ANNUAL REPORT
FREENET AG

2017

freenet GROUP

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

CONTENTS

OVERVIEW KEY FINANCIALS[1]

Group

In EUR million/as indicated	2017	2016	Q4/2017	Q3/2017	Q4/2016
Revenue	3,507.3	3,362.4	949.9	880.1	938.3
Gross profit	949.8	898.7	251.6	239.5	253.0
EBITDA	541.2	438.8	118.2	213.7	127.1
EBIT	373.0	298.8	69.8	174.2	87.1
EBT	322.7	244.0	56.8	161.5	73.7
Group result	275.6	216.4	26.6	157.1	54.4
Earnings per share in EUR (diluted and undiluted)	2.24	1.78	0.23	1.25	0,48
Dividends paid per share in EUR for the financial year	1.65[2]	1.60	0.00	0.00	0.00

Balance Sheet

In EUR million/as indicated	31.12.2017	31.12.2016	31.12.2017	30.9.2017	31.12.2016
Balance sheet total	4,314.1	4,284.8	4,314.1	4,314.3	4,284.8
Shareholders` equity	1,462.9	1,402.3	1,462.9	1,441.4	1,402.3
Equity ratio in %	33.9	32.7	33.9	33.4	32.7

Finances and investments

In EUR million	2017	2016	Q4/2017	Q3/2017	Q4/2016
Free cash flow	342.8	341.5	74.4	87.3	78.8
Depreciation and amortisation	148.2	124.3	44.0	34.3	35.0
Net investments[3] (CAPEX)	42.5	48.1	-1.0	13.1	13.9
Net debt	510.0	725.8	510.0	634.9	725.8
Pro forma net debt	1,350.3	1,416.0	1,350,3	1,405.8	1,416.0

Share

	31.12.2017	31.12.2016	31.12.2017	30.9.2017	31.12.2016
Closing price Xetra in EUR	30.82	26.76	30.82	28.29	26.76
Number of issued shares in ‘000s	128,061	128,061	128,061	128,061	128,061
Market capitalisation in EUR million	3,946.8	3,426.9	3,946.8	3,622.9	3,426.9

Employees

	31.12.2017	31.12.2016	31.12.2017	30.9.2017	31.12.2016
Employees	4,113	4,886	4,113	4,151	4,886

1 Unless otherwise indicated, we refer to the section “Definition of alternative performance measures” for the definition of the key figures.
2 The dividend will be paid subject to resolution at the Annual General Meeting in May 2018. Further information on the dividend can be found in the section “freenet AG and the capital markets”.
3 Investments in property, plant and equipment and intangible assets, less the proceeds from the disposal of intangible assets and property, plant and equipment.

OVERVIEW KEY FINANCIALS[1]

MOBILE COMMUNICATIONS SEGMENT

Customer development

In million	2017	2016	Q4/2017	Q3/2017	Q4/2016
Mobile Communications customers/cards[4]	11.83	12.06	11.83	11.88	12.06
Thereof Customer Ownership	9.59	9.53	9.59	9.60	9.53
Thereof Postpaid	6.71	6.51	6.71	6.65	6.51
Thereof No-frills	2.88	3.02	2.88	2.95	3.02
Thereof Prepaid	2.24	2.53	2.24	2.28	2.53
Gross new customers/cards	2.65	2.82	0.71	0.58	0.78
Net change	-0.23	-0.17	-0.05	-0.11	0.00

Result

In EUR million	2017	2016	Q4/2017	Q3/2017	Q4/2016
Revenue	3,198.9	3,126.0	875.3	803.8	867.4
Gross profit	744.4	744.1	202.6	187.8	203.2
EBITDA	513.6	420.4	108.1	205.5	118.8

Monthly average revenue per user (ARPU)

In EUR	2017	2016	Q4/2017	Q3/2017	Q4/2016
Postpaid	21.4	21.4	21.4	21.7	21.2
No-frills	2.8	2.4	3.0	2.9	2.5
Prepaid	3.1	3.1	3.2	3.3	3.1

OVERVIEW KEY FINANCIALS[1] TV AND MEDIA SEGMENT

Customer Development[4]

In '000s	2017	2016	Q4/2017	Q3/2017	Q4/2016
freenet TV subscribers	974.6	0.0	974.6	874.3	0.0
waipu.tv registered customers[5]	463.6	60.2	463.6	339.4	60.2
waipu.tv subscribers	102.3	7.5	102.3	71.9	7.5

Result

In EUR million	2017	2016	Q4/2017	Q3/2017	Q4/2016
Revenue	294.8	218.9	75.6	69.7	70.8
Gross profit	166.4	110.8	40.5	42.0	38.3
EBITDA	40.2	28.0	15.7	10.7	9.6

Monthly average revenue per user (freenet TV ARPU)

In EUR	2017	2016	Q4/2017	Q3/2017	Q4/2016
freenet TV	4.3		4.5	4.1	

4 At the end of period.
5 Exclusive of about 76,000 pre-registered users.

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DIGITAL LIFESTYLE, MOBILE COMMUNICATIONS, TV AND MEDIA

THE NEW TV AND MEDIA SEGMENT HAS MADE A SUCCESSFUL START

At the end of the first quarter of 2017, the commercial phase started for freenet TV – the new joint brand of freenet and the Media Broadcast Group which was acquired in 2016. This had been preceded by an almost twelve-month pilot operation of the new TV broadcasting standard DVB-T2 HD in several major German metropolitan areas, accompanied by intense technological preparations as well as a variety of sales and marketing activities. They comprised TV spots and inserts, online advertising on the company's own web sites as well as installations in several hundred mobilcom-debitel shops.

Since that time, high-definition TV images of approximately 20 private stations have only been able to be received via antenna in the core regions of Germany. For this purpose, in addition to an internal or external antenna, a CI+ module of freenet TV for upgrading new DVB-T2 HD-capable TVs is required; and a small set-top box as a receiver will be required for all other TVs. This full-HD range of services of the private stations was initially available free-of-charge up to the end of the first half; after that time, a monthly fee of 5.75 euros was payable.

Around the time of the start of the new product, freenet further intensified its sales and marketing activities. For instance, with SPORT BILD, for whose 4.5 million readers the price of high-quality Samsung-DVB-T2 HD receiver was halved to approximately 50 euros and the three-month free phase was extended to four months. Or – in a further co-operation with the South Korean manufacturer – the free addition of the freenet-TV module for buyers of a selected Samsung SUHD or UHD TV from the series 5 to 9; in addition, the free phase of freenet TV was extended by three to six months.

In the run-up to Christmas, freenet TV, Samsung and Disney jointly offered an entertainment package for the entire family: The product bundle for a considerably reduced price of 99 euros consists of a DVB-T2 receiver "Media Box Lite freenet TV", a free year for freenet TV as well as a Disney Store voucher for 20 euros; the Samsung receiver also provides access to freenet TV connect – with more than 40 additional free TV programmes, apps, catch-up services and stations of Radioplayer.de. As was the case with previous promotions, this offering was advertised in a nation-wide communication offensive, comprising measures via TV, radio, online, social media and at the point of sale.

The success of the intense sales and marketing activities as well as the attractiveness of freenet TV are confirmed by the customer numbers: The planning for the full year – more than 800,000 – was attained in the course of the third quarter, and freenet TV reported 975,000 subscribers at the end of December.

Test operation of the digital motion picture entertainment of EXARING – a further venture of freenet in the TV and Media field – started at the end of 2016 as a beta product. waipu.tv has been available in two options since the first quarter of 2017: as a Comfort version with 25 hours of storage for 4.99 euros per month and as a Perfect version with 100 hours of storage for initially 14.99 euros – each with the option of monthly termination and with a free test month. With the aid of the free waipu.tv app and on the basis of the latest EXARING fibre-optic infrastructure, brilliant audio and video quality can easily be transferred to the user's smartphone, and from there to the user's TVs at home; the user can quickly change stations and programmes by simply swiping on the smartphone.

In the course of 2017, EXARING continuously extended the potential uses and contents of waipu.tv:

- The Amazon Fire TV stick or the Fire TV box extended Google Chromecast for use on the user's home TV – also in the multi-user and multi-room mode for several users and simultaneously on several TVs. This had been preceded by a beta test phase lasting several months for Fire TV with valuable feedback from the testers.
- waipu.tv has been provided with a free series recording function; it enables the user to easily record formats with only one click and to view the formats later to fit in with the user's individual daily schedule. The service has also been extended to include the Amazon Alexa voice service.
- The programme portfolio has been enhanced in various ways: for instance, to include broadcasting of the weekly highlights of the Bavaria league: The Bavarian Football Association with its more than 4,600 football clubs and approximately one and a half million members is the largest regional association of the DFB (Deutscher Fußballbund; German National Football Association), and close links with the respective communities can be established by way of such special interest content.
- A further major addition to the range of services of waipu.tv was "Rocket Beans TV" – the first German community-driven web station and pioneer of digital entertainment. It is thus available for the first time on a TV platform, and the partnership with EXARING comprises not only programme broadcasting but also TV advertising marketing.
- Deutsche Telekom has also included waipu.tv in its StreamOn catalogue. In this way, the mobile users of Deutsche Telekom and users of waipu.tv can take advantage of the mobile streaming facility for TV offerings without any worries, without having any negative impact on the data volume of selected Magenta tariffs.
- With regard to storage and access to very large data volumes, waipu.tv has been offering BigFoot Storage XXLarge since mid-2017 – following an extensive test phase for selecting suitable storage solutions; the corresponding service of Rausch Netzwerktechnik enables EXARING to offer maximum storage of 576 TB.
- At the end of the year, waipu.tv together with Amazon started the three-week test series "Watch & Shop" within the framework of T-Commerce – easy shopping during the TV advertising spots for users of the Fire TV stick: Clicking on a shopping button takes the user directly to the product site of the advertised article, where he can view further information and place an order immediately if desired. The test series comprised five major advertising partners on five broadcasting groups, and achieved very positive initial results in terms of click rates, information retrieval and subsequent purchasing decisions.
- At the same time, the company permanently reduced its monthly price for the Perfect package to 9.99 euros; the user is also able to book an option for mobile TV use. And the programme portfolio, now comprising more than 80 stations, has been extended to include "Sport1 US HD" and "Motorvision TV" – two pay-TV stations for US sports highlights and for automotive refinement and motorsport.

As a result of the range of services becoming more and more attractive, the use of waipu.tv has been continuously expanding since the original product start: As of December 2017, the number of registered users was approximately 464,000 (exclusive of about 76,000 pre-registered customers), and more than 102,000 customers were paying for waipu.tv.


4K
INTERNET
3D

THE DIGITAL LIFESTYLE PORTFOLIO IS EXPANDING CONTINUOUSLY

For several years, the products in the fields of entertainment, energy, security, SmartHome and eHealth have formed a further mainstay under the umbrella concept of "digital lifestyle"; they round off the traditional mobile communications activities and the newly acquired TV/Media segment of the freenet Group. The products and services are generally offered via the main brand mobilcom-debitel as well as the subsidiary GRAVIS – in the various shops, by way of online sales and via a wide range of special promotions and activities.

