correspond to the sum of the deferred taxes on income attributable to continued and discontinued operations. As in the previous year, income tax expenses and income in 2015 were attributable solely to continued operations.

The deferred tax assets and deferred tax liabilities developed as follows in the financial year 2014:

In EUR '000s	1.1.2014	Change in group of consolidated companies	Shown directly in other result	Expenses and income from taxes on income	31.12.2014
Property, plant and equipment	1,746	0	0	179	1.925
Intangible assets	-111,806	-7,521	0	59	-119,268
Financial assets	-9	0	0	-2	-11
Loss carry-forwards	271,612	0	0	14,101	285,713
Pension provisions	5,921	0	3,749	441	10,111
Other provisions	4,796	0	0	-748	4,048
Other liabilities	-47	0	0	-460	-507
Borrowings	-570	0	0	907	337
Other assets and liabilities	15,147	0	-105	2,340	17,382
Total	**186,790**	**-7,521**	**3,644**	**16,817**	**199,730**

The summarised net development of deferred taxes is shown below:

In EUR '000s	2015	2014
As of 1. 1.	199,730	186,790
Change in group of consolidated companies	-21,761	-7,521
Shown directly in other result	-2,572	3,644
Tax income	1,934	16,817
As of 31. 12.	**177,331**	**199,730**

The existing tax loss carry-forwards that can be carried forward without any restrictions exceed the sum of the forecast cumulative results for the next four financial years. Accordingly, a deferred tax asset was only recognised in the consolidated balance sheet to the extent that it is regarded as probable that this asset will indeed be realised. The expected results are based on the company’s forecast for pre-tax earnings applicable as at the balance sheet date. As at 31 December 2015, deferred tax assets amounting to 290,039 thousand euros had been created in relation to loss carry-forwards (previous year: 285,713 thousand euros). Of this figure, 151,430 thousand euros (previous year: 148,047 thousand euros) is attributable to corporation tax loss carry-forwards and 138,609 thousand euros (previous year: 137,666 thousand euros) is attributable to trade tax loss carry-forwards. Of the figure shown for other loss carry-forwards, for which no deferred tax assets had been created in the consolidated balance sheet, 1.2 billion euros relate to corporation tax and 0.7 billion euros relate to trade tax (previous year: 1.4 billion euros corporation tax and 0.9 billion euros trade tax). As was the case on the previous year's balance sheet date, there were no unreported interest carry-forwards as per section 4h (1) sentence 2 of the German Income Tax Act (EStG).

As at 31 December 2015, there are temporary outside basis differences (net shareholders' equity in accordance with IFRS is higher than the corresponding carrying amounts of investments shown for tax purposes) of approximately 1.1 million euros (previous year: approximately 29.0 million euros). No deferred taxes have been recorded in connection with these differences because they are not expected to reverse in the fiscal planning period.

20. Inventories

The inventories are broken down as follows:

In EUR '000s	31.12.2015	31.12.2014
Mobile phones/accessories	48,984	47,079
Computers/IT products	18,980	21,395
SIM cards	7,117	7,937
Bundles and vouchers	63	125
Other	4,324	3,460
Total	**79,468**	**79,996**

Impairment of 4,465 thousand euros (previous year: 4,223 thousand euros) has been recognised in relation to the year-end inventories.

21. Receivables and other assets

Receivables and other assets are broken down as follows:

	31.12.2015		
In EUR '000s	Total	Non-current	current
Trade accounts receivable	515,447	79,438	436,009
Other non-derivative financial assets	18,403	4,525	13,878
	533,850	**83,963**	**449,887**
Available-for-sale financial assets	2,802	2,802	0
Financial assets	**536,652**	**86,765**	**449,887**
Other assets	5,280	4,718	562
Advance payments	4,470	0	4,470
Non-financial assets	**9,750**	**4,718**	**5,032**
Total trade accounts receivable and other assets	**546,402**	**91,483**	**454,919**

	31.12.2014		
In EUR '000s	Total	Non-current	current
Trade accounts receivable	488,063	79,581	408,482
Other non-derivative financial assets	25,069	4,409	20,660
	513,132	**83,990**	**429,142**
Available-for-sale financial assets	2,843	2,843	0
Financial assets	**515,975**	**86,833**	**429,142**
Other assets	4,701	4,698	3
Advance payments	3,216	0	3,216
Non-financial assets	**7,917**	**4,698**	**3,219**
Total trade accounts receivable and other assets	**523,892**	**91,531**	**432,361**

Trade accounts receivable are due from third parties and consist mainly of receivables arising from charges, equipment sales, and landline and internet services.

The sum total of trade accounts receivable and other non-derivative financial assets, less valuation allowances that had been recognised, amounted to 533,850 thousand euros as at 31 December 2015 (previous year: 513,132 thousand euros). For more information, please refer to the statements in note 34, Information concerning financial instruments. In the freenet Group, trade accounts receivable are the most significant item in this category. These are due mainly from end customers and to a lesser extent from corporate customers, dealers and sales partners. Other assets and advance payments of 12,552 thousand euros (previous year: 10,760 thousand euros) consist of available-for-sale financial assets and non-financial assets as at 31 December 2015.

Invoices in the Mobile Communications segment are issued by the Group itself. In the segment Other/Holding some invoices are partially issued by the Group itself; for narrowband services, the collection services of Deutsche Telekom AG (DTAG) are utilised.

When invoices are issued to end customers by the Group itself, they are mostly due immediately upon receipt. The invoicing carried out by DTAG has a payment term of 30 days.

In the previous year, no renegotiations concerning existing receivables were held in the case of trade accounts receivable that were not impaired and not overdue.

As at 31 December 2015, trade accounts receivable and other non-derivative financial assets in the amount of 445,309 thousand euros (31 December 2014: 444,464 thousand euros) were neither impaired nor overdue.

Trade accounts receivable and other non-derivative financial assets in the amount of 21,420 thousand euros (31 December 2014: 17,155 thousand euros) are overdue but not impaired. These receivables are due from various customers who have not defaulted in the past.

The other receivables and other assets shown in the balance sheet result from other non-derivate financial assets, available-for-sale financial assets, other assets and advanced payments.

The maximum default risk as at the balance sheet date corresponds to the carrying amount of the aforementioned trade accounts receivable.

The Group has not received any collateral.

In the course of the financial year, costs of 87 thousand euros were generated from the sale of receivables (previous year: income of 384 thousand euros). All significant opportunities and risks associated with the ownership of these receivables were transferred to the buyer.

The following information concerns the age structure of this category of trade accounts receivable and non-derivative financial assets:

In EUR '000s	Carrying amount 31.12.2015	Thereof: on closing date neither impaired nor overdue	Thereof: On closing date not impaired and in following periods overdue		
			less than 90 days	between 91 and 180 days	more than 180 days
Trade accounts receivable	515,447	428,137	15,241	600	4,348
Other non-derivative financial assets	18,403	17,172	704	6	521
Total	**533,850**	**445,309**	**15,945**	**606**	**4,869**

In EUR '000s	Carrying amount 31.12.2014	Thereof: on closing date neither impaired nor overdue	Thereof: On closing date not impaired and in following periods overdue		
			less than 90 days	between 91 and 180 days	more than 180 days
Trade accounts receivable	488,063	422,338	6,518	1,115	7,124
Other non-derivative financial assets	25,069	22,126	1,652	253	493
Total	**513,132**	**444,464**	**8,170**	**1,368**	**7,617**

The following information concerns the trend in impairments for the category of trade accounts receivable and non-derivative financial assets:

In EUR '000s	
Allowances recorded as of 31 December 2014	99,061
Allowances recorded as of 31 December 2015	109,416
Net reductions to impairments	**10,355**

In EUR '000s	
Allowances recorded as of 31 December 2013	102,082
Allowances recorded as of 31 December 2014	99,061
Net reductions to impairments	**-3,021**

The valuation allowances formed as at the balance sheet date were attributable to the following categories of receivables:

In EUR '000s	31.12.2015	31.12.2014
Global individual allowances according to time buckets		
Thereof for receivables not past due	1,734	2,138
Thereof for receivables overdue for < 90 days	6,877	4,658
Thereof for receivables overdue between 90 and 180 days	9,008	6,188
Thereof for receivables overdue for > 180 days	86,069	80,087
	103,688	**93,071**
Individual allowances	**5,728**	**5,990**
Total allowances	**109,416**	**99,061**

As at the two reference dates, the global individual allowances concerned receivables due from end customers, whereas most of the individual allowances were formed in connection with receivables due from corporate customers, mainly distribution partners.

The following overview shows the development in individual allowances.

In EUR '000s	2015	2014
Development in individual allowances relating to trade accounts receivable		
As of 1.1.	5,273	3,458
Additions, initial consolidation	0	2,122
Allocation	476	3,844
Utilisation	357	1,632
Reversal	402	2,519
As of 31. 12.	**4,990**	**5,273**
Development in individual allowances relating to other non-derivative assets		
As of 1. 1.	717	344
Additions, initial consolidation	0	364
Allocation	365	9
Utilisation	0	0
Reversal	344	0
As of 31. 12.	**738**	**717**
Total individual allowances	**5,728**	**5,990**

22. Liquid funds

Liquid funds are broken down as follows:

In EUR '000s	31.12.2015	31.12.2014
Cash in hand and cash at banks	269,761	111,944
Total	**269,761**	**111,944**

The following is a reconciliation of liquid funds with cash and cash equivalents in accordance with IAS 7, consisting of cash at banks, cash in hand, cheques and current money market instruments that can be liquidated at any time, and current financial liabilities with an original term of up to three months:

In EUR '000s	31.12.2015	31.12.2014
Liquid assets of continued operations	269,761	111,944
Liabilities as part of current finance scheduling due to banks	0	0
Total	**269,761**	**111,944**

23. Current income tax assets

The current income tax assets mainly relate to receivables from corporation tax netting credits from previous years as well as receivables due from former shareholders in connection with tax clauses from acquisitions.

24. Assets classified as held for sale

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

A cash price of 3.5 million euros was agreed for the sale; this was paid to freenet in the course of the financial year 2015, and is disclosed in the cash flow statement under the item "Proceeds from the sale of assets classified as held for sale". The transaction was completed on 1 January 2016, the day on which control over the sold assets was transferred to the purchaser.

The held-for-sale assets were shown with their residual carrying amount of 0.1 million euros as of 31 December 2015 in the balance sheet under the item "Assets classified as held for sale".

25. Shareholders' equity

In regard to the following notes we also refer to the schedule of changes in equity.

25.1 Share capital

The company's issued share capital amounts to 128,061 thousand euros. The share capital consists of 128,061,016 registered no-par-value shares, each with a notional nominal value of 1.00 euro. The entire share capital is fully paid in. All shares have been issued with equal rights. 50,000 thousand of these shares are held by mobilcom-debitel Logistik GmbH, Schleswig, which in turn is wholly owned by the company. The treasury shares were deducted from the capital reserve at their acquisition cost of 50 thousand euros.

Pursuant to section 71 (1) no. 8 of the German Stock Corporation Act (AktG), the Executive Board is authorised by the Annual General Meeting of 13 May 2014 to purchase treasury shares amounting to a total of 10 per cent of the share capital existing at the time of the resolution on 13 May 2014 with the approval of the Supervisory Board or – if this amount is lower – the share capital existing at the time this authorisation is exercised accordingly, for any permissible purpose within the legal restrictions. The authorisation is valid until 12 May 2019.

In addition to the authorisation pursuant to section 71 (1) no. 8 AktG, the Executive Board may additionally use equity derivatives to acquire treasury shares. This does not result in an increase in the maximum volume of shares which is permitted to be purchased; it only provides another alternative to acquire treasury shares.

The full wording of these authorisation resolutions was published under agenda items 6 and 7 of the invitation to the 2014 Annual General Meeting in the Federal Gazette.

25.2 Capital reserve

Major components of the capital reserve reported as at 31 December 2015 originate from the capital increase in 2008 due to the acquisition of the debitel Group (349.8 million euros) as well as the merger between mobilcom AG and freenet.de AG to form freenet AG, which became effective in 2007, and the related acquisition of the minority shares in the former freenet.de AG (134.7 million euros).

25.3 Retained earnings

The Group's retained earnings for the financial year 2015 comprise the cumulative Group results attributable to the freenet AG shareholders, less the dividend payments. In 2015, a dividend of 1.50 euros per no-par-value share, making a total of 192.0 million euros, was paid out for the financial year 2014.

25.4 Authorised capital

New authorised capital was created at the ordinary Annual General Meeting held on 23 May 2013 (Authorised Capital 2013). According to these arrangements, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital up to 6 June 2018 by issuing new shares in return for payment in cash or kind on one or more occasions, but by no more than 12.8 million euros in all. The full wording of the Executive Board's authorisation was published in the Federal Gazette under agenda item 6 of the invitation to the 2013 Annual General Meeting.

25.5 Conditional Capital

In accordance with the resolution by the Annual General Meeting held on 13 May 2014, the company's share capital is subject to a conditional capital increase of up to 12.8 million euros by issuing up to 12,800,000 new no-par value registered shares, with each individual no-par-value share accounting for 1.00 euro of the share capital (conditional capital 2014). The purpose of the conditional capital increase is to enable registered no-par-value shares to be granted to the holders or creditors of convertible and/or option bonds which are issued on the basis of the authorisation as adopted by the Annual General Meeting of 13 May 2014 under agenda item 8, letter A) and which provides a conversion or option right or the right to delivery of shares in relation to the registered no-par-value shares of the company or which establishes a conversion or option obligation in relation to these shares.

The issue amount for the new no-par-value registered shares complies with the rules stipulated in section 4 (8) of the articles of association. The conditional capital increase is to be carried out only to the extent to which conversion or option rights or a right to delivery of shares are utilised or to which holders or creditors with a conversion or option obligation meet their conversion or option obligation and if treasury shares are not used for settlement or if the company does not provide a cash settlement. The new registered no-par-value shares participate in the profits from the beginning of the financial year in which they are created. The Executive Board is authorised to fix the further details for carrying out the conditional capital increase.

26. Employee participation programmes

26.1 freenet AG LTIP programmes – Programme 1

In the financial year 2011, agreements granting long-term variable salary components (so-called LTIPs) had been concluded in relation to the employment agreements with the members of the Executive Board. The programme thus granted in 2011 is hereinafter referred to as "Programme 1". In addition to the annual agreement, this involved a four-year target agreement designating Group EBITDA as the target parameter over the four subsequent financial years on the basis of the business plan and starting with the financial year 2011. In the event of acquisitions which are financed by the issuing of new shares, the earnings targets are adjusted proportionately to the effective net dilution effect on the date on which new shares are issued. A basic amount has been defined in each beneficiary's employment contract for this component of compensation; as described below, and in accordance with the target attainment in each financial year, this basic amount is recorded as a positive or negative amount in a virtual account belonging to the respective Executive Board member and is paid out in annual instalments depending on the future development in its value, assuming that a credit balance is shown. Basic amounts totalling 590 thousand euros in each case have been defined for each financial year for the beneficiaries.

If the Group EBITDA target is attained in a financial year, 100 per cent of the basic amount is credited to the virtual account. If the Group EBITDA defined for 120 per cent target attainment is achieved, 200 per cent of the basic amount is credited to the virtual account. If the 120 per cent target is exceeded, only 200 per cent of the basic amount is credited to the virtual account. If the target attainment for the defined Group EBITDA is between the fixed 90 per cent target and 100 per cent, a percentage of the basic amount which is reduced on a linear basis is credited to the virtual account; if only 90 per cent of the target is attained, nothing is credited to the virtual account for the financial year in question. If Group EBITDA fails to meet the 90 per cent target, a negative amount of up to max. 200 per cent of the basic amount (if Group EBITDA is 80 per cent of the target or less) is debited to the virtual account. The respective amount in the virtual account is converted into virtual shares. The basis for this calculation is the average Xetra closing price on the 20 stock exchange trading days after the day on which the consolidated financial statements for the relevant financial year are approved. Starting with the end of the second financial year after the introduction of this component of compensation, in each case after a (positive or negative) amount for the financial year ended has been credited to the virtual account, 25 per cent of the account balance is paid out annually if the account shows a credit balance. For this purpose, the respective balance of virtual shares is, in turn, converted into cash on the basis of the average Xetra closing price on the 20 stock market trading days after the day on which the consolidated financial statements for the relevant financial year are approved. The increase in the share price is recognised only up to a price of 25.00 euros (cap). For the purpose of conversion into virtual shares, dividend payments, as well as circumstances for which dilution protection stipulations are applicable in the case of marketable financial instruments dependent on the share value, must be included in the calculations. If the virtual account shows a negative balance at the point at which a payment is due to be made, the member of the Executive Board will only receive a (further) payment when the negative amount has been cancelled out by success in attaining the corresponding target parameters for the subsequent year or the subsequent years.

The obligation arising from the LTIP programme was determined at fair value in accordance with IFRS 2 with the help of a recognised valuation model. The main parameters included in this valuation model are the freenet AG share price as at the balance sheet date, the estimate of the target attainment percentage for the respective financial year ended, the estimate of future share prices, the estimate of future payments out of the virtual accounts (derived from the two aforementioned estimates) and the estimate of the discount rate.

The development of the holdings in the virtual accounts for each Executive Board member is shown in the following table:

Programme 1	Number of virtual shares 31.12.2014	Additions	Disposal of pay-out	Number of virtual shares 31. 12. 2015	Provisions 31.12.2014 in EUR '000s
Christoph Vilanek	0	0	0	0	0
Joachim Preisig	43,851	16,000	59,851	0	0
Stephan Esch	19,733	7,200	26,933	0	0
Total	**63,584**	**23,200**	**86,784**	**0**	**0**

The actual target attainment established for 2014 is 120 per cent, so that 200 per cent of the basic amount, corresponding to a total of 580 thousand euros, were used for payment into the virtual accounts for Messrs. Preisig and Esch, whereas the Programme 1 for Mr Vilanek was terminated as a result of payment in the previous year 2014. After the consolidated financial statements for 2014 had been approved, this amount was converted into virtual shares for the financial year 2014 based on a share price of 25.00 euros, with the result that a total of 23,200 virtual shares was credited to the virtual accounts. The payments from the Programme 1 in 2015 resulted in an amount of 1,603 thousand euros paid for Mr Preisig and an amount of 721 thousand euros paid for Mr Esch. In this way, the entire virtual shares of Programme 1 were paid out to Mr Preisig and Mr Esch, which meant that Programme 1 was also terminated for Mr Preisig and MrEsch. The payments were each made on the basis of a share price of 25.00 euros (Cap).

In the financial year 2015, Programme 1 resulted in personnel expenses of 75 thousand euros, consisting of payouts amounting to 2,324 thousand euros less the reduction of 2,249 thousand euros in the provision to 0 compared with 31 December 2014.

26.2 freenet AG LTIP programmes – Programme 2

On 26 February 2014, agreements concerning the contracts of employment that grant new LTIPs (hereinafter referred to as "Programme 2") were concluded with the members of the Executive Board.

Again in addition to the annual target agreement, a five-year target agreement was concluded in which EBITDA in the financial years 2014 to 2018 (for Mr Vilanek) and EBITDA in the financial years 2015 to 2019 (for Mr Preisig and Mr Esch) was designated as the target parameter. In the event of acquisitions which are financed by the issuing of new shares, the earnings targets are adjusted proportionately to the effective net dilution effect on the date on which new shares are issued. A basic amount has been defined in each beneficiary's employment contract for this component of compensation; as described below, and in accordance with the target attainment in each financial year, this basic amount is recorded as a positive or negative amount in a virtual account belonging to the respective Executive Board member and is paid out in annual instalments depending on the future development in its value, assuming that a credit balance is shown. Basic amounts totalling 1,050 thousand euros in each case have been defined for each financial year for the beneficiaries.

If the Group EBITDA target is attained in a financial year, 100 per cent of the basic amount is credited to the virtual account. If the Group EBITDA defined for 120 per cent target attainment is achieved, 200 per cent of the basic amount is credited to the virtual account. If the 120 per cent target is exceeded, basically only 200 per cent of the basic amount is credited to the virtual account. When the respective target attainment is being determined, the Supervisory Board is entitled to reward exceptional performance and success by setting a notional Group EBITDA amount. If such a step results in the target attainment of 120 per cent being exceeded in arithmetical terms, the Supervisory Board may also set a higher level for target attainment, bearing in mind that a maximum of 300 per cent of the basic amount may be credited to the virtual account. If the target attainment for the defined Group EBITDA is between the fixed 90 per cent target and 100 per cent, a percentage of the basic amount which is reduced on a linear basis is credited to the virtual account; if only 90 per cent of the target is attained, nothing is credited to the virtual account for the financial year in question. If Group EBITDA fails to meet the 90 per cent target, a negative amount of up to max. 200 per cent of the basic amount (if Group EBITDA is 80 per cent of the target or less) is debited to the virtual account. For the purpose of posting the (positive or negative) number of virtual shares in the virtual account, sub-accounts are maintained in the LTIP account bearing the designation of the financial year for which the number posted was ascertained.

The amount shown on the virtual account (known as the "allotment amount" as the product of the basic amount and the basic amount multiplier) is converted into virtual shares. This calculation is based on the reference value used for the share price, i.e. the average Xetra closing price on the 20 stock exchange trading days after the day on which the consolidated financial statements for the relevant financial year are published. Starting from the end of the second financial year to benefit from the programme (for Mr Vilanek therefore starting from the financial year 2016, for Messrs Preisig and Esch starting from the financial year 2017), and in each case after the crediting to the virtual account of a (positive or negative) amount for the financial year ended, the respective beneficiary is entitled to have 25 per cent of the account balance paid out annually within a time frame of three months from the day which is 20 stock market trading days after the day on which the consolidated financial statements were published, provided that the account shows a credit balance. For this purpose, the respective balance of virtual shares is, in turn, converted into cash on the basis of the average Xetra closing price on the 20 stock exchange trading days after the day on which the consolidated financial statements for the relevant financial year are published. The increase in the share price is recognised only up to a price of 50.00 euros (cap). Irrespective of that, the gross payout amount is restricted additionally in each financial year as follows: the maximum gross amount to be paid out per financial year corresponds to 25 per cent of 500 per cent of the number of virtual shares in the respective sub-account, multiplied by the applicable share price on which the calculation of the allotment amount when the respective post was made in the sub-account was based.

For the purpose of conversion into virtual shares, dividend payments, as well as circumstances for which dilution protection stipulations are applicable in the case of marketable financial instruments dependent on the share value, must be included in the calculations. If the virtual account shows a negative balance at the point at which a payment is due to be made, the Executive Board member in question will receive a (further) payment only when the negative amount has been cancelled out by success in attaining the relevant target parameters for the subsequent year or years.

The obligation arising from the LTIP programme was determined at fair value in accordance with IFRS 2 with the help of a recognised valuation model. The main parameters included in this valuation model are the freenet AG share price as at the balance sheet date, the estimate of the target attainment percentage for the respective financial year ended, the estimate of future share prices, the estimate of future payments out of the virtual accounts (derived from the two aforementioned estimates) and the estimate of the discount rate. The graded vesting method is used; according to this method, the personnel expenses for all board members come into being as from the time when the programme is granted, i.e. in this case as from 26 February 2014.

The development of the holdings in the virtual accounts for each Executive Board member for Programme 2 is shown in the following table:

Programme 2	Number of virtual shares 31.12.2014	Additions	Disposal of pay-out	Number of virtual shares 31. 12. 2015	Provisions 31.12.2015 in EUR '000s
Christoph Vilanek	0	41,214	0	41,214	2,488
Joachim Preisig	0	0	0	0	993
Stephan Esch	0	0	0	0	662
Total	**0**	**41,214**	**0**	**41,214**	**4,143**

The actual target attainment established for 2014 amounted to 120 per cent, so that 200 per cent of the basic amount, equivalent to a total of 1,100 thousand euros, was used for payment into the virtual account for Mr Vilanek. After the consolidated financial statements for 2014 had been approved, this amount was converted into virtual shares for the financial year 2014 based on an average share price of 26.69 euros, with the result that 41,214 virtual shares was credited to the virtual account of Mr Vilanek. For Messrs. Preisig and Esch, the EBITDAs of the years 2015 to 2019 will be used for the Programme 2; accordingly, for these persons, an initial payment into the virtual accounts will be made in the financial year 2016, on the basis of the target attainment for the financial year 2015. Target attainment for the financial year ended 2015 will be 120 per cent.

The Programme 2 resulted in personnel expenses of 2,082 thousand euros in the financial year 2015; the provision has been increased by 2,082 thousand euros from 2,061 thousand euros (as of 31 December 2014) to 4,143 thousand euros as of 31 December 2015.

27. Trade accounts payable, other liabilities and accruals

Trade accounts payable as well as other liabilities and accruals are broken down as follows:

	31.12.2015		
In EUR '000s	Total	non-current	current
Trade accounts payable	443,718	0	443,718
Other non-derivative financial liabilities	93,748	42,452	51,296
Financial liabilities	**537,466**	**42,452**	**495,014**
Other liabilities and accruals	2,285	0	2,285
Advance payments received	54,394	0	54,394
Non-financial liabilities	**56,679**	**0**	**56,679**
Total trade accounts payable and other liabilities and accruals	**594,145**	**42,452**	**551,693**

	31.12.2014		
In EUR '000s	Total	non-current	current
Trade accounts payable	370,471	540	369,931
Other non-derivative financial liabilities	88,067	38,351	49,716
Financial liabilities	**458,538**	**38,891**	**419,647**
Other liabilities and accruals	8,454	0	8,454
Advance payments received	66,148	0	66,148
Non-financial liabilities	**74,602**	**0**	**74,602**
Total trade accounts payable and other liabilities and accruals	**533,140**	**38,891**	**494,249**

For the purposes of the above table, the balance sheet item "Sundry liabilities and accruals" has been broken down into advance payments received and other liabilities and accruals as well as other non-derivative financial liabilities. As at 31 December 2015, compared to the previous year, there are no liabilities vis-a-vis related parties; please refer to note 35, Transactions with related parties.