For instance, at the beginning of 2017, digital lifestyle lounges of approximately 50 m² opened in large shopping malls in four German cities, presenting complex sound worlds with powerful devices, gadgets such as app-driven robots as well as innovative lighting concepts, SmartHome and SmartCare products. In addition, visitors were given the opportunity of obtaining live repair on site for their Apple devices, and were able to test and enjoy virtual reality scenarios in separate rest areas.

At the mid-year point, GRAVIS extended its range in selected stores to include the Surface products as well as corresponding accessories of Microsoft. At the same time, it started a co-operation with Microsoft as the exclusive launch partner for the new products Surface Studio, Surface Laptop and Surface Pro in Germany – extended to include the Surface Book Performance Base in some major cities. This was also accompanied by advertising-focused product campaigns throughout the entire year. In the first half of the year, these for instance included free sports watches as a give-away for persons purchasing the Apple Watch Series 2, for persons for whom aesthetic appeal is important two low-cost versions of the Bluetooth keyboards of the French manufacturer Orée – unique products made from a single piece of walnut or maple wood with a grained surface. And for users of the new iPhone 7, GRAVIS offered several headset innovations: for instance, the in-ear headphones Jaybird X3 with the patented "Secure-Fit" ear fins; the Libratone Q Adapt of the Danish design sound studio Libratone as on-ear and in-ear versions; and also the JBL Reflect Aware with a lightning connector and ANC for app-driven individual noise cancellation. The freenet subsidiary set further accents in end-of-year business – starting with Black Friday: The products, some of which attracted considerable price reductions, included selected Macs, MacBooks and the iPad of Apple as well as a large selection of accessory articles.

Last year, mobilcom-debitel continued the "Sunday stunners" which were originally launched in November 2015. As part of these weekly bargain promotions for low-cost online purchases of devices, the company offered a series of inexpensive leading products of all relevant manufacturers in the course of the year. The highlights of the first half of the year included:

- the HUAWAI P9 Lite Dual-SIM in the 3 GB RAM version,
- the Fitbit Charge HR wristband for heart rate/activity tracking and sleep monitoring,
- the iPad Air 2 with 16 GB in the Wi-Fi/cellular version,
- the iPhones SE 32, 6s and 7 each in the 32 GB version.

These were followed for instance in the second half of the year by the following:

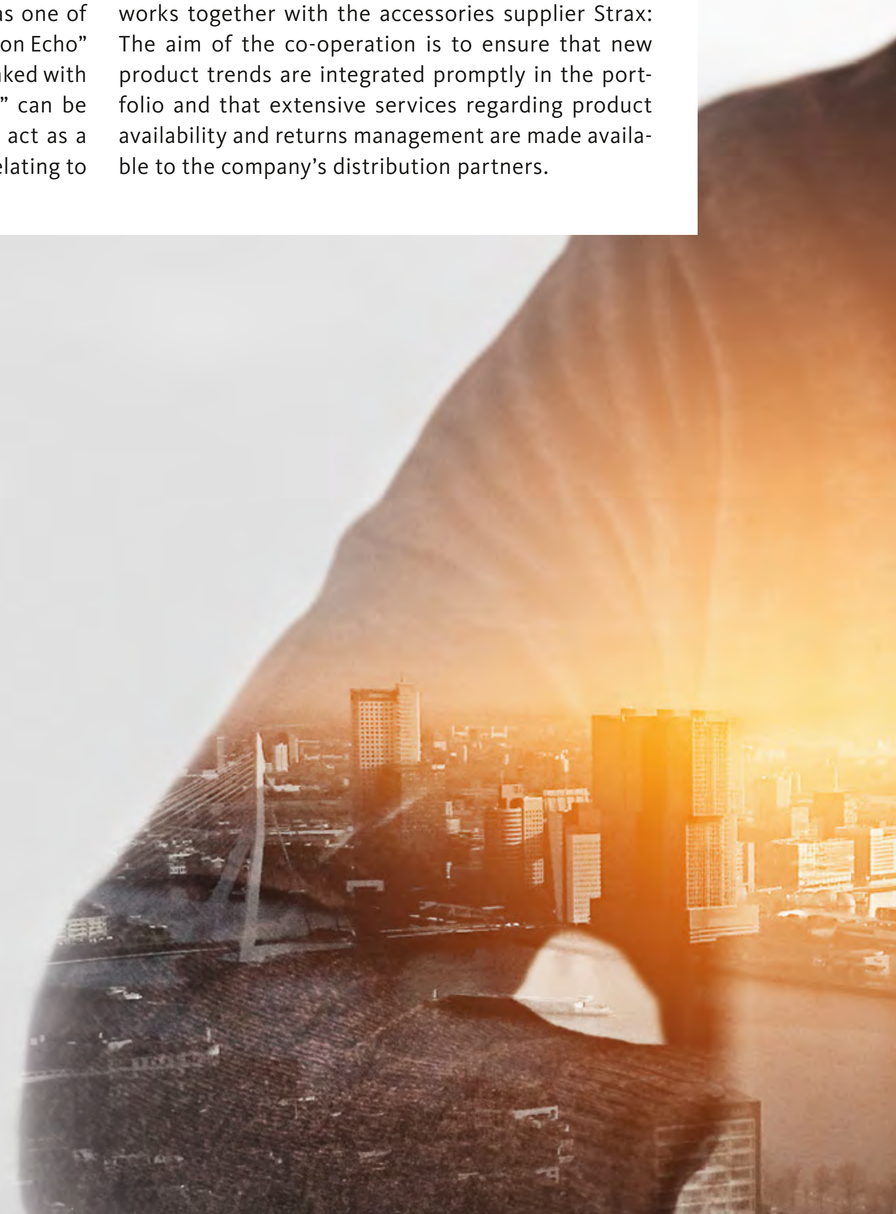
- the Huawei P8 as an entry model as well as the P10 in five colour versions,
- the Samsung Galaxy S7 Edge with a 5.5-inch display and 12-megapixel camera or
- the new Apple iPad 2017 with 128 GB of storage.

At the beginning of 2017, mobilcom-debitel went back to its roots as an original mobile communications pioneer, when it brought back the traditional brand Nokia exclusively for Germany with the new Nokia 150. The classic key mobile phone with built-in FM radio, MP3 and video player has a battery capacity of 22 hours of voice calls and up to 31 days standby time, and costs only approximately 40 euros – without a contract. This was followed at the end of the first half of the year by the new leading smartphones of the Finnish brand: the Nokia 3, 5 and 6 as well as the retro-cult device Nokia 3310. The central point was the Nokia 5 – a 5.2" smartphone with an aluminium housing cast in a single piece, stylish design and convincing technical details.

freenet's main brand was also one of the top providers on the market for the iPhone X and eSIM marketing. For instance, in November, the new top-of-the-range smartphone model of Apple was available with mobile contracts in the high-quality D-networks with additional payments starting at 350 euros for the 64 GB version or 500 euros for the 128 GB version. And starting in December, the eSIM card for the Apple Watch Series 3 was also available at mobilcom-debitel in the network of Deutsche Telekom. For a monthly price of 4.95 euros, the virtual embedded card makes the smartwatch more independent of the iPhone; it is bookable for all tariffs.

Additionally, in March, mobilcom-debitel was one of the first providers in Germany to offer "Amazon Echo" and "Amazon Echo Dot". The audio devices linked with Amazon's cloud-based voice service "Alexa" can be integrated in the user's home network, and act as a digital assistant and haptic audio interface relating to the networked SmartHome: In this way, voice commands to "Alexa" mean that smart technologies can be used at home via Wi-Fi or Bluetooth – for instance for controlling lighting, heating or sound installations, setting timers/alarms, searching for concepts/explanations or managing calendars. The small version Amazon Echo Dot costs approximately 60 euros, whereas the larger Amazon Echo costs approximately 180 euros, although it additionally features a dynamic 360-degree sound with dynamic basses for powerful surround sound.

At the end of the first half of the year, mobilcom-debitel also launched its own accessory brand with "freenet Basics": This portfolio comprises articles for the smartphone and everyday digital life – with a focus on small products such as charger cables, covers and cases, power banks and headsets. With regard to the composition of the range of products, mobilcom-debitel works together with the accessories supplier Strax: The aim of the co-operation is to ensure that new product trends are integrated promptly in the portfolio and that extensive services regarding product availability and returns management are made available to the company's distribution partners.



RESTRUCTURED TARIFF WORLDS AND SPECIAL PROMOTIONS ARE DRIVING CUSTOMER GROWTH IN MOBILE COMMUNICATIONS

freenet AG uses a multiple brand strategy of its subsidiaries to cover all major segments in its traditional area of operation Mobile Communications – focusing on private customers: Whereas the various discount brands of freenet address the no-frills sector, mobilcom-debitel (the main brand) focuses on high-quality contract relations for a wide range of user profiles and all German mobile networks; freenet complements the respective digital lifestyle offerings of the Group with transparent and low-cost flatrates. In addition to its own tariffs, the original tariffs of the network operators are also available – in general with discounts of 10 per cent of the monthly charge.

The main discount subsidiaries of freenet restructured their tariff portfolios in the financial year 2017; the main brand again set accents in competition with its temporary discount and tariff promotions. As was the case in previous years, this tried-and-tested strategy made a contribution to the continuous expansion of postpaid customer numbers which are important for freenet: Over the course of the year, these numbers increased by 198,000 to 6.71 million as of the end of December 2017.

The discount brand klarmobil.de initially revised its entire mobile communications portfolio at the beginning of the year: For this purpose, it set up two new tariff worlds, each with three different D-network tariffs – namely the “Smartphone Flat Flex” and the “Allnet Flat Flex”; these now offer more flexibility with a monthly termination option. At the same time, the prices of the existing tariffs were reduced.

With the Smartphone Flat Flex, the customer can choose between 500, 1000 and 1500 MB unthrottled data volume, for prices of 6.95 euros, 7.95 euros and 10.95 euros per month and with a maximum bandwidth of 7.2 to 21.6 mbps. The customer also receives 100 free minutes and texts. In the Allnet Flat Flex flatrate, the unthrottled data volumes are 1000, 2000 and 4000 MB with maximum bandwidths of between 21.6 and 42.2 mbps, for monthly charges of 14.85 euros, 16.85 euros and 21.85 euros. All three options provide unlimited free minutes, the Allnet Flat 4000 option also offers unlimited texts. The one-off connection prices are 19.95 euros for the Smartphone Flat Flex and 29.95 euros for the Allnet Flat Flex.

klarmobil then also restructured its data segment in the D-network of Vodafone: The three new data flatrates are 9.95 euros, 14.95 euros (and 19.95 euros per month); in the cheapest version, they offer an unthrottled data volume of 1000 MB with a speed of 14.4 mbps, in the medium version, they offer 2000 MB also with 14.4 mbps, and in the top version, they offer 5000 MB with 21.6 mbps. One text costs 9 cent each in all three versions.