Of the figure shown for liabilities, 551,693 thousand euros (previous year: 494,249 thousand euros) are due within the next twelve months. Liabilities amounting to 29,582 thousand euros (previous year: 30,361 thousand euros) have a maturity of between one year and five years; liabilities of 12,870 thousand euros (previous year: 8,530 thousand euros) are due in more than five years.

For long-term other liabilities and accruals, the market value is approximately equivalent to the recognised book value due to the discounting.

Of the figure shown for the liabilities, which is combined under the financial liabilities, 495,014 thousand euros (previous year: 419,467 thousand euros) fall due within one year, 29,582 thousand euros (previous year: 30,361 thousand euros) fall due between one and five years and 12,870 thousand euros (previous year: 8,530 thousand euros) fall due after more than five years after the balance sheet date.

28. Current income tax liabilities

Current income tax liabilities consist mainly of anticipated additional corporation tax and trade tax payments for previous financial years.

29. Financial debt

Financial debt is structured as follows:

In EUR '000s	31.12.2015	31.12.2014
Non-Current		
Liabilities from corporate bonds	0	398,515
Liabilities from promissory notes	218,276	119,526
Liabilities due to banks	106	182
Total	**218,382**	**518,223**
Current		
Liabilities from corporate bonds	419,479	19,911
Liabilities from promissory notes	919	115
Liabilities due to banks	134	126
Liabilities from finance leasing	0	181
Total	**420,532**	**20,333**

Of the figure shown for non-current financial debt in the Group as of 31 December 2015, 218.3 million euros (previous year: 119.5 million euros) is attributable to liabilities relating to promissory note liabilities.

The promissory note which was taken out in December 2012 with a nominal amount of 120.0 million euros is shown in long-term debt on 31 December 2015 as 118.8 million euros after the deduction of one-off costs of 0.2 million euros (previous year: 0.5 million euros). The promissory note is a non-callable financing instrument originally divided into a five-year fixed tranche of 44.5 million euros, a seven-year fixed tranche of 19.5 million euros and a five-year fixed tranche of 56.0 million euros. In 2014, the improved market environment made it possible to regroup the variable tranche. The margin was reduced by one percentage point for a portion amounting to 55.0 million euros. At the same time, the term was extended from five to seven years for 45.0 million euros from this tranche. In the financial year, an amount of 1.0 million euros from this variable tranche was terminated and repaid ahead of schedule.

As an additional financing component, the Group had placed a further promissory note consisting of three tranches in May 2015. The first tranche consists of a non-callable loan amounting to 25.0 million euros with a term of five years and a variable interest rate. The second tranche consists of a non-callable loan amounting to 25.0 million euros with a term of five years and an interest rate of 1.33 per cent. The third tranche of the promissory note consists of a loan amounting to 50.0 million euros with a term of seven years and an interest rate of 1.79 per cent. This promissory note 2015, with a nominal amount of 100.0 million euros, less one-off costs of 0.5 million euros, is also shown under the long-term financial debt as 99.5 million euros as of the balance sheet date.

Of the figure shown for current financial debt as of 31 December 2015, 419.5 million euros (previous year: 19.9 million euros) relates to the corporate bond which was issued in April 2011 with a nominal value of 400.0 million euros and which has a maturity of five years. In the previous year, this item only disclosed the cumulative interest of the corporate bond which had not yet become cash-effective last year, whereas, as of 31 December 2015, the carrying amount of the corporate bond of 399.6 million euros was also disclosed in addition to the cumulative interest of 19.9 million euros; this consists of the nominal value less a difference of 0.4 million euros relating to the one-off fees incurred on the occasion of the issuing of the bond which are deducted from the financial debt (for the first time as of 31 December 2012 in the amount of 3.5 million euros) and which accumulate over the life of the bond using the effective interest rate method. As of 31 December 2014, the carrying amount of the corporate bond (398.5 million euros) was shown under the long-term financial debt.

The revolving credit line for a maximum of 300.0 million euros had, as in the previous year, not been utilised as at the balance sheet date.

Netted with cash and cash equivalents, net financial debt of 369.2 million euros is reported in the Group as at 31 December 2015 (previous year: 426.6 million euros).

No finance lease liabilities are disclosed as of the balance sheet date.

30. Pension provisions and similar obligations

The pension obligations are a consequence of direct pension commitments. The pension benefit provided in each case is the payment of a lifetime retirement pension upon reaching the age of 60 or 65 and the payment of benefits to surviving dependants. The pension benefits are partly financed by a reinsured benevolent fund. All pension commitments are always determined by the salary amount and the length of service at the company.

The provision in the consolidated balance sheet is calculated as follows:

In EUR '000s	31.12.2015	31.12.2014
Present value of funded obligations	16,162	17,461
Present value of unfunded obligations	41,604	47,529
Sub-total present value of obligation	**57,766**	**64,990**
Fair value of plan assets	-6,575	-5,644
Provision shown in balance sheet	**51,191**	**59,346**

It is expected that these obligations will be fulfilled in the long term.

The following table sets out the development in the present value of the funded and non-funded obligations:

In EUR '000s	2015	2014
As of 1.1.	**64,990**	**48,671**
Current service costs	1,122	613
Past service costs	0	2,136
Interest expense	1,232	1,452
Employees' contributions	28	26
Actuarial losses	0	0
Thereof due to experience adjustments	284	45
Thereof due to changes in demographic assumptions	0	0
Thereof due to changes in financial assumptions	-8,902	12,942
Sub-total actuarial losses	**-8,618**	**12,987**
Benefit payments	-988	-895
As of 31.12.	**-57,766**	**64,990**

The weighted average remaining term of the obligations as of 31 December 2015 amounted to 27.3 years for the freenet programme (previous year: 28.4 years) and 17.8 years for the debitel programmes (previous year: 18.9 years).

The following amounts have been shown for the defined benefit plans for the current reporting period and the previous reporting periods:

In EUR '000s	2015	2014	2013	2012	2011
Present value of funded obligations	16,162	17,461	9,920	9,777	5,768
Present value of unfunded obligations	41,604	47,529	38,751	39,103	29,154
Fair value of plan assets	-6,575	-5,644	-4,302	-3,894	-3,017
Net deficit of defined benefit plans	**51,191**	**59,346**	**44,369**	**44,986**	**31,905**
Experience-based adjustments of the liabilities of the plan	284	45	95	35	25
Experience-based adjustments of the assets of the plan	-226	512	-383	51	-21

The plan assets consist of several reinsurance policies concluded by the benefit fund set up for this purpose with an aggregate fair value of 6,575 thousand euros (previous year: 5,644 thousand euros). The reinsurance policies put the plan assets in equity funds or shares for which there is an active market. The development of fair value is set out in the table below:

In EUR '000s	2015	2014
As of 1.1.	**5,644**	**4,302**
Expected income from plan assets (recognised in income statement)	121	138
Difference between calculated and actual income from plan assets (recognised in other comprehensive income)	-226	512
Employer's contribution to plan assets	1,036	692
As of 31.12.	**6,575**	**5,644**

The actual income from the plan assets amounts to -105 thousand euros (previous year: 650 thousand euros), and is calculated as the sum of the calculated income from the plan assets and the actuarial profits or losses.

For the financial year 2016, freenet is expecting payments of 1,036 thousand euros into the plan assets and payments of 954 thousand euros out of the plan assets for pensions. In the previous year 2014, freenet had expected for the financial year 2015 payments of 664 thousand euros into the plan assets and payments of 775 thousand euros out of the plan assets for pensions.

The amounts recognised as provisions in the balance sheet developed as follows:

In EUR '000s	2015	2014
As of 1.1.	**59,346**	**44,369**
Current service costs	1,122	613
Past service costs	0	2,136
Interest expense	1,111	1,314
Sub-total consolidated comprehensive expense	**2,233**	**4,063**
Remeasurements		
Experience-based profits (-)/losses (+)	284	45
Profits(-)/losses(+) due to changes in demographic parameters	0	0
Profits(-)/losses(-) due to changes in financial parameters	-8,902	12,942
Income(-)/Expense(+) from plan assets not contained in interest result	226	-512
Sub-total remeasurements recognised in other comprehensive income	**-8,392**	**12,475**
Benefit payments	-988	-895
Employer's contribution to plan assets	-1,036	-692
Employees' contributions	28	26
As of 31.12.	**51,191**	**59,346**

The main actuarial assumptions were as follows:

In %	31.12.2015	31.12.2014
Discount rate	2.60	1.90
Future salary increases (programme debitel)	1.50	1.50
Future salary increases (programme freenet)	0.00	0.00
Future pension increases (programme debitel)	1.25	1.50
Future pension increases (programme freenet)	1.75	1.50

The RT 2005G mortality tables devised by Dr Klaus Heubeck have been used as the biometric basis.

The sensitivities of the present value of the funded and unfunded obligations have been calculated on the basis of the actuarial report. We have made the following comments in this respect.

	Change in present value	
In EUR '000s	Increase	Decrease
Increase of 1.0 percentage points in discount rate		10,032
Reduction of 1.0 percentage points in discount rate	13,316	
Increase of 0.5 percentage points in future salary increases	420	
Increase of 0.25 percentage points in future pension increases	1,198	
Reduction of 0.25 percentage points in future pension increases		1,139
Life expectancy: Age shift +2 years	2,769	

The sensitivities are calculated on the basis of the same figures and with the same valuation method as that used for establishing the extent of obligations as of 31 December 2015.

One parameter has been varied, and the other parameters remained constant. Any interdependencies between individual parameters which occur in practise are disregarded.

31. Other provisions

The following overview gives a breakdown of the development of the provisions' carrying amounts:

In EUR '000s	1.1.2015	Addition initial con-solidation	Consump-tion	Reversal	Compound-ing	Allocation	Reclassifica-tion	31.12.2015
Contingent losses	9,038	0	4,059	1,830	23	72	-600	2,644
Litigation risks	7,555	0	828	2,498	0	1,202	0	5,431
Dismantling obligations	3,301	0	40	81	68	708	0	3,956
Employee incentive programmes	4,311	0	2,249	0	0	2,082	0	4,144
Service anniversaries	1,431	0	250	430	0	107	0	858
Restructuring	1,305	0	1,305	0	0	3,466	0	3,466
Warranty/guarantee	1,580	0	469	130	0	566	0	1,547
Storage costs	448	0	0	144	4	0	0	308
License costs	5,062	0	164	146	0	393	0	5,145
Other	827	16	0	529	0	451	0	765
Total	**34,858**	**16**	**9,364**	**5,788**	**95**	**9,047**	**-600**	**28,264**
thereof non-current	9,097							8,044
thereof current	25,761							20,220

The provisions for contingent losses relate to pending services in connection with the Group's landline activities amounting to 672 thousand euros, with the outflow of assets being expected to take place in the amount of 282 thousand euros in 2016 and in the amount of 390 thousand euros between 2017 and 2018. A rate of 0.50 per cent has been used for compounding purposes.

Provisions for contingent losses have also been created for vacancy costs incurred with rented shops and office buildings (1,017 thousand euros); the outflow of assets is expected to be seen in full in 2016 - the rate used for compounding purposes in this case was 0.5 per cent. Finally, the provisions for contingent losses include a sum of 955 thousand euros for losses expected from negative-margin tariffs, for which the likely outflow of assets is expected in 2016.

The amount stated as the provision for dismantling obligations relates to obligations for the dismantling of leasehold improvements and a variety of the Group's technical and administrative locations. Following the probable expiry of the underlying rental agreements, the outflow of funds is expected to be 1,623 thousand euros in 2016 and 2,333 thousand euros in the years from 2017 to 2025.

Provisions for service anniversaries have been formed; the outflow of assets for 2016 is expected to be 263 thousand euros and the outflow of assets for the years 2017 to 2035 is expected to be 595 thousand euros. A discount rate of 1.81 per cent and an average period of eight years between the balance sheet date and the actual payment have been assumed as the basis for calculation.

The provision for litigation relates to the expected costs of various lawsuits against Group companies as well as other outstanding disputes with third parties. Most of these provisions related to litigation with former trade partners and customers as well as issues of competition law. The Group expects that the majority of the disputed issues will be settled before the end of the financial year 2016. To avoid disclosing prematurely, and therefore endangering, the legal and negotiation position, we shall refrain from giving further information at this juncture.

Further details concerning the formation of provisions for employee participation programmes are documented under note 26, Employee participation programmes.

The provisions for restructuring mainly comprise personnel expenses for severance payments. The outflow of assets for these provisions is expected for 2016.

32. Other financial obligations, contingencies and collateral for loans

As at the end of the financial year, there are operating lease obligations (which cannot be terminated) from rental and lease agreements, maintenance, support and other obligations as well as order commitments in the following amounts:

In EUR '000s	31.12.2015	31.12.2014
Rent and leasing obligations		
Due within one year	36,071	42,664
Due within one and five years	65,507	81,112
Due term greater than five years	12,853	13,351
	114,431	**137,127**
Thereof already recognised as provision for contingent losses	1,689	6,272
	112,742	**130,855**
Maintenance, support and other obligations		
Due within one year	12,661	10,309
Due within one and five years	122	1,182
Due term greater than five years	0	0
	12,783	**11,491**
Order commitments		
Regarding intangible assets	21	88
Regarding property, plant and equipment	419	130
Regarding inventories, expenses and services	5,627	8,506
	6,067	**8,724**
Total	**131,592**	**151,070**

The obligations from rental and lease agreements are derived mainly from the rental of office buildings and shops, plus hardware leasing. On the other hand, the revenue expected from subletting arrangements amounts to 8,501 thousand euros (previous year adjusted: 12,697 thousand euros). As of the balance sheet date, there were options for extending the majority of leases and leasing agreements. The conditions of these extension options are in all cases freely negotiable or identical to the currently valid conditions in the agreements. The obligations arising from maintenance, support and other agreements relate predominantly to agreements for the maintenance of IT hardware and databases, building services engineering and the network infrastructure.

The order commitments as at the end of the financial year amounted to 7,201 thousand euros (previous year: 8,724 thousand euros). Of this sum, 440 thousand euros (previous year: 218 thousand euros) is attributable to the procurement of fixed assets. Further order commitments amounting to 6,761 thousand euros (previous year: 8,506 thousand euros) are attributable largely to services in connection with ongoing projects as well as products purchased for resale, e. g. mobile communications devices and accessories. This item also includes financial obligations arising from data centre services.

Other liability obligations have arisen as a result of letters of comfort and rental guarantees, their aggregate total as at the balance sheet date being 16,570 thousand euros (previous year: 14,335 thousand euros).

The following contingent liability exists as at 31 December 2015: 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; if this risk materialises, freenet AG would have to refund some of its input tax to the tax authorities.

33. Notes to the consolidated cash flow statement

In the consolidated cash flow statement, the figures are reported for the Group as a whole (continued and discontinued operations). In the financial year 2015, as in the previous year, the cash flows were attributable solely to continued operations.

Cash and cash equivalents consist of cash at banks, cash in hand, cheques, short-term money market instruments that can be liquidated at any time and current financial liabilities, each with an original term of up to three months. As in the previous year, cash and cash equivalents do not include any liquid funds from discontinued operations.

The payment flows are broken down into operating activities, investing activities and financing activities. The indirect presentation method has been used to present cash flow from operating activities.

The item “Increase in net working capital, if not attributable to investing or financing activities” contains the change in the balance sheet items “Trade accounts receivable”, “Other receivables and other assets”, “Inventories”, “Trade accounts payable”, “Sundry liabilities and accruals”, “Other provisions”, and the change in other assets and liabilities if not attributable to investing or financing activities.

33.1 Cash flow from operating activities

Compared with the corresponding period last year, cash flow from operating activities increased by 20.5 million euros to 314.9 million euros. EBITDA has increased by 4.6 million euros compared with the previous year. Net working capital increased in 2015 by 10.3 million euros, compared with an increase of 29.0 million euros in the previous year. The increase of 10.3 million euros in net working capital in 2015 can be attributed mainly to the scheduled reduction of 25.0 million euros in liabilities and accruals vis-à-vis distribution partners arising from distribution rights impacting cash flows. This was opposed mainly by the volume of factoring of mobile phone option receivables, which increased by 8.9 million euros compared with 31 December 2014 – please refer in this connection to note 34.6, Transfer of financial assets, in the notes to these consolidated financial statements.

In addition, there were net cash outflows in the financial year 2015 amounting to 44.3 million euros (previous year: 40.4 million euros) that resulted from income tax payments and refunds.

33.2 Cash flow from investing activities

In 2015, the cash inflow from investing activities declined from -70.4 million euros in the previous year to -28.5 million euros. This resulted primarily from the cash outflow of 44.6 million euros in the previous year for the acquisition of the shares in the freenet digital Group as well as the takeover of shops belonging to reStore GmbH. In the year under review, cash flows were also reported for the sale of assets from “mds Repair/Service”. Please refer to our comments in 24, Assets classified as held for sale, of the notes to the consolidated financial statements.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets, increased in 2015 by 2.5 million euros over the previous year from 27.9 million euros to 30.4 million euros. The cash-effective investments were financed entirely out of own funds, and mainly related to self-created software in connection with the further development of our IT systems, the renewal and extension of the fittings of our mobile communications shops, the acquisition of rights as well as investments in EDP hardware.

The outflows for the acquisition of subsidiaries shown for 2015 relate to the acquisition of 24.99 per cent of the EXARING shares – a total of 5,000 thousand euros was paid out for this purpose in the financial year 2015, whereas the Group received liquid assets of 2,225 thousand euros via the initial consolidation of the EXARING as of 31 December 2015 – thus resulting in outflows of 2,775 thousand euros for the acquisition of subsidiaries.

The cash inflows from interest reported within the cash flow from investment activities remained constant compared with the previous year at 1.3 million euros.

33.3 Cash flow from financing activities

Compared with the corresponding period of the previous year, the cash flow from financing activities developed by 94.3 million euros, namely from -222.9 million euros to -128.7 million euros. This development is mainly attributable to the issuing of a promissory note of 100.0 million euros (nominal) which took place in May 2015.

Compared with the previous year, redemption payments on financial liabilities increased by 1.0 million euros from 0.3 million euros to 1.3 million euros. In the financial year, the redemption payment mainly related to the promissory note which was placed.

Dividend payments burdened the cash flow from financing activities in the financial year ended in the amount of 192.0 million euros (previous year: 185.6 million euros).

In addition, interest payments amounting to 34.8 million euros, largely on long-term bank loans, arose in 2015, representing a decline of 2.2 million euros compared with the previous year.

33.4 Calculating the underlying figure for the consolidated cash flow statement

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

In EUR ’000s	1.1.2015 – 31.12.2015	1.1.2014 – 31.12.2014
Earnings before taxes	254,691	260,633
Interest payable and similar expenses	44,502	42,276
Interest receivable and similar income	-418	-1,715
Earnings before interest and taxes (EBIT)	**298,775**	**301,194**

34. Additional information concerning financial instruments

34.1 Disclosures in accordance with IFRS 7

This section provides an overview of the significance of financial instruments for the Group, while also providing additional information on balance sheet items which contain financial instruments.

We are setting out the following information for the purpose of presenting the financial instruments in the Group as at 31 December 2015 and 31 December 2014, their allocation to categories and the reconciliation with the corresponding valuation categories under IAS 39 (see tables on the opposite and following page):

Financial instruments according to classes as of 31 December 2015

In TEUR	Valuation category according to IAS 39	Carrying amount balance sheet 31.12.2015	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 31.12.2015
Assets								
Cash and cash equivalents	LR	**269,761**	**269,761**					**-***
Other financial assets	AFS	1,517						
Other financial assets (measured at cost)	AFS	503		503				
Other financial assets (measured at fair value)	AFS	1,014				1,014		1,014
Trade accounts receivable	LR	**515,447**	**515,447**					**515,824**
Other receivables and other assets		**30,955**					**9,750**	
Other non-derivative financial assets	LR	18,403	18,403					18,403
Available-for-sale financial assets	AFS	2,802				2,802		2,802
Liabilities								
Trade accounts payable	FLAC	**443,718**	**443,718**					**-***
Borrowings	FLAC	638,914	638,914					653,158
Other liabilities and deferrals		**150,427**					56,679	
Other non-derivative financial liabilities	FLAC	93,748	93,748					93,748
Thereof aggregated by valuation categories acc. to IAS 39								
Available-for-sale financial instruments	AFS	4,319		503		3,816		3,816
Loans and receivables	LR	803,611	803,611					534,227*
Financial liabilities (measured at amortised cost)	FLAC	1,176,380	1,176,380					746,906*

* 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.

Financial instruments according to classes as of 31 December 2014

In TEUR	Valuation category according to IAS 39	Carrying amount balance sheet 31.12.2014	Value approach				Non-financial assets/ liabilities	Fair value financial assets 31.12.2014
			Amortised cost	Cost	Fair value recognised in profit or loss	Fair value recognised in equity		
Assets								
Cash and cash equivalents	LR	**111,944**	**111,944**					**-***
Other financial assets	AFS	1,534						
Other financial assets (measured at cost)	AFS	503		503				
Other financial assets (measured at fair value)	AFS	1,031				1,031		1,031
Trade accounts receivable	LR	**488,063**	**488,063**					**488,415**
Other receivables and other assets		**35,829**					**7,917**	
Other non-derivative financial assets	LR	25,069	25,069					25,069
Available-for-sale financial assets	AFS	2,843				2,843		2,843
Liabilities								
Trade accounts payable	FLAC	**370,471**	**370,471**					**-***
Borrowings	FLAC	538,556	538,375					571,159
Other liabilities and deferrals		**162,669**					74,602	
Other non-derivative financial liabilities	FLAC	88,067	88,067					88,067
Thereof aggregated by valuation categories acc. to IAS 39								
Available-for-sale financial instruments	AFS	4,377		503		3,874		3,874
Loans and receivables	LR	625,076	625,076					513,484*
Financial liabilities (measured at amortised cost)	FLAC	997,094	996,913					659,226*

*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.

The non-financial assets constitute that part of the balance sheet item "Other receivables and other assets" which is not covered by the scope of IFRS 7.

The non-financial liabilities constitute that part of the balance sheet item "Sundry liabilities and accruals" which is not covered by the scope of IFRS 7.

The fair value of cash and cash equivalents, trade accounts receivable, other current financial assets, trade accounts payable and other current financial liabilities is roughly equivalent to the carrying amount. This is due to the short remaining terms of these financial instruments.

The fair values of the non-current receivables and other financial assets with remaining terms of more than one year correspond to the present values of the payments associated with the assets, with due consideration being given to the relevant interest parameters. Thanks to discounting using the effective interest rate method, there are only minor differences between the carrying amounts of these financial instruments and the fair values.

For those financial instruments measured at fair value, the Group uses the price in an active market as a fair value.

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

For the other available-for-sale financial assets, the Group defines the fair value as the price in an active market.

Because of the maturity involved, the fair value of the current financial debt corresponds to the carrying amount. The fair value of the non-current financial liabilities exceeds their carrying amount by 14,244 thousand euros as at 31 December 2015. 8,494 thousand euros of this difference is accounted for by the valuation of the corporate bond and was ascertained on the basis of this corporate bond's stock market price as at the balance sheet date. There was also a difference of 5,750 thousand euros from the valuation of the promissory note at fair value; this was ascertained as at the valuation date using up-to-date estimates of the company's own credit risk and the interest rate level.

The fair value of the derivative financial instruments that are not traded on an exchange is determined by the Group on the basis of recognised actuarial methods (discounted cash flow method or option price models). The expected future cash flows from the financial instrument are calculated on the basis of the relevant interest rate structure and forward curves and are then discounted to the closing date. The market value confirmations obtained from the external partners are periodically compared with the market values that have been calculated internally. The Group had no derivative financial instruments as at 31 December 2015.

Trade accounts payable and other financial liabilities and accruals regularly have short residual terms; the amounts recognised are therefore roughly equivalent to the fair value.

The following overview shows the major parameters on which the assessment of the fair value of financial instruments, and the assessment of the financial instruments reported at fair value in accordance with IFRS 7 are based. The individual levels are defined in accordance with IFRS 13 as follows:

- Level 1:
  Unchanged use of prices from active markets for identical financial assets or financial liabilities.
- Level 2:
  Use of input factors which are not the listed prices recognised in Level 1, but which are directly (i.e. in the form of a price) or indirectly (i.e. derived from prices) observable for the financial asset or the financial liability.
- Level 3:
  Use of input factors which are not based on observable market data for measuring the financial asset or the financial liability (input factors not based on observable market data).