February saw the start of the new second brand “mobinio” of klarmobil as an additional distribution platform – with three tariffs in the network of Vodafone or Deutsche Telekom:

- the mobinio Flat 3000 flatrate offers a voice and text flatrate for all German networks for 15.95 euros per month, as well as an Internet flatrate with a high-speed data volume of up to 3 GB with max. 21.6 mbps in downstream;
- with the mobinio Flat 4000 flatrate for 16.95 euros per month, the data volume is increased to 4 GB with max. 42.2 mbps, with otherwise identical conditions, and
- with the mobinio Flat 5000 flatrate for 17.95 euros per month, the data volume rises to 5 GB also with max. 42.2 mbps.

All three tariffs have a minimum contract of only one month and a one-off set-up fee of 29.95 euros.

At the end of the year, and for a limited time, klarmobil reduced the monthly charges for several Allnet flatrates – initially in the network of Vodafone and then also in the network of Deutsche Telekom. The monthly charges fell to a range of between 11.99 euros and 14.99 euros per month (Vodafone) or 9.99 euros and 17.99 euros (Deutsche Telekom) for a term of two years; in return for an additional 2 euros in each case, the offerings were also available in a version which could be terminated monthly. And in a special promotion with Computer BILD, there was also an exclusive smartphone flatrate as a mobile basic option – with 1 GB data volume, 100 free minutes for all calls and three free months for 4.95 euros per month.

In the middle of the year, callmobile, which is a further discount brand of freenet, also restructured its tariff portfolio, reducing its selection of tariffs to three options, and also reduced the prices: The “cleverSMART 1000” comprises 100 free minutes and texts as well as a data flatrate of 1000 MB with up to 21.6 mbps for approximately 10 euros per month. With the “cleverALLNET 2000” for approximately 15 euros per month, the data volume rises to 2000 MB with a telephone flatrate and 100 free texts; for the “cleverALLNET 4000”, the data volume rises to 4000 MB with a call and text flatrate for approximately 20 euros per month. In addition, in the case of number portability, new customers receive a bonus of 25 euros in the case of all three tariffs.

In the course of 2017, the main brand mobilcom-debitel carried out numerous special promotions, some of which were carried out in the form of co-operations. In the first half of the year, the company offered discounts of 10 euros per month for new customers in the Free tariffs of Telefónica; this represents a saving of 240 euros over the 24-month period of the contract compared with the original tariffs of the provider. The Telefónica Free S with Allnet voice and text flatrate and a 1 GB high-speed data volume is thus reduced to 14.99 euros per month, and the Telefónica Free M with 2 GB is reduced to 24.99 euros per month. A further highlight was the Telefónica Smart Surf 1 GB, which was reduced by 8.99 euros to only 3 euros: This comprises an LTE data volume of 1 GB as well as 50 inclusive call minutes and texts into all German networks, with a contract period of 24 months.

On the occasion of Father’s Day, mobilcom-debitel combined the “Telefónica Free S” with a Jochen-Schweizer voucher for 100 euros. And there was a voucher for 400 euros for the “Vodafone Comfort Allnet Flat” flatrate with free calls to all German networks and 2 GB data volume for approximately 25 euros per month. In June, Computer BILD stated that the “Telefónica Flat Allnet Comfort” of the freenet main brand for a monthly charge of 5.99 euros was the cheapest Allnet flatrate with a surfing volume of 1 GB available on the market. Also in June, mobilcom-debitel started a tariff promotion for its Real Allnet flatrate, either in the network of Vodafone or Deutsche Telekom – with the popular smartphone Galaxy S8 of Samsung for 1 euro or the Galaxy S8+ for approximately 100 euros.

The main highlights of the second half of the year were offerings in the course of “Black Week” and the subsequent Christmas trade. For instance, the monthly charge for the Allnet Comfort flatrate with an unthrottled data volume of 1 GB, a maximum bandwidth of up to 21.6 mbps and free calls to all national networks was reduced from approximately 27 euros to 10 euros per month. The charge for the Smart Surf, again with an Internet flatrate of 1 GB and 50 free call minutes in the Telefónica network, was reduced by 9 euros to 2.99 euros. And via Amazon, mobilcom-debitel also offered a data tariff with a high-speed data volume of 10 GB in the D1 network for 12.99 euros per month (excluding automatic data option).

MARKETING AND SALES FOCUS ON NEW KEY ASPECTS AND STRUCTURES

Following the entry into the TV and Media segment, the advertising measures have focused increasingly on corresponding offerings in this particular field. In addition to freenet TV and waipu.tv, the focus is on TV hardware in the form of receivers, antennae and CI+ modules, as well as digital lifestyle products of the main manufacturers, various accessories for instance of Networx or Google Chromecast as well as Amazon Fire TV stick.

The beginning of 2017 saw the start of a corresponding TV flight with the campaign idea: “Welcome to the TV show”. Major above-the-line elements of the four-month campaign comprised more than 3,400 TV spots, a wide range of online advertising on popular web sites and an out-of-home flight in 22 cities. Further advertising measures at the point of sale included posters, flyers, instore TV in the shops, an extensive presence on KaufDA/Mein Prospekt as well as direct mailings to households in the regions in which DVB-T2 HD is already available. In addition, the campaign was supported by high-attention social media activities.

In the summer, “Costa”, who has been a successful advertising figure for many years, again extended the invitation “Welcome to the TV show”. From May until the end of August, the campaign advertised the innovative TV offerings of the freenet Group as well as in particular corresponding hardware products such as receivers, antennae and the freenet TV USB stick; and additionally, the latest smartphones, attractive mobile tariffs as well as bundle offerings such as the Amazon Fire TV stick or Google Chromecast. Unlike the situation with previous flights, mobilcom-debitel has adopted a longer-term rotation approach – with the aim of communicating the advertising messages over the entire campaign period with an extensive range in more than 20 cities. In May and June, the company also presented its product portfolio in mobile pop-up stores in selected major German cities: The “Digital Lifestyle Lounge” – reduced to three trunks and suitable for a wide range of areas – stopped off in Berlin, Dresden, Hamburg and Leipzig, with hands-on presentations of the latest technology trends, also at the company’s annual general meeting.

On the occasion of the Bundestag elections in September, mobilcom-debitel “captured” in virtually digital form the approximately 3.6 million election posters throughout the whole of Germany: If the posters were photographed by users of the mobile site “md-wahlgewinner-de”, their smartphones played back corresponding entertaining content; the key message was that customers of the company always have a free choice with regard to tariffs, networks, smartphones, accessories and digital lifestyle products.

In the spring, EXARING started a large-scale out-of-home campaign on more than 1,000 billboards and mega-light selects. It concentrated on the urban regions of Berlin, Bonn, Dortmund, Düsseldorf, Essen, Hamburg, Hanover, Cologne and Potsdam, advertising the benefits of waipu.tv in three series. At the beginning, there was the uniform message “I can see what you cannot see” with the following three messages:

- “Whenever, however and wherever I want”
- “Recording even without a receiver”
- “Also without a DVB-T antenna”

The increasing offerings and customer needs are also being accompanied by increasingly stringent requirements in the B2B field between companies and shops and trade partners. In this connection, April saw the start of the completely revised online shop of mobilcom-debitel for dealers. The new sales platform has enhanced functions, simplified intuitive user guidance and improved transparency. The new functions include the following:

- transparent presentation of the various product groups, broken down according to devices, digital world, accessories, prepaid, advertising material and fashion
- detailed product information with visualised offerings
- an availability display with details of the delivery date for the product required by the customer
- improved order processing with necessary information such as delivery note, tracking and IMEI numbers, and last but not least
- a high-speed search function

At the end of 2016, the freenet subsidiary Motion TM commissioned its new logistics centre at the location in Troisdorf; it was thus responding to the strong growth rates in recent years as a distributor for the specialist dealer partners of freenet. The new distribution centre offers more space for products and personnel, and is also the basis for ensuring that orders are processed much more quickly. In consequence, there has been a considerable reduction in the throughput times of individual items – from the point at which products are received up to the point at which they are shipped to the respective dealer. In addition, the newly applied IT of Motion TM enables simultaneous processing of several orders.

As a result of the collection times of the logistics companies, dealers who order products before 17:00 hours receive them within 24 hours nation-wide. This means that dealers no longer have to stock the devices such as smartphones or tablets (which are also expensive to purchase) in their shops; in addition, they are also able to access the service offered by Motion TM for order products to be delivered directly to the customer. In addition, as a result of the free delivery facility provided by the freenet subsidiary, dealers can also order new products several times during the day; where possible, the products are then pooled in a small number of shipping packages.

In addition, a co-operation started between MOON (the speciality brand of Motion TM) and Review Bridge Research GmbH. The company operates the shopping portal “einfach.kaufen”, which uses millions of aggregated product assessments to derive a buy recommendation for potential customers and to refer them to local high-street dealers; the latter can also be rated by customers and can then be found at “einfach.kaufen” by way of a “dealer review score”.

In order to facilitate this listing, MOON Fachhandel developed “MultiCommerce”, a cross-sector multichannel solution for high-street outlets. These outlets thus benefit from the high-value online traffic, drawing customers from the Internet into their own shops. Within the framework of the co-operation with Review Bridge Research, the MOON partners are able to use the advantages of the review score free-of-charge for one year, and can also use their review score as an official seal at the PoS.

And last but not least, at the end of 2017, freenet.de GmbH and Medienhaus Ströer agreed to extend their co-operation for marketing products of the freenet.de portal; this also includes MailAd promotion as well as control of native ads and recommendation marketing. A long-term future is planned for this co-operation, which is a further forward-looking step of the portal, mail and cloud service specialists in the Group.

SUSTAINABLE AND RESPONSIBLE ACTION AS PART OF CORPORATE CULTURE

A key element of the freenet Group's corporate culture is a philosophy which also focusses on the interests of the company's stakeholders. In this respect, the freenet Group considers that it has a direct responsibility with regard to its employees, customers, shareholders, also regarding the ecological and social environment at the respective company locations and also within the context of society as a whole.