Fair value hierarchy as of 31 December 2015

In EUR'000s	Total	Level 1	Level 2	Level 3
Assets				
Available-for-sale financial assets	2,802	2,802	0	0
Other financial assets	1,014	1,014	0	0
Trade accounts receivable	79,702	0	0	79,702
Liabilities				
Borrowings	632,142	408,116	0	224,026

Fair value hierarchy as of 31 December 2014

In EUR'000s	Total	Level 1	Level 2	Level 3
Assets				
Available-for-sale financial assets	2,843	2,843	0	0
Other financial assets	1,031	1,031	0	0
Trade accounts receivable	79,249	0	0	79,249
Liabilities				
Borrowings	550,646	427,232	0	123,414

For the individual categories of financial instruments in accordance with IAS 39, the following net results were shown in the financial year 2015 and in the previous year:

Net result by valuation categories 2015

		From subsequent measurement			
In EUR '000s	From interest	At fair value through other comprehensive income	Impairment/ receivables losses	From disposals	Net result
Available-for-sale financial instruments (AFS)	0	-57	0	0	-57
Loans and receivables (LR)	-251	0	-44,309	-87	-44,647
Financial liabilities measured at amortised cost (FLAC)	-39,436	0	0	0	-39,436
Total	**-39,687**	**-57**	**-44,309**	**-87**	**-84,140**

Net result by valuation categories 2014 (adjusted)

		From subsequent measurement			
In EUR '000s	From interest	At fair value through other comprehensive income	Impairment/ receivables losses	From disposals	Net result
Available-for-sale financial instruments (AFS)	0	-43	0	0	-43
Loans and receivables (LR)	1,298	0	-38,132	384	-36,450
Financial liabilities measured at amortised cost (FLAC)	-35,609	0	0	0	-35,609
Total	**-34,311**	**-43**	**-38,132**	**384**	**-72,102**

Net gains and losses from loans and receivables include changes in the allowances, gains and losses from derecognition as well as inflows and recoveries in the value of previously written-off loans and receivables.

Net gains or losses attributable to the category of financial liabilities measured at amortised cost include the income and expenses from the measurement of the financial liability from the put option in connection with the acquisition of MOTION TM (carrying amount of the liabilities as of 31 December 2015: 12,870 thousand euros; previous year: 8,260 thousand euros). A sensitivity calculation regarding the enterprise value has established that the figure stated for the financial liability would have been 1.2 million euros higher if the enterprise value increased by 10 per cent, and that it would have been 1.2 million euros lower if the enterprise value declined by 10 per cent.

Net gains and losses from the category of available-for-sale financial instruments include impairments.

Net gains and losses from financial liabilities measured at amortised cost of purchase consist of interest expenses.

Disclosures concerning interest income and interest expenses from the financial assets and financial liabilities not measured at fair value through profit or loss are based on the application of the effective interest rate method.

Netting of financial assets and liabilities as of 31 December 2015

In EUR '000s	Gross amount before balance	Balance amounts	Net amount in balance	Fair Value of financial securities	Total net amount
Financial assets					
Trade accounts receivable	521,447	6,000	515,447	0	515,447
Total	**521,447**	**6,000**	**515,447**	**0**	**515,447**
Financial liabilities					
Trade accounts payable	449,718	6,000	443,718	4,000	439,718
Total	**449,718**	**6,000**	**443,718**	**4,000**	**439,718**

Netting of financial assets and liabilities as of 31 December 2014

In EUR '000s	Gross amount before balance	Balance amounts	Net amount in balance	Fair Value of financial securities	Total net amount
Financial assets					
Trade accounts receivable	494,063	6,000	488,063	0	488,063
Total	**494,063**	**6,000**	**488,063**	**0**	**488,063**
Financial liabilities					
Trade accounts payable	376,471	6,000	370,471	4,000	366,471
Total	**376,471**	**6,000**	**370,471**	**4,000**	**366,471**

Based on an agreement with a network operator to adjust the terms of payment, monthly advance payments are made for the mobile communications services rendered by the network operator in question. These are netted out on the balance sheet date and settled in the subsequent month.

34.2 Principles and objectives of financial risk management and capital risk management

With regard to its assets, liabilities and planned transactions, the freenet Group is exposed in particular to market risks, liquidity risks and default risks.

The objective of financial risk management is to constantly monitor these risks and to limit them with operational and finance-oriented activities.

The basic characteristics of financial policy, whose components are explained below, are determined by the Executive Board. In addition, certain financial transactions require the Executive Board's prior approval.

The Group Treasury department renders services to the business areas and coordinates access to the financial markets. It also monitors and manages the market and liquidity risks associated with the Group's business areas by way of regular internal risk reporting which analyses the risks in terms of their degree and scale. The overriding priority for the Group Treasury department is the principle of risk minimisation; another important objective is to optimise net interest income. Prudent liquidity management controlled by the Group Treasury department involves holding an adequate reserve of cash and cash equivalents, the possibility of obtaining finance by way of adequate commitments from credit lines, and the possibility of closing open market positions. Liquidity risks are reduced by constantly monitoring the financial status and by maintaining adequate reserves in the form of credit lines.

The Group Treasury department is responsible for monitoring the default risks of major debtors (in particular distributors, dealers and other B2B partners) as well as regular internal reporting for these risks. Receivables due from end customers are monitored in the Receivables Management department. One of the department's primary objectives is to minimise the costs attributable to the default or impairment of receivables due from end customers and sales partners.

The Group's capital risk management is related to the shareholders' equity as shown in the consolidated balance sheet and to ratios derived therefrom.

The foremost objective of the Group's capital risk management is to monitor the financial covenants specified in the loan agreements, where failure to fulfil such financial covenants might lead to the loans being called in immediately. The main financial covenants are defined in relation to the Group's equity ratio and the debt ratio (ratio of net financial debt to EBITDA). For further information, please refer to the statements in the chapter "Financial management" in the Group management report. All covenants are fulfilled as at the balance sheet date.

The ratio of Group net financial debt to Group equity (gearing) is another parameter of capital risk management. Gearing was 0.27 as at the balance sheet date (previous year: 0.33).

In order to actively manage the capital structure, the management is permitted to sell assets to reduce debt, as well as being entitled to implement measures such as issuing new shares.

The following information concerning the specific risks is based on information presented to the Executive Board.

34.3 Market risk

Our Group's activities are primarily exposed to financial risks resulting from changes in interest rates and currency exchange rates.

34.3.1 Interest rate risk

The liabilities shown under financial debt result from a fixed-interest corporate bond (reported as at 31 December 2015: 419.5 million euros) which was issued as part of the refinancing in April 2011, and from the promissory note concluded in December 2012 (reported as at 31 December 2015 with a balance totalling 118.9 million euros – comprising 55.0 million euros in three separate variable-interest tranches and 2015 million euros in two separate fixed-interest tranches) and a promissory note concluded in May 2015 (shown as a balance of 100.3 million euros in total as of 31 December 2015 – of this figure, 24.9 million euros are attributable to the variable-interest tranches). The Group also has a revolving credit line amounting to 300.0 million euros that had not been drawn on by the end of the year.

As at 31 December 2015, the Group reported variable-interest financial liabilities amounting to 79.9 million euros. In this respect, the Group is exposed to interest rate risks. Although the interest rate risks are not explicitly secured, the cash holdings (which are invested mainly at variable interest rates based on EONIA or EURIBOR) serve as a natural hedge and accordingly mitigate interest rate risks arising from the variable-interest financial debt.

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

In order to depict the market risks, the Group uses a sensitivity analysis that shows the effects of changes in interest rates on earnings and on shareholders' equity.

The periodic effects are determined by relating the theoretical changes in the risk variables to the holdings of financial instruments as at the closing date.

In the balance sheet, liabilities of 638.9 million euros are shown under short-term and long-term financial debt as at 31 December 2015, 79.9 million euros of which have variable interest rates. The variable-interest liabilities to banks as at the closing date were charged interest of 1.3 per cent. The corporate bond comes with a coupon of 7.125 per cent.

Of the aggregate amount shown for financial debt as at 31 December 2015, 420.5 million euros are shown as current debt. There is a mandatory repayment for 2016 for the repayment of the corporate bond of 400.0 million euros which falls due in April 2016 as well as 20.5 million euros for expected payments of cumulative interest. On the basis of market estimates, the expected interest for variable-interest loans for 2016 is in a corridor between 1.3 and 2.3 per cent. This means that the cash outflows for the entire financial debt in 2016 would amount to 33,1 million euros. Based on the net position of variable-interest assets and liabilities measured at fair value, a parallel upward shift of 50 basis points in the interest rate curve would have an impact of -157 thousand euros on the result before tax (previous year adjusted: -30 thousand euros), while a downward shift of 50 basis points in the interest rate curve would have an impact of 157 thousand euros on the result before tax (previous year adjusted: 30 thousand euros).

Money market funds are subject to marginal interest rate fluctuations, so there is always a possibility of price losses. There is no significant risk, however, as the money has been invested in funds on a very short-term basis. There are no contractually defined maturity dates or interest adjustment dates, with returns coming from changes in the price of the instrument and any dividend payments. Based on the financial investments in money market funds and bonds shown in the balance sheet under other receivables and other assets and other financial assets, an upward shift of 5 per cent in the price of the acquired shares would have an impact of 133 thousand euros (previous year: 135 thousand euros) on shareholders' equity, while a downward shift of 5 per cent would have an impact of –133 thousand euros (previous year: -135 thousand euros) on shareholders' equity.

The risk of interest rate changes is negligible for the other interest-bearing assets and liabilities.

Changes in interest rates have an impact on fixed-income financial instruments only if they are recognised at fair value. The financial liabilities of freenet are therefore not exposed to an interest rate risk because they are recognised at amortised cost of purchase.

34.3.2 Foreign currency risk

Commercial transactions in foreign currencies are conducted to an insignificant degree in the Group. The foreign currency risk is generally hedged by concluding currency futures, or, if necessary, by way of cash holdings denominated in foreign currency.

All in all, the Group regards the foreign currency risk as negligible.

34.4 Liquidity risk

The Group's general liquidity risk resides in the possibility that the company might possibly be unable to meet its financial obligations, for example the repayment of financial debt, the payment of purchasing obligations and the obligations from lease agreements.

Extensive financial planning instruments are used throughout the Group to monitor and control liquidity. Different planning horizons of up to one year are considered in connection with this. The short-term liquidity planning and control are carried out on a daily basis, each for the subsequent three months. This planning is updated daily by the Group Treasury department following liaison with the Accounting and Controlling departments on the basis of current data.

The Group also controls its liquidity risk by holding appropriate bank balances and credit lines at banks, and by monitoring continuously the forecast and actual cash flows. Reconciliations are also performed for the maturity profiles of the financial assets and liabilities. The Group uses a wide range of different financing instruments to reduce the liquidity risk.

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 anticipates that it will be able to meet its other obligations arising from operating cash flows and the proceeds of maturing financial assets.

As at the balance sheet date, the Group had not utilised the revolving credit line of 300.0 million euros which had been provided. There are stringent restrictions on the company raising loans outside of these credit agreements, e. g. in order to finance future strategic investments.

Securities (money market funds and bonds in the securities deposit account) can be liquidated at short notice. There are no plans to sell any of the holdings. If it became necessary to sell these holdings, their sale at short notice might possibly be more difficult because there is no organised capital market for these shareholdings.

The Group's financial and operational scope is restricted by certain regulations in the loan agreements. 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. The following tables show the contractually agreed undiscounted interest and redemption payments on the Group's original financial liabilities at the end of the financial years 2015 and 2014:

Financial liabilities

In EUR '000s	Carrying amount 31.12.2015	Cash flows 2016 Interest (fixed)	Interest (variable)	Repay-ment	Cash flows 2017 Interest (fixed)	Interest (variable)	Repay-ment	Cash flows 2018 and later Interest (fixed)	Interest (variable)	Repay-ment
Trade accounts payable	443,718			443,718						
Debt (liabilities due to banks)	638,914	31,994	1,056	420,532	3,492	1,077	54,464	7,091	1,948	163,918
Other non-derivative financial liabilities	93,748			51,296			29,582			12,870

Financial liabilities

In EUR '000s	Carrying amount 31.12.2014	Cash flows 2015 Interest (fixed)	Interest (variable)	Repay-ment	Cash flows 2016 Interest (fixed)	Interest (variable)	Repay-ment	Cash flows 2017 and later Interest (fixed)	Interest (variable)	Repay-ment
Trade accounts payable	370,471			369,931			540			
Debt (liabilities due to banks)	538,556	30,775	963	20,333	30,769	966	398,588	3,881	2,462	119,635
Other non-derivative financial liabilities	88,067			49,716			29,821			8,530

34.5 Credit default risk

A credit default risk consists of the unexpected loss of cash and cash equivalents or revenue as a result of the partial or complete default on receivables owed. This risk materialises if the contractual partner is unable to meet their obligations within the agreed period.

The assessment of the risk of default in the freenet Group is focused primarily on trade accounts receivable owed by end customers. For more information, please refer to the statements in note 21, Receivables and other assets. Here, particular attention is devoted to the credit standing of customers and sales partners in our Group's large-scale business activities. For important contract customer sectors, credit assessments are carried out for the customers before the contract is signed.

In the ongoing contractual relationship, the implementation of a swift and regular reminder and debt collection process involving a number of debt collection companies in the benchmarking area, together with long-term debt collection monitoring and high-spender monitoring, are essential measures for the minimisation of the default risk in our Group.

An ongoing reminder and debt collection process is likewise used for receivables owed by retailers and franchise partners. In a similar vein, credit limits are established and monitored. Where appropriate, a delivery block is imposed when the limit is reached.

Commercial credit insurance, moreover, safeguards us against significant credit default risks vis-a-vis major customers (traders and distributors in the Mobile Communications segment). In order to minimise the credit risk, the Group has insured a certain percentage of this revenue. Every month, the Group Treasury department notifies the insurer of the current revenue of each key account. The insurer uses this notification to calculate the revenue volume to be insured. The risks associated with uninsured customers 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. Default risks vis-a-vis end customers have not been hedged.

In order to determine the intrinsic value of trade accounts receivable, due account is taken of any change in creditworthiness between the point at which the terms of payment were granted and the balance sheet date. There is no significant concentration of credit risk because the customer base is broad and because there are no correlations.

The appropriate formation of valuation allowances takes the risks of default into account. Receivables and other assets are derecognised if the Group regards the receivable as irrecoverable.

Securities and liquid assets are invested mainly at major German banks. The default risk has been limited significantly as a result of the risk being spread over various banks. The Group Treasury department constantly monitors the investments' current and expected future yields.

With regard to those trade accounts receivable that are neither impaired nor overdue for payment, there are no indications as at the balance sheet date that the debtors will not meet their payment obligations.

With regard to the Group's other financial assets, such as cash and cash equivalents and available-for-sale financial assets, the maximum credit risk in the case of counterparty default is equivalent to the carrying amount of these instruments.

34.6 Transfer of financial assets

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

Since the previous year, the Group concluded a factoring agreement with a bank against this background. The agreement is a master agreement with an indefinite term. The sale of mobile phone option receivables is possible on a quarterly basis. The bank purchases the receivables with a defined del credere discount and it also bills freenet for interest and fees. The relevant risks (such as the risk of default in particular) and opportunities are transferred to the bank, with the result that the receivables sold are derecognised in their entirety. The freenet Group continues to bear the risk of late payment, as well as being responsible for the collection and administration of the receivables sold (known as "servicing").

Of the sales carried out on a quarterly basis in the reporting year (nominal volume 119.8 million euros, previous year: 131.4 million euros), a total of 2.5 million euros (previous year: 1.7 million euros) was posted to expenses. 1.8 million euros (previous year: 1.3 million euros) of this sum concerns the credit default risk taken on from the bank (del credere deduction and charges) and 0.7 million euros (previous year: 0.4 million euros) are accounted for by interest expenses from the late payment risk. As at the balance sheet date, receivables amounting to 58.5 million euros (previous year: 49.6 million euros) have been sold and derecognised but not yet paid for. The expenses of 10 thousand euros (previous year: 7 thousand euros) to be anticipated from the late payment risk and the servicing will be realised over the residual term of the receivables (6 months). The maximum loss risk for the Group is 0.6 million euros (previous year: 0.5 million euros).

The bank automatically assigns the newly defaulted receivables from the financial period ended to freenet at a fixed price each month. The buyback has no effect on either the apportionment of the risk of receivables default or the freenet Group's liquidity.

Within the framework of other sales of receivables, trade accounts payable of 0.5 million euros were sold in the financial year 2015. The risks relating to the receivables which have been sold and which are relevant for the risk assessment are of minor significance.

35. Related-party transactions

35.1 Overview

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

In EUR '000s	2015	2014
Sales and income attributable to services		
Joint Ventures		
FunDorado GmbH, Hamburg	377	316
Total	**377**	**316**

The following major receivables due from and liabilities due to related parties existed as at 31 December 2015:

In EUR '000s	31.12.2015	31.12.2014
Receivables from regular transactions		
Joint ventures		
FunDorado GmbH, Hamburg	44	38
Total	**44**	**38**

Total emoluments of 460 thousand euros (previous year: 436 thousand euros) were granted to the employees' representatives of the Supervisory Board in the financial year 2015.

All transactions were at market rates. There are no securities.

35.2 Executive Board compensation

The compensation paid to the members of the Executive Board consists of annual fixed compensation, annual variable compensation, and variable compensation with a long-term incentive effect. There are also pension commitments. The annual variable compensation sums each result from an annual agreement on objectives in which regularly determined figures indicating the freenet Group's significant financial and non-financial performance indicators are defined as individual objectives. With regard to the compensation with long-term incentive effect, we refer to the statements made in relation to the LTIP programmes in notes 26.2 and 26.2 of these notes.

The compensation for the members of the company's Executive Board was as follows in the reporting year and in the previous year:

Executive Board compensation 2015

In EUR '000s	Fixed compensation	Variable compensation	Sub-total cash compensation	Variable compensation with longterm incentive effect[1]	Total compensation
Christoph Vilanek	765	639	1,404	1,283	2,687
Joachim Preisig	544	512	1,056	531	1,587
Stephan Esch	492	256	748	343	1,091
Total	**1,801**	**1,407**	**3,208**	**2,157**	**5,365**

Executive Board compensation 2014

In EUR '000s	Fixed compensation	Variable compensation	Sub-total cash compensation	Variable compensation with longterm incentive effect[1]	Total compensation
Christoph Vilanek	767	659	1,426	1,632	3,058
Joachim Preisig	432	540	972	1,220	2,192
Stephan Esch	442	162	604	660	1,264
Total	**1,641**	**1,361**	**3,002**	**3,512**	**6,514**

The composition of the variable compensation with long-term incentive effect was as follows:

Variable compensation with long term incentive effect 2015

in TEUR	LTIP programme compensation from change in provision (non-cash-effective)	LTIP programme compensation from actual payments	Total variable compensation with long-term incentive effect
Christoph Vilanek	1,283	0	1,283
Joachim Preisig	-1,072	1,603	531
Stephan Esch	-378	721	343
Total	**-167**	**2,324**	**2,157**

Variable compensation with long term incentive effect 2014

In TEUR	LTIP programme compensation from change in provision (non-cash-effective)	LTIP programme compensation from actual payments	Total variable compensation with long-term incentive effect
Christoph Vilanek	-648	2,280	1,632
Joachim Preisig	829	391	1,220
Stephan Esch	484	176	660
Total	**665**	**2,847**	**3,512**

On 26 February 2014, agreements concerning the contracts of employment that grant new long-term variable compensation components (LTIPs) were concluded with the members of the Executive Board. In connection with this, we refer to note 26.2 of these notes.

The members of the Executive Board were granted an LTIP programme for the first time in 2011. We refer to note 26.1 of these notes.

In the financial year 2015, there were cash payouts from the LTIP programmes in the amount of 2,324 thousand euros (previous year: 2,847 thousand euros), with Mr Vilanek receiving 0 thousand euros (previous year: 2,280

1 This comprises variable compensation from the LTIP programme, including amounts which were non-cash-effective in the financial year and which were measured in accordance with IFRS 2

thousand euros), Mr Preisig receiving 1,603 thousand euros (previous year: 391 thousand euros) and Mr Esch receiving 721 thousand euros (previous year: 176 thousand euros). The cash payments to Messrs. Preisig and Esch completely redeemed their old LTIP programmes (target attainment years 2011 to 2014). As of the balance sheet date 31 December 2015, all three members of the Executive Board are in the new LTIP programme – with the target attainment years 2014 to 2018 for Mr Vilanek and 2015 to 2019 for Messrs. Preisig and Esch.

As at 31 December 2015, the provision for Mr Vilanek's LTIP programme was 2,488 thousand euros (previous year: 1,205 thousand euros), with Mr Preisig receiving 993 thousand euros (previous year: 2,065 thousand euros) and Mr Esch receiving 662 thousand euros (previous year: 1,040 thousand euros).

All in all, the Executive Board compensation in 2015 as defined by section 314 (1) no. 6a HGB/German Accounting Standard No. 17 (DRS 17) amounted to 3,208 thousand euros (previous year: 13,401 thousand euros). The total for 2015 contains no compensation with long-term incentive effect; as such components had already been disclosed in the financial years in which the compensation instruments had been granted in accordance with HGB. In the financial year 2014, not only the subtotal of fixed components and other variable compensation in the amount of 3,002 thousand euros, but also the fair value of the entire new LTIP programme as at the time of being granted on 26 February 2014, hence 10,399 thousand euros (of which 5,545 thousand euros is attributable to Mr Vilanek, 2,912 thousand euros to Mr Preisig and 1,942 thousand euros to Mr Esch), are accounted for in these compensation elements.

In November 2004, Mr Esch was granted an indirect pension commitment. In the financial year 2009, Mr Vilanek was granted an indirect pension commitment on the occasion of his appointment as chairman of the Executive Board as at 1 May 2009. freenet AG had taken on the pension commitment granted to Mr Preisig from the former debitel AG as at 1 September 2008. In February 2014, adjustments were made to all three Executive Board members' pension commitments. For further details, see the section "Compensation rules in the event of a cessation of employment" in the Executive Board remuneration report within the Group management report.

As at 31 December 2015, the defined benefit obligation (DBO) for Mr Vilanek amounted to 2,686 thousand euros (previous year: 2,641 thousand euros), with Mr Preisig receiving 3,180 thousand euros (previous year: 3,214 thousand euros) and Mr Esch receiving 2,671 thousand euros (previous year: 2,826 thousand euros). The DBOs for Messrs Spoerr, Krieger and Berger, as former Executive Board members, totalled 7,625 thousand euros as at 31 December 2015 (previous year: 8,779 thousand euros).

Current service time expenses of 1,020 thousand euros (previous year: 531 thousand euros) were recognised in total in personnel expenses for the members of the Executive Board as a result of the pension commitments. Of these, 446 thousand euros for 2015 (previous year: 238 thousand euros) were accounted for by Mr Vilanek, 314 thousand euros (previous year: 126 thousand euros) by Mr Preisig and 260 thousand euros (previous year: 167 thousand euros) by Mr Esch.

In 2015, no past service costs were recognised in the personnel expenses for the members of the Executive Board relating to the pension commitments. In the previous year, past service costs of 2,136 thousand euros were recognised; of this figure, 501 thousand euros related to Mr Vilanek, 1,422 thousand euros related to Mr Preisig and 213 thousand euros related to Mr Esch.

No loans were extended to any of the Executive Board members and no guarantees or other warranties were provided for the Executive Board members.

35.3 Compensation for the Supervisory Board

The Supervisory Board's compensation is governed by the articles of association and consists of three components:

- Basic compensation
- Attendance fees
- Performance-linked compensation.

The Supervisory Board's members receive from the company fixed basic compensation of 30,000 euros for each full financial year of their Supervisory Board membership.

The chairperson of the Supervisory Board receives double this amount, the vice chairperson one-and-a-half times this amount.

In addition, every Supervisory Board member receives an attendance fee of 1,000 euros for each Supervisory Board meeting that he/she attends. Supervisory Board members who belong to a Supervisory Board committee – with the exception of the committee constituted in accordance with section 27 (3) of the German Co-determination Act (Mitbestimmungsgesetz) – receive in addition an attendance fee of 1,000 euros for each meeting of the respective committee that they attend. The committee chairperson receives double this amount.

Within the framework of a voluntary restriction imposed on its own activities, the Supervisory Board has decided that no compensation shall be payable for participation in telephone meetings of the Supervisory Board or its committees or for participation by telephone in meetings requiring physical attendance.

After the end of each financial year, the Supervisory Board's members also receive variable, performance-linked compensation in the amount of 500 euros for each 0.01 euro dividend in excess of 0.10 euro per no-par-value share in the company which is distributed to shareholders for the financial year ended. The amount of the compensation is limited to that which is payable in the form of basic compensation. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one-and-a-half times this amount.

For their activities during the financial year 2015, the members of the company's Supervisory Board received fixed compensation of 403 thousand euros plus attendance fees amounting to 90 thousand euros. In addition, profit-linked compensation of 403 thousand euros was also recorded as a cost. The extent to which this performance-based compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2015. The aggregate compensation paid for Supervisory Board activities thereby amounted to 896 thousand euros.

Furthermore, Supervisory Board members are reimbursed for expenses incurred in connection with the performance of their official duties, as well as for value added tax.

No loans were extended to any of the Supervisory Board members and no guarantees or other warranties were provided for the Supervisory Board members.

Individualised figures for the last two financial years are shown in the following tables. Please note that rounding differences may result from the format used for presenting subtotals and sum totals; this is because the figures have been rounded to one position after the decimal point.