The perception of this responsibility is reflected in the following key aspects:

- As an employer, the freenet Group considers that the skills and motivation of its employees are vital components for ensuring long-term success of the company. In its responsibility as an employer, the freenet Group therefore aims to qualify and further develop its employees in an optimum manner and at the same time to continuously improve its internal and external attractiveness as an employer.
- The freenet Group takes on digital responsibility: Data protection and security enjoy maximum priority for the freenet Group. In addition to the operational framework, this also comprises cooperation with government authorities for the protection of critical infrastructures.
- In its responsibility regarding its customers, the freenet Group also focuses on sustainable customer relations: They are based on a high degree of service quality, customer satisfaction and also sustainable product solutions which go beyond the offer of attractive tariffs and devices.
- Within the framework of its ecological responsibility, the freenet Group explicitly endorses the climate protection endeavours formulated in the international context. Maximum efficiency regarding the use of resources and efficient handling of energy are not only important for the company's economic success; they are also key factors for reducing CO_2 emissions.
- Regarding combatting corruption, the freenet Group is committed to the prevailing laws and standards and the underlying ethical principles: It is aware of the negative effects of economic crime, it condemns corruption strongly and has adopted a policy of zero tolerance.
- Regarding to the design of its supply chain, the freenet Group is aware of its environmental responsibility and responsibility regarding human rights: To underline its own responsibility, the relevant guidelines contain corresponding sustainability aspects which have to be taken into consideration in all purchasing decisions.

Detailed information regarding the above-mentioned activities of the freenet Group can be found in the non-financial statement on pages 111-120.

TO OUR SHAREHOLDERS

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

LETTER TO SHAREHOLDERS

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

The term “paradigm change” enjoys considerable and almost inflationary popularity: It is frequently used in public discussions which aim to characterise a fundamental or radical change – for instance in politics, society, the economy or at companies. The term was established in 1962 by the American philosopher and scientific historian Thomas S. Kuhn, in his excellent analysis of progress made by natural science in previous centuries. According to Kuhn, such progress does not take place continuously; on the contrary, it takes place in the form of radical revolutions which brush aside a world view which has existed for a long period as well as the underlying structures of such a world view – including the world view of the protagonists of the system.

And indeed, we are currently experiencing a period of immense radical changes: With new political movements and representatives, some of which are quite unconventional, with the globalisation of products, services and corresponding demographic movements, with the digitalisation of our leisure and work environment, with the loss of familiar procedures and customs.

freenet AG is currently also undergoing a major radical change; indeed, it would be better to say that it is undergoing a process of awakening. However, this does not constitute a paradigm change, as we are simultaneously focusing on maximum continuity – in our existing areas of operation and also with regard to optimising our entire internal process procedures. With the acquisition of all shares of the Media Broadcast Group and a participation in EXARING AG (which we have now expanded to more than 50 per cent), we entered the field of TV business and home entertainment of the future in 2016. As the sole commercial provider of DVB-T2 HD via terrestrial antenna broadcasting of the second generation, Media Broadcast provides a new station package in full-HD quality – up to 18 free-to-air public-sector TV stations and approximately 20 high-reach private stations such as RTL, Sat.1, ProSieben or VOX. The latter encrypted for a monthly payment of 5.75 euros – under the new brand freenet TV. The programmes which are included will in the medium term cover at least 96 per cent of the overall audience market. EXARING in turn has its approximately 12,000 kilometre fibre-optic network which reaches more than 23 million German households with a broadband connection of over 16 mbps. On this basis, our innovative product waipu.tv permits the app-driven use of streaming services on the user’s TV at home or (if desired, for an additional charge) on the user’s smartphone; by swiping on the smartphone, the user is able to rapidly change between stations and programmes. waipu.tv was launched in two options: in the Comfort version with 10 hours of storage for 4.99 euros per month and as a Perfect version with 50 hours of storage for initially 14.99 euros – both with the option of monthly termination and with a free test month.

And indeed, these investments have launched a new era for freenet AG – and have again provided confirmation of the particularly dynamic nature which has characterised our company in the more than 25 years of its history. This is because, with our new TV and Media segment, we are participating in the enormous process of change which is currently taking place in this segment: Whereas in particular the middle and older generations remain loyal to traditional linear television, the younger generation is increasingly putting together its own individual TV programme itself, using streaming services such as Netflix, Amazon Prime Video or Maxdome, where user figures have in recent years been virtually exploding, and which will continue to expand rapidly.

In connection with the commercial start of freenet TV at the end of March last year, freenet stepped up its product, sales and marketing activities. These activities comprised the following:

- Additional offerings: for instance the freenet TV USB stick with an integrated DVB-T2 antenna for using full-HD on a notebook or PC with Windows and also on MacBooks; or, together with Samsung and Disney, a low-cost entertainment package for the entire family, consisting of a DVB-T2 receiver "Media Box Lite freenet TV", a free year of freenet TV as well as a Disney Store voucher for 20 euros; the Samsung receiver also provides access to freenet TV connect – with more than 40 additional free TV programmes, apps, catch-up services and stations of Radioplayer.de.
- Targeted promotions: for instance, with SPORT BILD, for whose 4.5 million readers the selling price of a high-value Samsung-DVB-T2-HD receiver was reduced by 50% and the three-month free phase was extended to four months; and a further Samsung cooperation - with a giveaway of the freenet TV module for purchasers of selected SUHD/UHD TVs and a free phase of freenet TV extended by three months to six months.

During the past financial year, EXARING also continuously expanded the potential uses and contents of the waipu.tv product which started at the end of 2016:

- The Amazon Fire TV stick or the Fire TV box extended Google Chromecast for use on the user's own TV - also in the multi-user and multi-room mode for several users and simultaneously on several TVs.
- An additional free series recording function enables the user to easily record formats by way of a click and also enables the user to view content at a later time to suit his/her individual daily schedule; in addition, the Amazon Alexa voice service also extended this service.
- The program portfolio has been enhanced in various ways: For instance to include broadcasting of the weekly highlights of the Bavarian league – with the aim of using such special interest content for establishing close links with the respective communities; or for instance "Rocket Beans TV", the first German community-driven web station and pioneer of digital entertainment; and finally also by "Sport1 US HD" and "Motorvision TV" – two pay-TV stations for US sports highlights and automotive refinement and motorsport. In December, the programme portfolio comprised more than 80 stations.
- Deutsche Telekom has included waipu.tv in its StreamOn catalogue, enabling its mobile customers and users of waipu.tv to easily stream TV offerings when travelling, without affecting their data volume with selected Magenta tariffs.
- Since mid-2017, for storage and access to very large data volumes, waipu.tv has been using BigFoot Storage XXLarge of Rausch Netzwerktechnik, providing EXARING with maximum storage of 576 TB.

At the end of the year, EXARING broke new ground for interactive TV commerce within the framework of a three-week test series together with Amazon, five major advertising partners and station groups: “Watch & Shop” offers users of the Fire TV stick a facility for easy shopping – by clicking on a shopping button, they are taken directly to the product site of the advertised article, where they can view further information and place orders immediately, if required. The initial positive results regarding the click rates, information retrieval and subsequent purchase decisions are quite promising.

The attractiveness of these offerings and the efficiency of our wide range of activities are also confirmed by the corresponding customer figures in the new TV and Media segment: At the end of December 2017, around 975,000 subscribers had decided to use freenet TV; our target of 800,000 paying subscribers for the whole of 2017 was exceeded in the course of the third quarter. And the use of waipu.tv has also been continuously increasing since the product start: At the end of the financial year, the number of registered users was approximately 464,000 (exclusive about 76,000 pre-registered users), and the number of subscribing customers was more than 102,000.

As outlined above, we are focusing on continuous organic growth with unchanged consistency, intensity and care in the two other major segments – our core sustainably profitable Mobile Communications segment and the Digital Lifestyle segment which we have been addressing for several years.

We follow a multiple-brand strategy in mobile communications. In view of the saturated market, our main brand mobilcom-debitel has for many years been focusing on high-quality postpaid customers via its Allnet tariff world – with low-cost transparent flatrates for a wide range of user profiles in all German mobile networks. The discount brands of freenet also focus on the no-frills market. In addition to our own tariffs, we also offer the original tariffs from the network operators – with average discounts of 10 per cent in relation to the monthly charge.

The main discount subsidiaries of freenet restructured their tariff portfolios in the course of 2017. For instance, klarmobil.de revised its entire mobile portfolio at the beginning of the year; it now offers more flexibility with the option of monthly termination, whereas the prices of the existing tariffs have been reduced. callmobile, a further discount brand, also restructured its tariff portfolio in mid-2017, reducing its choice of tariffs to three options – with simultaneously reduced prices. And with “mobino”, February 2017 saw the start of a new second brand of klarmobil as an additional distribution platform – with three attractive tariffs in the networks of Vodafone and Deutsche Telekom. On the other hand, the main brand again set special accents in the competitive environment, with temporary discount and tariff promotions, in certain cases by way of co-operations with Computer BILD, Amazon and various hardware manufacturers.

mobilcom-debitel as well as the subsidiary GRAVIS also cover the third main area of activity of the Group – “digital lifestyle”. With products from the fields of entertainment, energy, security, SmartHome and eHealth. They are offered within the framework of new co-operations, in the respective shops, by online distribution or via numerous special promotions and activities. We also go our own way in this respect.

At the beginning of 2017, digital lifestyle lounges were opened in shopping malls in four German cities where they presented complex sound worlds with powerful devices, gadgets such as app-driven robots as well as innovative lighting concepts, SmartHome and SmartCare products. In addition, visitors were given the opportunity of obtaining live repair for their Apple devices, and were able to test and enjoy virtual reality scenarios in separate rest areas. This was followed in the course of the year by, for instance, a “Withings Health Weekend” with products which in certain cases were considerably discounted, such as smartwatches, fitness trackers, body analysis scales and sleep monitoring systems. Mid-2017 then saw the start of a cooperation with Microsoft, an exclusive launch partner of the new product Surface Studio, Surface Laptop and Surface Pro in Germany – with the addition of the Surface Book Performance Base in some major cities.

Independently of the above, competition-oriented product offensives were carried out throughout the whole year in the Group’s own shop chains. For instance, in the first half of the year, they comprised free sports wristbands in the colour of the user’s choice as a give-away for purchasers of the popular Apple Watch Series 2. Or on the desk for persons for whom aesthetic aspects are important and friends of nature, two inexpensive versions of the Bluetooth keyboards of the French manufacturer Orée – unique products made from a single piece of walnut or maplewood with a grained surface. And several headset innovations were offered for users of the iPhone 7, for instance the in-ear headphones Jaybird X3, the Libratone Q Adapt of the Danish design sound studio Libratone or the JBL Reflect Aware with a lightning connector and ANC for app-driven individual noise cancellation. In the second half of the year, with emphasis on end-of-year business, the subsidiary GRAVIS set additional accents – starting with “Black Friday”: The products, whose prices in certain cases had been reduced considerably, included selected Macs, MacBooks and the iPad of Apple as well as a wide selection of accessory articles.