Compensation for the financial year 2015

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr Hartmut Schenk	60.0	14.0	60.0	134.0
Knut Mackeprang[1]	45.0	5.0	45.0	95.0
Claudia Anderleit[1]	30.0	7.0	30.0	67.0
Birgit Geffke[1]	30.0	9.0	30.0	69.0
Thorsten Kraemer	30.0	7.0	30.0	67.0
Ronny Minak[1]	30.0	8.0	30.0	68.0
Michael Stephan[1]	30.0	8.0	30.0	68.0
Prof Dr Helmut Thoma	30.0	5.0	30.0	65.0
Gesine Thomas[1]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	8.0	30.0	68.0
Robert Weidinger	30.0	12.0	30.0	72.0
Sabine Christiansen	25.5	3.0	25.6	54.1
	400.5	**90.0**	**400.6**	**891.1**
Former members				
Achim Weiss	2.5	0.0	2.5	5.0
Total	**403.0**	**90.0**	**403.1**	**896.1**

Compensation for the financial year 2014

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr Hartmut Schenk	60.0	12.0	60.0	132.0
Knut Mackeprang[1]	45.0	6.0	45.0	96.0
Claudia Anderleit[1]	30.0	6.0	30.0	66.0
Birgit Geffke[1]	30.0	8.0	30.0	68.0
Thorsten Kraemer	30.0	5.0	30.0	65.0
Ronny Minak[1]	30.0	8.0	30.0	68.0
Michael Stephan[1]	30.0	7.0	30.0	67.0
Prof Dr Helmut Thoma	30.0	5.0	30.0	65.0
Gesine Thomas[1]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	8.0	30.0	68.0
Robert Weidinger	30.0	11.0	30.0	71.0
Achim Weiss	30.0	4.0	30.0	64.0
Total	**405.0**	**84.0**	**405.0**	**894.0**

1 Employee representative in accordance with section 7 (1) clause 1 no. 1 MitbestG of 4 May 1976.

36. Company acquisitions

In 2015, the Group acquired a participation of 24.99 per cent of the shares and voting rights in EXARING AG, Munich in several stages. The Group acquired control over this subsidiary on 15 December 2015. Despite the fact that a majority of voting rights is not held, control has been acquired as a result of substantial contractual rights in accordance with IFRS 10. These contractual rights give the Group the possibility of acquiring control and influencing the returns of EXARING by way of holding a majority position on the executive bodies of EXARING.

Due to considerations of simplicity, 31 December 2015 has been chosen as the reference date for the initial consolidation in the consolidated financial statements of freenet AG. This acquisition has resulted in an early phase investment in a business project in the field of IPTV. With an intelligent and high-performance solution, EXARING intends to offer a TV solution of the highest quality and subject to attractive conditions to numerous reachable German households – combined with numerous advanced add-on functions.

A cash price of 25,000 thousand euros was agreed for the acquisition of the 24.99 per cent interest; this figure is not subject to any adjustments and is thus final, because there are also no contingent elements in the purchase price. Of this cash purchase price, the Group reported a cash outflow of 5,000 thousand euros in the fourth quarter of 2015; this was paid into the capital reserve of the acquired company – the remaining 20.000 thousand euros will be paid to the Group in 2016, by way of a contribution to the capital reserve of EXARING.

The purchase price allocation carried out in accordance with IFRS 3 with regard to the acquisition of EXARING is of a provisional nature, because the fair values of the identifiable assets and liabilities can only be determined on a provisional basis.

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

Assets and liabilities of EXARING measured at fair value as at 31. December 2015

Assets In EUR '000s	31.12.2015
Non-current assets	
Intangible assets	73,013
Goodwill	687
Property, plant and equipment	1,225
	74,925
Current assets	
Current tax assets	2
Other accounts receivable	20,595
Liquid assets	2,225
	22,822
	97,747

Liabilities In EUR '000s	31.12.2015
Capital and reserves attributable to non-controlling interest	**50,040**
Non-current liabilities	
Deferred income tax liabilities	21,761
	21,761
Current liabilities	
Trade accounts payable	876
Other liabilities and deferrals	54
Other provisions	16
	946
	72,747

The purchase price is the difference between the assets and liabilities of 25,000 thousand euros. The provisional purchase price allocation has resulted of goodwill of 687 thousand euros, which is mainly attributable to the workforce which cannot be recognised separately. The goodwill has been allocated to the cash generating unit "TV". The acquired intangible assets essentially comprise an affordable right of 68,874 thousand euros relating to a line network as well as the right to purchase this line network after the expiry of the above-mentioned right (3,422 thousand euros). As a result of the subsequent write-down of the right over a useful life of 114 months, write-downs of 1,812 thousand euros are expected to be recognised every quarter after the time of the acquisition. No contingent debts were recognised in the provisional purchase price allocation. The fair value of the acquired receivables is 20,595 thousand euros. As of the reference date of the acquisition, no impairments had been created in relation to gross trade accounts receivable as well as other receivables and other assets. We have not identified any transactions which have to be shown separately from the acquisition of the assets and liabilities. A budgeting plan based on the DCF procedure and with valuation relevance was made available for the provisional purchase price allocation. This covered a detailed period of five years. The direct cash flow method was used for determining the fair value of the above-mentioned intangible assets recognised in the course of the provisional purchase price allocation.

The non-controlling interests were measured at fair value using the full-goodwill method.

With the acquisition of the EXARING, freenet plans to consistently continue its growth in the digital lifestyle field.

For the purpose of the freenet Group's segment reporting, EXARING was allocated to the "Other/Holding" segment.

In the financial year 2016, the Group has the option to acquire a further 25.02 per cent of the shares and voting rights in EXARING in order to achieve an overall stake of 50.01 per cent.

37. Declaration in accordance with section 315a HGB

The average number of employees in the Group (section 314 (1) no. 4 HGB) has been shown in note 8, Personnel expenses, of these notes.

With regard to the disclosures concerning the compensation paid to the company's management bodies (section 314 (1) no. 6 HGB); please refer to note 35, Transactions with related parties.

In accordance with section 314 (1) no. 8 HGB, we hereby declare that the declaration of conformity in accordance with section 161 AktG was submitted by the company's Executive Board and Supervisory Board in December 2015. It has been made permanently available to shareholders in the Internet at the following address:

www.freenet-group.de/investor-relations/corporate-governance

A total of 1,311 thousand euros in fees was paid to the auditor in accordance with clause 314 paragraph 1 no. 9 HGB during the financial year. Of this figure, 1,109 thousand euros is attributable to auditing services (thereof 710 thousand euros for the current audit for 2015 as well as 399 thousand euros for project-related audits within the framework of the introduction of IFRS 15), 168 thousand euros is attributable to other services, 19 thousand euros is attributable to other certification services and 15 thousand euros is attributable to tax consultancy services.

In accordance with section 313 (2) to (3) HGB, we provide the following overview of the companies included in the consolidated financial statements (see table on the following page):

	Holding
Fully consolidated companies	
freenet Cityline GmbH, Kiel	100.00%
freenet.de GmbH, Hamburg	100.00%
01019 Telefondienste GmbH, Hamburg	100.00%
01024 Telefondienste GmbH, Kiel	100.00%
01050.com GmbH, Hamburg	100.00%
freenet Datenkommunikations GmbH, Hamburg	100.00%
tellfon GmbH, Hamburg	100.00%
01083.com GmbH, Hamburg	100.00%
mobilcom-debitel GmbH, Büdelsdorf	100.00%
mobilcom-debitel Logistik GmbH, Schleswig	100.00%
MobilCom Multimedia GmbH, Schleswig	100.00%
klarmobil GmbH, Hamburg	100.00%
new directions GmbH, Hamburg	100.00%
freenet Direkt GmbH, Hamburg	100.00%
MFE Energie GmbH, Berlin	100.00%
Stanniol GmbH für IT & PR, Oberkrämer	100.00%
mobilcom-debitel Shop GmbH, Oberkrämer	100.00%
callmobile GmbH, Hamburg	100.00%
Gravis-Computervertriebsgesellschaft mbH, Berlin	100.00%
MOTION TM Vertriebs GmbH, Troisdorf	51.00%
freenet digital GmbH, Berlin	100.00%
iLove GmbH, Berlin	100.00%
Quaid Media GmbH, Berlin	100.00%
Quaid Media International GmbH, Berlin	100.00%
freenet digital Espana S. L., Barcelona (Spain)	100.00%
freenet digital Entretentimendo do Brasil Ltda., Sao Paulo (Brazil)	100.00%
Jamba Mobilnye Razvlecheniya 000, Moskau (Russian Federation)	100.00%
Motility GmbH, Berlin	100.00%
freenet digital Holdings Inc., Wilmington (U.S.)	100.00%
freenet digital Entertainment Inc., Los Angeles (U.S.)	100.00%
freenet digital LLC, Wilmington (U.S.)	100.00%
freenet digital North America Inc. Wilmington (U.S.)	100.00%
freenet digital Studios LLC, Wilmington (U.S.)	100.00%
Aldine Productions LLC, Wilmington (U.S.)	100.00%
Seedling Productions LLC, Los Angeles (U.S.)	100.00%
freenet digital Group US Holdings Inc., Wilmington (U.S.)	100.00%
freenet digital USA LLC, Los Angeles (U.S.)	100.00%
Motility Ads LLC, Los Angeles (U.S.)	100.00%
EXARING AG, Munich	5.00%[1]
Synergy Networks GmbH, Leipzig	5.00%[1]
At equity valued companies	
FunDorado GmbH, Hamburg	50.00%

1 Acquisition of 24.99 per cent of shares is completed. As at 31 December 2015, the commercial register entry for 19.99 per cent is not yet completed.

38. Major events after the balance sheet date

On 3 March 2016, mobilcom-debitel GmbH, a wholly-owned subsidiary of freenet AG, signed an agreement regarding the purchase of 100 per cent of the shares in the Media Broadcast Group. The Media Broadcast Group consists of two holding companies as well as the major operating company Media Broadcast GmbH, Cologne, and also other 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 acquisition is subject to the standard approvals under cartel law. When the transaction is completed, mobilcom-debitel GmbH will pay a price of approximately 100 million euros in cash for the acquisition of the shares, a price of approximately 195 million euros for acquiring a shareholder loan and will also repay liabilities due to banks. It is expected that the transaction will be completed by no later than April 2016.

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

The acquisition of the Media Broadcast Group, in conjunction with the previously acquired holding in EXARING AG, represents an important addition to the strategic development of freenet AG towards becoming the leading digital lifestyle provider in Germany. The entry into the new field of linear and internet-based TV is providing the Company with the opportunity of achieving further diversification in the digital lifestyle field and of developing new growth potential and sources of revenue. In total, freenet AG is confident that both transactions will make a positive contribution to consolidated revenue, EBITDA and free cash flow.

In addition, at the end of February 2016, the Company issued a promissory note a total volume of 560 million euros. This financing instrument is due to be repaid upon final maturity, and comprises a five-year fixed tranche of 264.0 million euros, a five-year variable tranche 179.0 million euros, a seven-year fixed tranche of 78.5 million euros, a seven-year variable tranche of 15.0 million euros and a ten-year fixed tranche of 23.5 million euros. The entire volume was taken up at the bottom end of the respective marketing range with a fixed coupon 1.03 per cent for the fixed five-year tranche, a variable coupon which is expected to be 1.00 per cent for the first six months of the variable five-year tranche, a fixed coupon of 1.45 per cent for the fixed seven-year tranche, a variable coupon which is expected to be 1.20 per cent for the first six months of the variable seven-year tranche and a fixed coupon of 1.95 per cent for the fixed ten-year tranche. The average is 1.12 per cent p.a. over the above maturities.

In addition, at the beginning of March 2016, freenet AG and mobilcom-debitel GmbH signed a facilities agreement with a syndicate of banks which enables these companies to draw down funds for possible acquisitions and current operations in three different tranches. The third tranche with a volume of 100.0 million euros comes with a variable coupon and has been issued in the form of a revolving credit facility, i.e. the funds can be drawn down and repaid at any time during the five-year term of the tranche. The first two loans are used as bridge financing for possible acquisitions and provide the funds required for the respective acquisition. Out of these two variable-interest tranches, the lending banks have so far provided funds of up to 240 million euros as a credit line; however, this has not yet been utilised by the companies, and also does not necessarily have to be used.