In addition, last year, mobilcom-debitel continued the “Sunday stunners” which had originally been launched in November 2015. Within the framework of these weekly bargain promotions for low-cost online purchases of devices, the company offered a series of inexpensive top products of all relevant manufacturers in the course of the year. In the first half of the year, the highlights included in particular the latest smartphones and tablets of Apple, Huawei and Samsung. In addition, our main brand, as one of the very first mobile communication pioneers, went back to its roots at the beginning of 2017, when it brought back the traditional Nokia brand exclusively for Germany with the new Nokia 150. The classic key mobile phone with built-in FM radio, MP3 and video player has a battery capacity of 22 hours of voice calls and up to 31 days standby time, and costs only around 40 euros – without being tied to a contract. This was followed at the end of the first half by the new premium smartphones of the Finnish brand. mobilcom-debitel was also one of the top providers on the market for marketing the new iPhone X, the eSIM card for the Apple Watch Series 3 in the network of Deutsche Telekom as well as "Amazon Echo" and "Amazon Echo Dot". The audio devices linked with Amazon's cloud-based voice service "Alexa" are integrated in the user's home network, and act as a digital assistant and haptic audio interface relating to the networked SmartHome.

And last but not least, the company started its own accessories brand in mid-2017 in the form of "freenet Basics": The products comprise articles for smartphones and everyday digital life, in particular charging cables, covers and cases, power banks and headsets. With regard to the composition of the range of products, mobilcom-debitel works together with the accessory supplier Strax; within the framework of the co-operation, new product trends are to be integrated quickly in the portfolio and offer our sales partners comprehensive services with regard to product availability and returns management.

An additional highlight for mobilcom-debitel in October 2017 was the prolongation (ahead of schedule) of the co-operation agreement with the Media Saturn Group by a further period of five years; we have thus strengthened our high-street presence as a strategic addition to our own activities in retail operations, and have thus achieved long-term planning assurance in this way.

This strategy of balance – decisions to invest in the attractive new TV and Media segment and at the same time continuous organic growth in mobile communications and digital lifestyle, has borne fruit in the financial year 2017, as demonstrated by the following Group figures:

- As was the case during the past five years, growth in Customer Ownership continued: In the course of the year, the number of postpaid and no-frills customers increased by 60,000 to 9.59 million as of the end of December 2017; the number of particularly valuable postpaid customers with two-year contracts included in the above figure also increased by nearly 200,000 to 6.71 million.
- The important postpaid-ARPU continued to be stable at 21.4 euros – following 21.4 euros in each of the three previous years.
- Compared with the previous year, revenue has increased by 4.3 per cent to 3.51 billion euros; this performance reflects the Mobile Communications segment, which continues to be sound, as well as the acquisitions carried out in 2016 and also increasing valuable digital lifestyle revenue.
- Gross profit is also higher than the corresponding previous-year figure, at 949.8 million euros; this is equivalent to a gross profit margin of 27.1 per cent. The two positive developments are mainly attributable to the new segment TV and Media, with 166.4 million euros.
- Compared with 2016, EBITDA has increased by 102.4 million euros to 541.2 million euros, and
- Free cash flow slightly increases to 342.8 million euros, compared with 341.5 million euros in the previous year.

freenet AG has accordingly demonstrated that it is able to overcome particular challenges and take advantage of opportunities as they arise. The figures also demonstrate the company's reliability which has been documented for many years: We have once again met or even exceeded our targets, and have thus laid the foundation for our constant dividend policy which is oriented on shareholder value. Last June, freenet distributed a total of 204.8 million euros to its shareholders for the financial year 2016 – this is equivalent to 1.60 euros per eligible share, and is also the eighth increase in succession. The guidance and control of Group EBITDA do not take account of the earnings elements of our participation in the Swiss Sunrise Communications Group AG.

Our financial year 2018 will again be characterised by maximum continuity. A key aspect in this respect will be the further digitalisation of our business – we intend to underline our positioning as one of the best-digitalised companies in Germany. We will for instance further expand our successful omni-channel concept for sales to also ensure comprehensive digitalisation of marketing. Media Broadcast will also commission further station locations for its second attractive product – the national digital radio DAB+. Mobile coverage as well as motorway reception will thus improve to more than 99 per cent, and in-house coverage of households in Germany will rise to more than 90 per cent. Approximately one quarter of radio listeners at home and in the car are already using DAB+ reception, which is thus moving ahead of cable, satellite and Internet.

Our unique corporate culture remains unchanged: It is characterised by reliability in long-term Group management and also by guidelines which focus on profitability as well as sustainability and social responsibility; throughout the Group, we take all aspects of environment, employee and social requirements, human rights and the combatting of corruption very seriously.

A crucial element however is the exemplary commitment of our employees which is so essential for an SME: They are the basis of our success, and therefore deserve to receive our special thanks at this point – for their work and contribution to the prosperous future of freenet AG. In the interest of our customers, our business partners and our shareholders.

Christoph Vilanek Joachim Preisig Stephan Esch

A RÉSUMÉ OF EXECUTIVE AND SUPERVISORY BOARD

"We are already using artificial intelligence!"

In order to stick with a legendary, decades-old advertising slogan of Deutsche Bahn: "´Alle reden von künstlicher Intelligenz. Wir nicht!" ("Everybody is talking about artificial intelligence - we are actually implementing it!") Indeed, we are already using it in our everyday operations. For instance, within the framework of our continuous efforts to ensure that our customer service becomes better and better – with even greater speed, precision, individuality and efficiency.

This is because we, as a service provider, consider that it is absolutely essential to provide all of our customers with the individual support that they need. In the past, we used various strategies, including clusters of marketing strategies based on simple data: What contract has the customer concluded with us? Where and how? – Following intensive advice provided in the shop, by our call centre or online subject to conditions which are as favourable as possible?

Today, we use artificial intelligence in order to support and advise our customers. In other words, we use computers and programmes which are able to independently recognise questions and problems which arise, and are also able to process them and provide satisfactory solutions – thus simulating human intelligence. This starts with comparatively simple processes, whereby our web sites for instance personalise themselves automatically depending on the mobile contract and network operator of the specific customer. Or with algorithms which use existing preferences to make suggestions for instance regarding further streaming offerings.

A key aspect in this respect are chatbots which we for instance use in Customer Service of our discount subsidiary klarmobil. As self-learning systems, they access our digital databases – with the past text queries, information and contact data of our many millions of customers. The chatbots draw up independent forecasts regarding the current status of the particular customer journey, follow the satisfaction of each individual customer on the basis of optional additional bookings, and also provide a facility for early recognition of new wishes which arise as well as neuralgic points. They for instance respond with free bonuses or provide the customer with the next best offer. They automatically choose the communication channel which is most comfortable for the customer.

There is also a further fascinating aspect: The chatbots also automatically work on continuously improving their database and services, answering questions more quickly, and providing an even more precise definition of new patterns and needs of the customers. As a "human" service provider, we consider that it is our responsibility to expand this service initially to more challenging methods of establishing contact, such as telephone calls; this is the reason why we are currently intensively testing various voice recognition technologies in customer care. Above all however, we must ensure that this hugely accelerated evolution of artificial intelligence always keeps one specific aspect in sight – namely the interests of our customers.

Christoph Vilanek,
Chief Executive Officer, freenet AG

“We are working on continuous improvements!”

The fundamental principles of our corporate management include the efforts to make freenet AG better – every day, every week, every month and every year. We take advantage of all starting points which are available in this respect – starting with favourable long-term refinancing of the Group right through to the operating processes.

We have accordingly again consistently taken advantage of the low interest climate last year in order to achieve long-term financing security for freenet for the next five years subject to much improved conditions; at the same time, we have thus created even more scope for future investment decisions. For this purpose, we have replaced the bridging finance facility which has been in place since March 2016 and which is due to mature in March 2019 by means of a syndicated five-year bank loan – with a total volume of 710 million euros and which is due to mature in October 2022; this is applicable for the amortising loan of 610 million euros due upon final maturity as well as for the revolving credit facility of 100 million euros which has not yet been drawn. Variable interest based on Euribor is applicable for both tranches, with an initial margin of 1.60 per cent instead of the previous 2.10 per cent for the loan and 1.40 per cent instead of 1.80 per cent for the revolving facility. In addition, we have also been able to modify some ancillary contractual conditions for the benefit of freenet AG, so that the existing bridging finance facility has now been replaced by a long-term unsecured bank financing arrangement.

Last year, we also took a further major step in the direction of achieving sustainable success in optimising and digitising our customer service: In March, we transferred the entire customer service of mobilcom-debitel to Capita Customer Services AG. For the British outsourcing service provider with world-wide operations, optimum customer support is the sole business model; the employment agreements of the approximately 650 former mobilcom-debitel employees will be retained subject to equivalent conditions – and will in particular be secure. Together with Capita, we have for this purpose established a complex management structure for regulating the co-operation and for systematically reviewing the service quality. We have also agreed specific performance indicators, and we use regular reports to compare the agreed services of Capita with the actually rendered services. Our previous experience is very positive – and strengthens us in our intention to consistently focus on achieving continuous improvement in all areas of the Group.

Joachim Preisig,
Chief Financial Officer, freenet AG

“Constant change is our consistency!”

We are very proud that we are one of the best-digitised companies in Germany. However, we also face a permanent challenge to underline and strengthen this positioning compared with the competition in view of the special history and dynamic nature of freenet AG. This is because our IT landscape has grown as an in-house development out of the origins of the original brands of mobilcom and debitel during the pioneering era of mobile communication during the 1990s. During the past two decades, it has been adapted to meet the challenges of increasingly complex tasks and customer segments.

An example of a significant further development is our entry into the new digital lifestyle growth segment. Whereas our IT processes were previously based on SIM cards and corresponding term agreements, a new generic system is now required: It should be open to all innovative product versions without being a complete and expensive new development.

The associated enormous challenges can be illustrated very well by means of the following image: Our first task is to replace the drive system while driving in the leading group of a Formula 1 race – to replace the combustion engine by an electric motor. And this is to be achieved without any significant drop in performance or a long pit stop – we do not want to lose the leading position and the race. In the second task, we then have to constantly ensure that the structures of the entire team are adapted to meet the new requirements – from the designer and race manager right through to the on-site mechanic for changing tyres during the race. Everything is to become ever more lean, even quicker, more efficient and customer-friendly. A further aspect is that we now enter the race quite successfully with additional racing cars.

We are very successful with this balancing act between successful integration of new technologies and tasks and excellence in competition – we do so as an IT team at approximately 700 micro-locations throughout Germany. And, despite the growth achieved in recent years, we have maintained the necessary team spirit and pioneering spirit with which we confidently approach each new race as a team.

Stephan Esch,
Chief Technical Officer, freenet AG

"Investments in TV business make sense!"

It is true, our TV habits are changing. This is demonstrated for instance by the success of streaming services such as Netflix, whose subscribers for films and TV series have increased two hundred-fold during the past ten years to 109 million – and this figure is still expanding strongly. Younger people in particular are more frequently viewing such videos via their laptop or tablet, the so-called "second screen", and no longer on a traditional TV screen. And they do so whenever and wherever they want, with pauses and repeats entirely in line with their own personal priorities. In addition, the users are prepared to pay for content which is usually of genuine high quality. Accordingly, online revenues in this recent market are expanding: According to analyses carried out by PriceWaterhouseCoopers, they will amount to more than 400 million euros next year in Germany alone – representing a two-fold increase since 2015.

It is however also true that traditional viewing on a TV screen continues to be popular. On average, Germans today spend approximately four hours in front of the "first screen"; 30 years ago, they used to spend three hours. According to an analysis of Kantar Emnid, these frequently middle-age and more mature viewers place most emphasis on high reception quality and a wide range of stations, and also a quarter of all persons surveyed is also prepared to pay additional charges for corresponding HD programmes of the private stations. A further aspect is that these viewer segments have the strongest purchasing power, and are thus particularly attractive targets for the advertising industry.

Within this context, the latest investments of freenet AG in TV business make absolute sense: With the acquisition of the Media Broadcast Group and participation in EXARING AG, the company addresses virtually both segments of a market which offers excellent prospects at present and also in the future.

Sabine Christiansen,
Member of the Supervisory Board of freenet AG

“Today’s leading position is the springboard for the future”

The world continues to be a world in change – in social, political, economic and technology terms. The subject of digitalisation has by no means been consigned to the history books, the popular saying of Marc Andreesen “Software eats the world” is still valid, and the associated upheaval has by no means yet been fully recorded. There are still numerous exciting questions which are still outstanding: How will autonomous driving change our cities? How will the Internet of Things influence our daily life? Will the current AR and VR concepts mature into specific applications relevant for daily life? How will the content algorithms of the major platforms influence our view of the world? And of course: Who will benefit from all this at what point and with what business model?

Any company wishing to continue to have sustainable success in future will have to tackle these developments and combat them with corresponding growth strategies. We consider that freenet has currently established an excellent position in traditional as well as in modern business. For instance, the company has succeeded in ensuring that its broadly differentiated mobile communications activities are accompanied by integrated digital lifestyle products which are able to identify and meet the consumer needs of today. This is an excellent basis for identifying a wide range of courageous answers to the challenges of the present day and the future.

Change requires willingness, because anybody who does not wish to shape his own destiny will have to allow his destiny to be shaped by others. And change also requires variety, because new approaches can only arise within a diverse structure of togetherness. I am impressed by the willingness of freenet management to allow new voices and stimuli. The position of the company and the attitude of its management and control bodies fill me with confidence and great pleasure with regard to the coming answers and solutions.

Fränzi Kühne,
Member of the Supervisory Board of freenet AG

”freenet AG is a special company!”

For more than 20 years, I have been accompanying this exceptional company from various perspectives and positions. Initially as an interested observer of the initial public offerings of the original mobilcom AG and freenet AG, and subsequently also as the chairman or member of the Supervisory Board of freenet.

With its history, the Group is virtually unrivalled in the way in which it reflects the recent economic history of the Federal Republic of Germany and the developments on the financial markets. This started with the origin and successful occupation of new fascinating markets such as mobile communications, Internet and the digitalised life and working areas. The company survived virtually unscathed and unimpressed by turmoil such as the rise and fall of the New Market or the global financial and economic crisis approximately ten years ago.

In my opinion, several constant aspects can be identified in this exciting and successful history of the Group over two and a half decades:

- From the point of its original foundation until the present day, the destiny of the company has been characterised by strong leadership personalities. These are entrepreneurs in the best sense of the word – with an eye and feel for developing markets and windows of opportunities. And with the necessary decisiveness, consistency, patience and circumspection to take on the associated challenges and convert emerging opportunities into long-term success.
- Notwithstanding the resultant dynamic processes, with various acquisitions and restructuring processes, freenet AG has always been an extremely reliable and predictable player – for its stakeholders, business partners, shareholders and financial markets. The company sets the right priorities, and has always been operating profitably; it meets its budgeted objectives every year, and does not produce surprises or even profit warnings.
- freenet AG has been growing continuously since its early foundation years, and has now become very grown-up. At the same time, as a Group it has retained the virtues of an SME – and has simultaneously also maintained the freshness and charm of a start-up. This is indicated by the comparatively flat hierarchies and rapid decision-making processes, the direct and informal dialogue between employees and management, and particularly the useful enthusiasm which is evident at all the various locations of freenet. And which makes the work as a Supervisory Board member so special for me.
- The extension of the activities which have traditionally been based in telecommunications into the field of TV and thus the media sector is enabling freenet AG to break into a new dimension.

Prof. Dr. Helmut Thoma
Chairman of the Supervisory Board of freenet AG

SUPERVISORY BOARD REPORT

Supervision and advice in continuous dialogue with the Executive Board

In the financial year 2017, 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 2017 were focused primarily on:

- auditing of and making of resolutions for the Group annual financial statements as at 31 December 2016 and
- preparations for the annual general meeting on 1 June 2017.

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

- implementation of the CSR guideline implementation act for disclosing non-financial and diversity-related information as well as
- financing considerations for the Group.

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 provided extensive explanations of its activities 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 to include the TV segment – 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 strategy, planning, business development, risk situation and management as well as compliance and informed itself about current topics and events.

The propriety, expediency and efficiency of the Executive Board's management do not provide any grounds for concern.

In the financial year 2017, the Supervisory Board held four meetings requiring personal attendance as well as one telephone meeting. The presence at the Supervisory Board meetings in the year under review was again exemplary: With the exception of one meeting, which was attended by eleven of the twelve Supervisory Board members, the meetings of the Supervisory Board were always attended by all twelve members. Accordingly, no member of the Supervisory Board participated in just half of the meetings or fewer. In 2017, the meetings of the committees were always attended by all members.

Table 1: **Individualised disclosure of attendants of the Supervisory Board members at Supervisory Board and committee meetings**

Name of the Supervisory Board member	Attendance at Supervisory Board and Committee meetings	Percentage of Attendance (%)
Claudia Anderleit	6/6	100
Sabine Christiansen	6/6	100
Birgit Geffke (until 31st March 2017)	2/2	100
Thorsten Kraemer	6/6	100
Fränzi Kühne (since 1st June 2017)	3/3	100
Knut Mackeprang	5/5	100
Ronny Minak	9/9	100
Thomas Reimann (since 1st April 2017)	4/4	100
Dr Hartmut Schenk (until 1st June 2017)	4/4	100
Michael Stephan	9/9	100
Prof Dr Helmut Thoma	5/5	100
Gesine Thomas	5/5	100
Marc Tüngler	9/10	90
Robert Weidinger	9/9	100

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.

Supervisory Board meetings

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

The Supervisory Board constantly focused particularly on the development of business in the TV field with the new products freenet TV and waipu.tv.

On 10 February 2017, the Supervisory Board adopted a circular resolution with regard to the increase in the holding in EXARING AG from approximately 25 per cent to more than 50 per cent.

In the meeting requiring personal attendance on 21 March 2017, the main subject matter of the audit and discussion was the annual and consolidated financial statements as at 31 December 2016. The findings of the annual financial statements audit were discussed together with representatives of the auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (Frankfurt am Main). 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 central point brought up at this meeting were the agenda for the Annual general meeting on 1 June 2017 and the corresponding resolutions proposed by the Supervisory Board to the Annual general meeting. In this meeting, the Supervisory Board also adopted a resolution regarding the target agreements with the members of the Executive Board for the year 2017. The Supervisory Board also discussed the targets for the percentage of women serving on the Executive Board.

On 29 March 2017, the Supervisory Board adopted a circular resolution regarding one-off bonuses to the members of the Executive Board which had been granted at the recommendation of the personnel committee as a result of special services rendered in the financial years 2015 and 2016 with regard to the selection and implementation of various acquisition projects.

In its telephone meeting on 19 April 2017, the Supervisory Board discussed further considerations with the Executive Board regarding the strategic positioning of the Group with regard to its participation in Sunrise Communications Group AG.

Directly after the election to the Supervisory Board at the annual general meeting on 1 June 2017, the Supervisory Board elected Prof. Dr. Helmut Thoma as the chairman, and appointed new persons to the committees.

On 21 September 2017, the central element of the meeting requiring personal attendance was the resolution adopted with regard to refinancing via a bank loan. The Executive Board also presented current acquisition opportunities. The members of the Supervisory Board also considered the requirements of the CSR Guideline Implementation Act, which was used as the basis for including the non-financial statement in the current annual report. The Supervisory Board engaged Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft to audit the non-financial statement on the basis of a resolution adopted in its next meeting requiring personal attendance on 5 December 2017.

In this meeting held on 5 December 2017, the Supervisory Board also discussed and noted with approval the planning for the financial year 2018 presented by the Executive Board. The Supervisory Board also passed a resolution on the submission of the annual declaration of compliance with the German Corporate Governance Code. And finally, it also discussed the introduction of a diversity concept for appointments to the Executive Board and Supervisory Board, with the result that it did not intend to pursue a diversity concept; it explained this decision in the statement on corporate management.

After the financial year 2017 had come to an end, a plenum meeting was held on 20 March 2018, mainly for the purpose of discussing the annual and consolidated financial statements as at 31 December 2017. The details concerning this matter are the subject of the separate section “Audit of the annual and consolidated financial statements for the financial year 2017” in this report. A further topic was the agenda for the 2018 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

The steering committee was not convened in 2017.

Personnel committee

The members of the personnel committee attended one meeting in 2017, and adopted circular resolutions in two cases. The committee established whether and to what extent the parameters for the variable remuneration of the Executive Board members for 2016 were reached, set new parameters for the target agreements for the financial year 2017 and proposed these to the Supervisory Board for a resolution. It also prepared the Supervisory Board resolution regarding one-off bonuses to the members of the Executive Board, which the committee recommended as a result of the special services rendered in the financial years 2015 and 2016 with regard to selecting and implementing various acquisition projects. It also approved the activity of the CEO in the Advisory Board of Webtrekk GmbH, Berlin.

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. A regular subject was the discussion of current accounting issues together with the auditor. The committee advised on the impact of the new accounting standards IFRS 9, IFRS 15 and IFRS 16. One highly significant topic in the committee in the first six months of 2017 was the dividend recommendation, which the committee members discussed with the Chief Financial Officer. In the second half of 2017, the committee considered the implementation of the CSR guideline, the preparation of the non-financial statement and preparations for the audit of the non-financial statement. For the audit of the non-financial statement, it obtained several quotations from auditing companies, and recommended the engagement of Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft to the Supervisory Board. The committee obtained reports directly from the managers responsible in Compliance and Internal Audit as well as reports regarding 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 statement of independence of the auditor,
- 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

As in the previous years, the mediation committee did not have to be convened in 2017.

Nomination committee

The nomination committee held one meeting requiring personal attendance in 2017 and prepared a list of proposed candidates for the election of the new shareholder representatives in the Supervisory Board which took place at the Annual general meeting on 1 June 2017.