39. Consolidated statement of movements in non-current assets as at 31 December 2015

Consolidated statement of movements in non-current assets as at 31 December 2015

In EUR '000s	Cost of purchase or production						
	1.1.2015	Change in companies included in consolidation	Additions	Transfers	Disposals	Foreign currency	31.12.2015
Intangible assets							
Internally-generated software	85,996	703	11,074	0	2,270	24	95,527
Software, licenses and rights of use	136,034	72,310	44,450	0	27,084	0	225,710
Trademarks	336,352	0	0	0	0	0	336,352
Customer relationships	33,746	0	0	0	12,399	0	21,347
Goodwill	1,153,298	687	0	0	0	0	1,153,985
	1,745,426	**73,700**	**55,524**	**0**	**41,753**	**24**	**1,832,921**
Property, plant and equipment							
Land, facilities on land and buildings	16,028	0	20	0	6	0	16,042
Switches and networks	4,506	0	0	0	41	0	4,465
Technical equipment and machinery	21,188	0	1,324	0	3	0	22,509
Other office equipment	104,563	1,225	7,009	110	4,531	1	108,377
Payments on account and assets under construction	142	0	18	-110	9	0	41
	146,427	**1,225**	**8,371**	**0**	**4,590**	**1**	**151,434**
Total	**1,891,853**	**74,925**	**63,895**	**0**	**46,343**	**25**	**1,984,355**

Consolidated statement of movements in non-current assets as at 31 December 2014

In EUR '000s	Cost of purchase or production						
	1.1.2014	Change in companies included in consolidation	Additions	Transfers	Disposals	Foreign currency	31.12.2014
Intangible assets							
Internally-generated software	72,137	1,464	12,745	-7	368	25	85,996
Software and licenses and rights of use	166,936	9,961	5,677	15	46,555	0	136,034
Trademarks	338,273	3,879	0	0	5,800	0	336,352
Customer relationships	494,365	12,189	0	0	472,808	0	33,746
Goodwill	1,122,112	31,186	0	0	0	0	1,153,298
	2,193,823	**58,679**	**18,422**	**8**	**525,531**	**25**	**1,745,426**
Property, plant and equipment							
Land, facilities on land and buildings	15,965	0	63	0	0	0	16,028
Switches and networks	4,506	0	0	0	0	0	4,506
Technical equipment and machinery	20,620	0	671	0	103	0	21,188
Other office equipment	96,648	923	10,484	345	3,838	1	104,563
Payments on account and assets under construction	384	0	128	-353	17	0	142
	138,123	**923**	**11,346**	**-8**	**3,958**	**1**	**146,427**
Total	**2,331,946**	**59,602**	**29,768**	**0**	**529,489**	**26**	**1,891,853**

Depreciation and impairment write-downs								Net book amounts	
1.1.2015	Change in companies included in consolidation	Additions	Impairment write-downs	Transfers	Disposals	Foreign currency	31.12.2014	31.12.2015	1.1.2015
64,803	0	8,602	0	0	2,270	3	71,138	24,389	21,193
83,086	0	40,782	0	0	26,958	0	96,910	128,800	52,948
33,415	0	6,257	0	0	0	0	39,672	296,680	302,937
20,687	0	4,839	0	0	12,399	0	13,127	8,220	13,059
0	0	0	0	0	0	0	0	1,153,985	1,153,298
201,991	**0**	**60,480**	**0**	**0**	**41,627**	**3**	**220,847**	**1,612,074**	**1,543,435**
8,786	0	626	0	0	1	0	9,411	6,631	7,242
4,327	0	52	0	0	41	0	4,338	127	179
16,751	0	1,495	0	0	3	0	18,243	4,266	4,437
82,256	0	8,570	180	0	4,106	0	86,900	21,477	22,307
0	0	0	0	0	0	0	0	41	142
112,120	**0**	**10,743**	**180**	**0**	**4,151**	**0**	**118,892**	**32,542**	**34,307**
314,111	**0**	**71,223**	**180**	**0**	**45,778**	**3**	**339,739**	**1,644,616**	**1,577,742**

Depreciation and impairment write-downs								Net book amounts	
1.1.2014	Change in companies included in consolidation	Additions	Impairment write-downs	Transfers	Disposals	Foreign currency	31.12.2014	31.12.2014	1.1.2014
53,911	0	10,898	368	-3	368	-3	64,803	21,193	18,226
98,859	0	30,643	0	-3	46,413	0	83,086	52,948	68,077
32,995	0	6,220	0	0	5,800	0	33,415	302,937	305,278
488,615	0	4,880	0	0	472,808	0	20,687	13,059	5,750
0	0	0	0	0	0	0	0	1,153,298	1,122,112
674,380	**0**	**52,641**	**368**	**-6**	**525,389**	**-3**	**201,991**	**1,543,435**	**1,519,443**
8,157	0	629	0	0	0	0	8,786	7,242	7,808
4,275	0	52	0	0	0	0	4,327	179	231
15,388	0	1,466	0	0	103	0	16,751	4,437	5,232
76,551	0	9,257	0	6	3,558	0	82,256	22,307	20,097
0	0	0	0	0	0	0	0	142	384
104,371	**0**	**11,404**	**0**	**6**	**3,661**	**0**	**112,120**	**34,307**	**33,752**
778,751	**0**	**64,045**	**368**	**0**	**529,050**	**-3**	**314,111**	**1,577,742**	**1,553,195**

Büdelsdorf, 3 March 2016
freenet AG
The Executive Board

Christoph Vilanek | Joachim Preisig | Stephan Esch

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the freenet AG, Büdelsdorf, comprising the statement of financial position, the income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2015. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, 4 March 2016
PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed:

Dr Andreas Focke
Wirtschaftsprüfer
(German Public Auditor)

signed:

ppa. Vinzent Graf
Wirtschaftsprüfer
(German Public Auditor)

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the 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.

Büdelsdorf, 3 March 2016
freenet AG
The Executive Board

Christoph Vilanek | Joachim Preisig | Stephan Esch

FURTHER INFORMATION

FINANCIAL CALENDAR

23 March 2016	Publication of the consolidated financial statements / Annual Report 2015
4 May 2016[1]	Interim Report as of 31 March 2016 – First quarter 2016
12 May 2016[1]	Annual General Meeting of freenet AG, CCH Hamburg
24 and 25 May 2016[1]	Berenberg European Conference, New York, USA
11 August 2016[1]	Interim Report as of 30 June 2016 – Second quarter 2016
8 September 2016[1]	dbAccess European TMT Conference, Deutsche Bank, London, Great Britain
21 September 2016[1]	5. German Corporate Conference, Berenberg / Goldman Sachs, Munich, Germany
10 November 2016[1]	Interim Report as of 30 September 2016 – Third quarter 2016

1 All dates are subject to change.

IMPRINT, CONTACT, PUBLICATION

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

The English version of the annual report is a convenient translation of the German version of the annual report. The German version of this annual report is legally binding.

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

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

GLOSSARY

AFS Available-for-sale financial instruments.

AktG German: Aktiengesetz; English: German Stock Corporation Act.

App The short form of “application”.

ARPU Average revenue per user.

Audio streaming It is a data transmission method in which the data is already viewed or listened to during transmission, not only after the complete transmission and storage of data. Audio data is continuously transmitted over the internet.

Browser gam It is a computer game that uses a Web browser as an interface and therefore generally be used without prior installation or download.

B2B Business with business customers (B2B = Business to Business).

B2C Business with consumers (B2C = Business to Consumer).

CGU Cash generating unit; a cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cloud computing It describes the dynamic, demand-oriented offering, using and billing of IT services via a network. The services offered as part of cloud computing cover the entire range of information technology and include among others infrastructure (i.e. computing power, storage space), platforms and software.

Consumer electronics Originally a category that was intended for radio and television, the consumer electronics is now moving more and more into the digital domain and is holistic in its claim. This happens mainly due to the integration into the “Internet of Things”.

Convenience (digital lifestyle) Identifies smart devices and applications which focus on facilitating processes and actions for the user.

COSO Committee of Sponsoring Organisations of the Treadway Commission; a voluntary private-sector organisation in the US, dedicated to improving the quality of financial reporting on the basis of ethical behaviour, effective internal controls and good corporate governance.

Customer ownership Includes the postpaid and no-frills customers.

D&O insurance Directors’ and Officers’ Liability Insurance; insurance payable to the directors and officers of a company, or to the corporation itself, to cover damages or defense costs in the event they are sued for wrongful acts while they were with that company.

DBO Defined Benefit Obligation.

Dialog Consult Dialog Consult GmbH; management consultancy company with international project experience in the areas of corporate, competitive and market entry strategy; Industry focus on telecommunication among others.

Digital lifestyle Describes simplification of everyday life via technical equipment based on internet and/or smartphones.

Diluted earnings per share Diluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares outstanding increased by potentially diluting shares. The number of potentially diluting shares is calculated as the difference between the potential ordinary shares attributable to employee stock option programmes valued at the subscription price and the ordinary shares issuable at fair value.

DTAG Deutsche Telekom AG.

Earnings per share This ratio specifies the portion of consolidated net profit or loss which is attributable to an individual share. It is calculated by dividing the consolidated net profit/net loss by the weighted average number of issued shares.

EBIT Earnings before interest and taxes.

EBITDA Earnings before interest, taxes, depreciation and amortisation.

EBT Earnings before taxes.

E-book (electronic book) is a book in digital form that can be read on electronic devices.

Federal Network Agency Federal Network Agency for Electricity, Gas, Telecommunication, Posts and Railways (German: Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen).

FIPL Financial instruments measured at fair value through profit and loss.

Fitness tracker Accessory that acts as a training partner and sports motivator – counts steps, calories burned and monitors personal activity patterns

FLAC Financial liabilities measured at amortised cost.

Free cash flow 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.

GewStG German: Gewerbesteuergesetz; English: German Trade Tax Act.

Gross profit Revenue minus cost of materials.

HGB German: Handelsgesetzbuch; English: German Commercial Code.

Home Automation Home Automation summarises the networked, sensing, control and optimisation of devices together in a private home. Home automation is a part of "Smart Home" and comprises mainly the areas of security/alarm systems, heating, lighting and control of windows and shutters.

IFRS International Financial Reporting Standards; a collection of standards for the external reporting of companies.

Internet of Things (IoT) IoT describes the increasing network of physical objects that employ digital technology to communicate – increasing comfort, security and energy savings in the process.

ISIN International Securities Identification Number.

IT Information Technology; describes any technology that helps to produce, store and communicate information with the use of electronic computers and computer software.

KStG German: Körperschaftsteuergesetz; English: German Corporation Tax Act.

Long-Term Incentive Account See also LTIP.

LR Loans and receivables.

LTE Long Term Evolution; a new mobile communications standard and future successor of UMTS providing significantly higher transfer speeds in mobile communications with up to 300 megabit per second.

LTIP Long Term Incentive Programme; compensation programme with long-term incentive effect.

Merger & Acquisitions (M&A) Describes all processes concerning the transfer and the encumbrance of ownership in a company.

MitbestG German: Mitbestimmungsgesetz; English: German Codetermination Act.

Mobile service provider Provider of mobile communications services without their own mobile network; they sell mobile telephony minutes, SIM cards and mobile telephones as well as value added services, such as SMS, in their own name and for their own account.

Mobile Wallet (digital wallet) to pay virtually quick and easy through the smartphone.

Multi-channel payment The opportunity to make a payment in a variety of ways. The conventional methods (e. g. EC-Credit Card, COD, Prepayment, Cash) and increasingly Internet-based channels (e. g. PayPal, Yapital, Paymorrow), to allow customers a more convenient shopping experience.

Mystery shopping A procedure to assess service quality, in which trained observers, so-called mystery shoppers, act like normal customers and perceive real customers situations.

Narrowband Analogue or digital data transmission with a speed of up to 128 kbps.

No frills Basic services and necessities without any additional features.

Pay services Pay services describes the offering and provisioning of digital services in digital media subject to a charge.

Portal Central web site which generally comprises a comprehensive range of navigation functions, aggregated content and additional services, such as e-mail.

Prime standard Stock market segment of the Frankfurt stock exchange with particularly high transparency requirements.

Roaming A feature in wireless telecommunications, which ensures the extension of connectivity service in a location different from the home location. Roaming can also reach to similar networks of various network operators (national roaming) as well as to international network operators (international roaming).

Routing It refers to setting message flows in the communication; or the transmission of messages over communication networks.

SAR Stock appreciation rights.

SIM card Subscriber Identity Module; chip card with a processor and memory for mobile devices, storing various information, including the user number allocated by the network operator, and which identifies the user in the mobile network.

Social Media Websites and other online means of communication that are used by large groups of people to share information and to develop social and professional contacts.

Smart energy This is understood to be integrated into the electricity or water heating systems use of the house. Examples include smart electricity meters, thermostats, heating and water controls.

Smart home Automatisation and interconnection of inhouse electricity (light, shutters etc.), electric appliances (washing machines, fridges etc.) and entertainment electronics (TV, radio and audio system etc.).

Smart Organiser By merging various digital solutions, such as the integration of memos, calendar and email clients, Smart Organisers allow an improved view on the data. For example appointments taken directly from an email to the calendar.

Smartphone Mobile device with touch and/or qwertz keyboard and feature set for easy internet access and/or e-mail transfer (for example push e-mail).

Smart sleep system Measures by different sensors the temperature, light and sleep movements and evaluates those over time to improve sleep patterns.

Smartwatch A watch that is linked with the smartphone and can quickly provide an overview of important news. Often the device is able to record data such as heart rate, blood pressure and general movements.

Station Domination Meaning the complete takeover of all advertising space on a spatially restricted transit station – airport terminal or similar. A very effective advertising mean, leaving a lasting expression.

SMS Short message service.

Undiluted earnings per share Undiluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares outstanding during the financial year.

VATM German: Verband der Anbieter von Telekommunikations-und Mehrwertdiensten e. V.; English: The association of telecommunications and value added service provider. WACC Weighted average cost of capital; the rate that a company is expected to pay on average to all its security holders to finance its assets.

Wearables The term wearables contains – not least fashionable – accessories that complement the smartphone or tablet. The device has to be worn directly like a watch or a necklet/bracelet. Examples are smartwatches or fitness trackers, which transfer data to the smartphone or tablet device.

Workload distribution Identifies the possibility to increase efficiency and avoid under- or over-exposure by effective time and project management.

WKN German: Wertpapierkennnummer; English: securities identification number.

WpHG German: Wertpapierhandelsgesetz; English: German Securities Trading Act.

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