Annual and consolidated financial statements for the financial year 2017

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 2017 to 31 December 2017 and the freenet AG management report were audited by PricewaterhouseCoopers GmbH 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 1 June 2017. The auditor awarded an unqualified audit opinion. The consolidated financial statements of freenet AG as at 31 December 2017 were prepared in accordance with section 315e 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 auditor's report of the auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, has been signed by Claus Brandt in his capacity as the responsible auditor. Claus Brandt has been responsible for the first time for the audit of the company and of the Group; PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft has been acting as the auditor of the company without interruption since auditing the annual financial statements for the financial year 2014.

The audit was reported on and discussed in the audit committee on 28 February 2018 and at the Supervisory Board meeting on 20 March 2018. 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 20 March 2018. The annual financial statements are thereby adopted. At its meeting on 20 March 2018, 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.

Audit of the non-financial statement for the financial year 2017

The non-financial statement for the financial year from 1 January to 31 December 2017 which was prepared by the Executive Board as part of the management report of freenet AG and the group management report was audited by Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg. The audit engagement was awarded on the basis of the Supervisory Board resolution of 5 December 2017. After auditing the non-financial statement, the auditor concluded that he had not identified any issues which would lead him to conclude that the information in the non-financial statement has not been prepared in all material respects in compliance with the legal requirements. The auditor reported on the audit actions and the audit result in the meeting of the audit committee of 28 February 2018. The Supervisory Board agreed with the result of the auditor following a corresponding recommendation of the audit committee.

Changes on the Executive Board and the Supervisory Board

Executive Board

In the financial year 2017, there were no changes in the composition of the Executive Board.

Supervisory Board

The periods of office of the shareholders' representatives in the Supervisory Board ended at the conclusion of the annual general meeting of 1 June 2017. The annual general meeting again elected the existing members Sabine Christiansen, Thorsten Kraemer, Prof. Dr. Helmut Thoma, Marc Tüngler and Robert Weidinger to the Supervisory Board. Dr. Hartmut Schenk stepped down from the Supervisory Board at the end of the annual general meeting. Fränzi Kühne was elected to the Supervisory Board in his place. Following the annual general meeting, the Supervisory Board elected Prof. Dr. Helmut Thoma as the new Chairman of the Supervisory Board.

Birgit Geffke, who laid down her office in the Supervisory Board as of 31 March 2017, was replaced by Thomas Reimann as an employees' representative on the Supervisory Board with effect from 1 April 2017.

The Supervisory Board would like to thank Dr. Hartmut Schenk and Birgit Geffke for their service and commitment for the company, their constructive and informed contributions in the Supervisory Board as well as for their co-operation carried out within a framework of mutual trust.

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, 20 March 2018
For the Supervisory Board

Prof Dr Helmut Thoma
Chairman of the Supervisory Board

FREENET AG AND THE CAPITAL MARKETS

Capital market environment

A positive trend was in evidence on the stock market at the beginning of 2017. This development was due to various factors, including the mainly positive profits reported by companies for the financial year 2016 as well as the results of the parliamentary election in the Netherlands, which somewhat reduced the level of political uncertainty in the Eurozone. And when the US Central Bank carried out a 0.25 percentage point rate hike in March, this was interpreted by investors as an indication of optimistic sentiment on the world-wide financial markets. Although the first three months of the reporting year were also characterised by political fears for the markets – including Brexit and the protectionist policy of the US President Donald J. Trump – the DAX was boosted by a profit series lasting for more than nine weeks, and ended the first quarter of 2017 at 12,312 points, recording a gain of 7.2 per cent compared with the end of the previous year (31 December 2016: 11,481 points). The TecDAX also reported a positive performance in the course of the first quarter, closing at 2,047 points on 31 March 2017 (31 December 2016: 1,626 points).

The ongoing tensions between the USA and North Korea as well as the Syria conflict caused uncertainty on global financial markets at the beginning of the second quarter of 2017, and initially resulted in lower prices. The result of the presidential election in France in April was a factor contributing to a turnaround, as well as associated higher prices on the European and many international stock markets. Optimistic economic data as well as mainly positive quarterly results supported this positive trend in prices in subsequent weeks. Despite the positive sentiment, the DAX closed the second quarter with only a minor gain of 0.1 per cent, at 12,323 points following a high of 12,889 points on 19 June 2017 – a gain of 7 per cent since the beginning of the year. In the first six months of 2017, the TecDAX increased by 21 per cent, closing on 30 June 2017 at approximately 2,046 points.

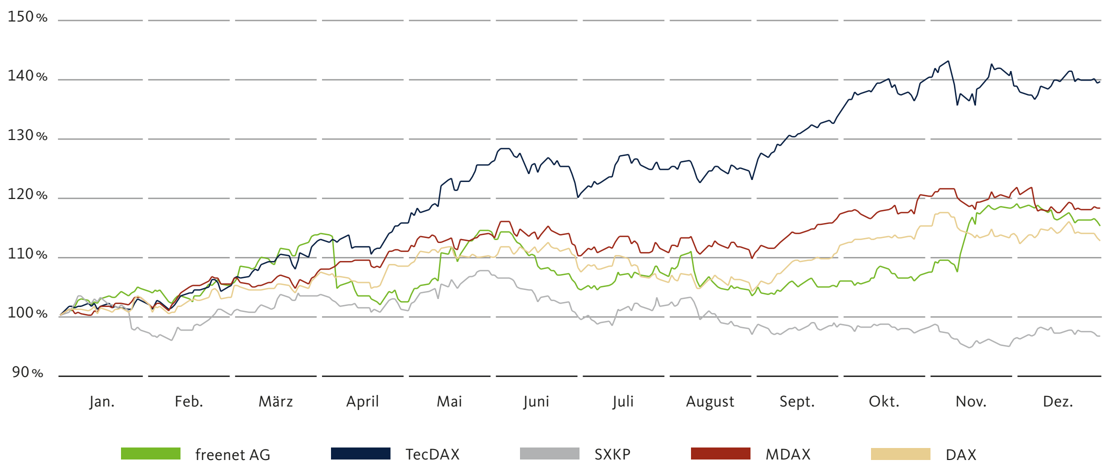
In the third quarter of 2017, the international stock markets were characterised by a high level of volatility mainly due to continuing geopolitical events. The DAX underwent a correction between June and September, falling temporarily below the level of 11,900 points, but stabilised at the end of August above the level of 12,000 points. Indications of an easing of tension in the North Korea conflict in September resulted in higher prices and a turnaround on the stock markets. And finally, the stock market closed with a positive performance due to various factors, including good economic data in the Eurozone and in the USA, rising oil prices and also the fact that the euro had recently been weaker. The DAX closed the third quarter of 2017 with a gain of 4 per cent at 12,829 points, and also a gain of 12 per cent in the nine-month period. With a gain of 11 per cent between July and September and 34 per cent since the beginning of the year, the TecDAX reported even more considerable growth, closing at 2,434 points at the end of September.

Overall, 2017 proved to be a successful year for the financial market compared with a weaker market climate in 2016 which had been characterised by a higher degree of volatility. Driven by the continued positive prospects for the economy and the low interest climate, the DAX broke through the 13,000 point level in the autumn of 2017, posting the year's high and all-time high of 13,479 points – thus also exceeding the forecasts for the year 2017. The DAX closed last year with a gain of 13 per cent (12,918 points), representing an above-average result in the historical context. The German technology index moved roughly in line with the DAX, and posted a significant gain of 40 per cent over the year.

The freenet share

The freenet AG share made a successful start to 2017, and reported an increase of 15 per cent after 12 months. It thus slightly outperformed the DAX, which in the same period achieved growth of 13 per cent. Following a closing price of 27.04 euros on the first trading day of the year, the share price rose to a high of 31.85 euros by the end of November. Starting from the lowest price of the year, namely 26.97 euros posted on 3 January, the share achieved a positive performance over the year, rising to a price of 30.82 euros on the final trading day of 2017. The average daily number of freenet shares traded via the electronic trading platform XETRA amounted to 444 thousand, compared with 475 thousand in 2016. In total, 62 per cent of the entire trading volume was generated via the platforms of Deutsche Börse AG, whereas the remaining 38 per cent were traded via alternative trading platforms ("dark pools").

Figure 1: Performance of the freenet share in 2017 (indexed; 100 = Xetra closing price on 31 December 2016)



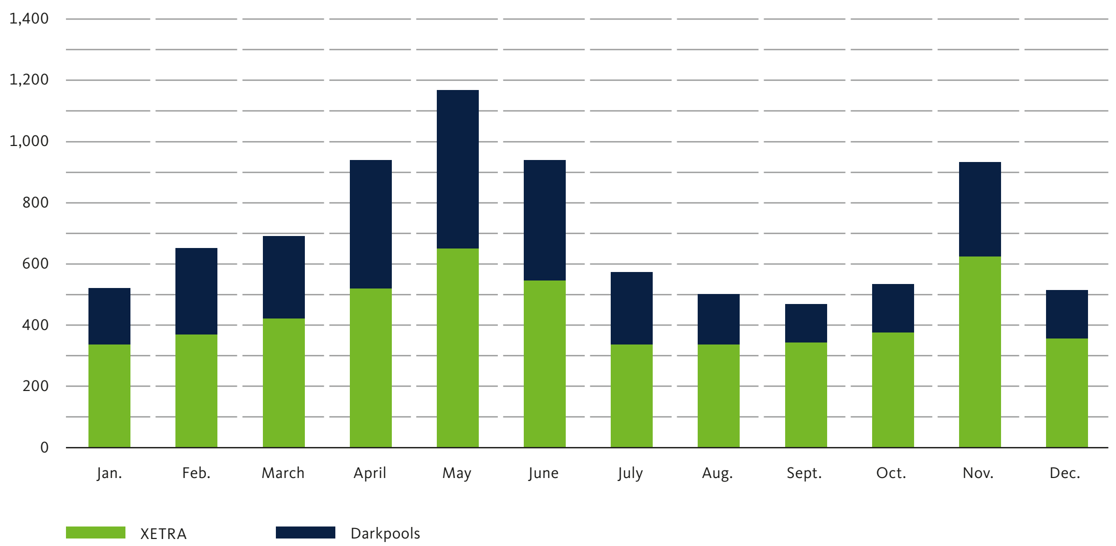
The share price of freenet AG achieved a very positive performance in the first quarter of the financial year 2017. The price rose by 14 per cent between January and March, thus outperforming the TecDAX, which in the same period reported an increase of 13 per cent. Starting from a closing price of 26.76 euros at the end of 2016, it rose to 30.49 euros by the end of the first quarter of 2017. The lowest daily closing price was reported on 3 January (26.97 euros), and the quarterly high was posted on 31 March at 30.49 euros. In the first quarter of 2017, the freenet AG share also outperformed the DAX (+7 per cent in the first quarter). The average daily trading volume of the stock on XETRA was approximately 397 thousand in the three-month period (previous-year quarter: 519 thousand), and was roughly in line with the level seen in the previous two quarters – the Xetra daily closing price amounted to 30.49 euros on 31 March. The dark-pool percentage increased in the first quarter by 2 per cent to 39 per cent of the total trading volume compared with the fourth quarter of 2016.

On the first trading day of the second quarter of 2017, the opening price of the freenet share was 30.38 euros. The freenet share then performed roughly in line with the stock markets and followed the negative trend. In consequence, the share price fell to its lowest level in the second quarter on 21 April at 27.21 euros. In the period between the end of April and the end of May, the share experienced a turnaround, rising to a high of 30.61 euros for the quarter on 29 May. In June, the price fell again, and the freenet share closed the second quarter with a price of 27.93 euros, equivalent to a decline of approximately 8 per cent. Accordingly, the freenet share underperformed the DAX (+1 per cent) and TecDAX (+7 per cent). Compared with the European index for telecommunications stocks SXKP, which declined by 4 per cent, the performance of the freenet share reflected the general sentiment in the sector. The average daily trading volume on XETRA increased to 569 thousand in the second quarter, and the dark-pool percentage increased from 39 per cent in the first quarter to 43 per cent in the second quarter of 2017.

Following the losses in the second quarter, the freenet AG share recovered in the third quarter, and reported a generally stable performance. Starting with an opening price of 28.10 euros on 3 July, the share posted its quarterly high at 29.68 euros on 8 August. Overall, the freenet share increased by approximately 1 per cent to 28.29 euros in the third quarter, thus slightly outperforming the SXKP index, which reported a decline of approximately 1 per cent in the three-month period. In the reporting period, the freenet share was outperformed by the DAX (+4 per cent) as well as the TecDAX (+11 per cent). On average, 355 thousand shares were traded daily on the trading platform XETRA, compared with 356 thousand in the previous-year quarter. The dark-pool percentage declined by 9 per cent to 34 per cent (186 thousand).

In the fourth quarter, the freenet share strengthened its positive trend. Overall, the share increased by approximately 9 per cent between September and December, with an average price of 30.12 euros. The share traded at 28.32 euros on the first trading day of the fourth quarter, and fell to a low of 28.12 euros on 3 November. The publication of the very positive quarterly figures as of 30 September 2017 boosted the price of the share, which rose to a quarterly high of 31.85 euros on 30 November. The optimistic investor sentiment continued until the end of the year, enabling the freenet share to post a 9 per cent increase and considerably outperform the DAX (+1 per cent), the TecDAX (+4 per cent) as well as the SCKP index (-2 per cent). Compared with the third quarter, the average daily XETRA trading volume increased to 453 thousand, whereas the volume traded via alternative trading platforms declined to 31 per cent (210 thousand).

Figure 2: **Average daily trading volume of the freenet share in 2017 in thousands**



Shareholder structure at freenet AG

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

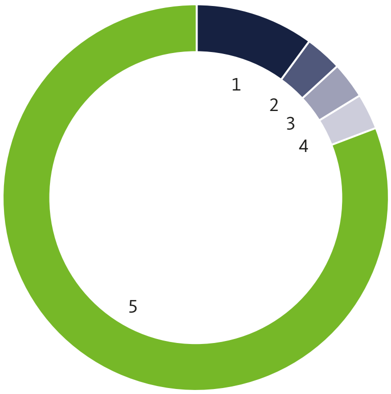
Voting rights disclosures

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 2017:

- In February, BlackRock Inc. (United States) 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 9 February amounted to 3.03 per cent (3,877,096 voting rights).
- In February, BlackRock Inc. (United States) 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 15 February amounted to 2.85 per cent (3,650,532 voting rights).
- In February, BlackRock Inc. (United States) notified us that it had exceeded the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 21 February amounted to 3.04 per cent (3,895,217 voting rights).
- In February, BlackRock Inc. (United States) 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 2.99 per cent (3,832,514 voting rights).
- In February, BlackRock Inc. (United States) 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 28 February amounted to 3.0002 per cent (3,842,058 voting rights).
- In March, Allianz Global Investors Fund SICAV (Luxembourg) notified us that its holding had fallen below the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 8 March amounted to 2.98 per cent (3,818,765 voting rights).
- In May, Flossbach von Storch SICAV (Luxembourg) notified us that its holding exceeded the 10 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 4 May amounted to 10.08 per cent (12,913,911 voting rights).
- In May, The Capital Group Companies, Inc. (United States) notified 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 5 May amounted to 2.84 per cent (3,634,288 voting rights).
- In May, Allianz Global Investors (Germany) notified us that its holding had fallen below the 5 per cent reporting threshold. On 26 May, its share of the voting rights in freenet AG amounted to 4.96 per cent (6,357,538 voting rights).
- In October, Allianz Global Investors (Germany) notified us that its holding had fallen below the 3 per cent reporting threshold. On 6 October, its share of the voting rights in freenet AG amounted to 2.97 per cent (3,805,564 voting rights).
- In November, BNP Paribas Asset Management France S.A.S. (France) notified us that it had exceeded the 3 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 1 November amounted to 3.09 per cent (3,956,027 voting rights).

The shareholder structure at the end of 2017 was therefore as follows:

Figure 3: **Shareholder structure of freenet AG on 31 December 2017**



1	**10.08 %**	Flossbach von Storch AG*
2	**3.09 %**	BNP Paribas Asset Management France S.A.S.*
3	**3.05 %**	Deutsche Asset Management Investment GmbH*
4	**3.00 %**	BlackRock Inc.*
5	**80.78 %**	Other shareholders/free float**

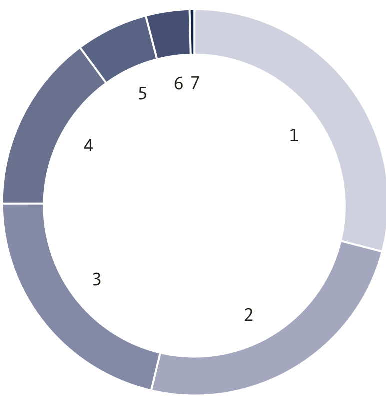
* *incl. attributions according to German Securities Trading Act.*
** *The free float according to Deutsche Börse AG amounts to 89.92%.*

In the financial year 2017, institutional investors were again the largest group of investors of the freenet Group, accounting for approximately 72 per cent (previous year: 73 per cent). As of the reporting date, the blocks of shares held by institutional investors were pure financial investments - as was the case in the previous year. Almost half of all invested financial institutions followed a value-oriented investment approach. The percentage of growth-oriented financial investors was in line with the corresponding previous-year figure, and thus remained unchanged. The remaining financial investors were index- and/or returns-oriented or pursued specialised investment strategies.

Geographical distribution

According to a study carried out in October 2017, Germany represents the largest regional group of investors (as was the case in the previous year), accounting for approximately 54 per cent (2016: 55 per cent). Of this figure, 29 per cent are attributable to German institutional investors, whereas the remaining approximately 25 per cent of freenet shares are held by private German shareholders. Institutional financial investors from the USA and Canada account for the second largest percentage of outstanding shares of freenet AG (21.2 per cent), followed by institutional investors from the rest of Europe (approximately 15 per cent). Institutional investors from Great Britain and Ireland account for 6.1 per cent. Private shareholders from the rest of Europe hold a total of 3.7 per cent. The absolute minority of 0.4 per cent is attributable to financial investors from other countries.

Figure 4: **Shareholder structure of freenet AG on 31 December 2017**



1 **29.0 %** German institutional investors
2 **24.7 %** German retail investors
3 **21.2 %** Financial investors USA and Canada
4 **14.9 %** Financial investors rest of Europe
5 **6.1 %** Financial investors UK and Ireland
6 **3.7 %** Retail investors rest of Europe
7 **0.4 %** 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 of 2.24 euros in the reporting year exceeded the previous years' level (1.78 euros). The basis for calculating the earnings per share is the weighted average of shares outstanding.

Table 2: **Earnings per share**

In EUR/as indicated	2017	2016
Undiluted earnings per share	**2.24**	**1.78**
Diluted earnings per share	**2.24**	**1.78**
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 1 June 2017, freenet AG's Annual General Meeting decided to pay a dividend of 1.60 euros per eligible no-par-value share for the financial year 2016, representing a pay-out ratio of 60.0 per cent of free cash flow. The dividend was distributed to the shareholders on 6 June 2017 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 17 May 2018 the payment of a dividend for the 2017 financial year in the amount of 1.65 euros per no-par-value share from the cumulative profit. This corresponds to a payout ratio of almost 62 per cent of free cash flow.

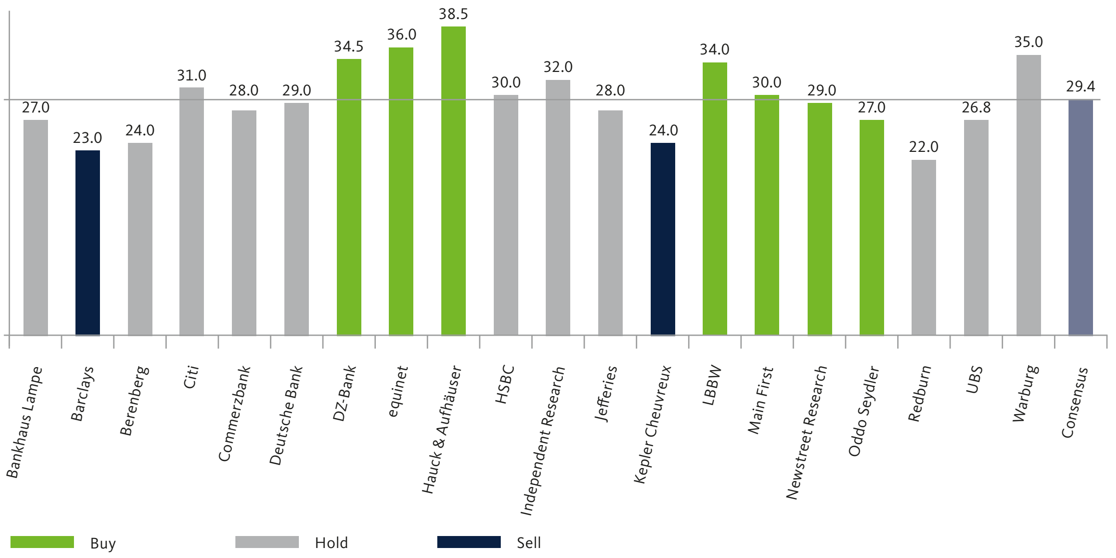
Analysts' recommendations

In total, 20 (previous year: 21) internationally operating investment houses regularly published studies and recommendations regarding the current development of freenet AG in the financial year 2017. Four analyst houses published a higher number of analyst estimates in 2017 compared with the previous year, whereas six banks and research houses retained the same number of coverages for the freenet share compared with the previous year. Ten analyst houses reduced the number of coverages compared with 2016. In the course of the year, the analysts published a total of approximately 80 comments and recommendations for freenet AG.

In the reporting year 2017, a total of 14 analysts participated in the quarterly consensus estimates (previous year: 17 analysts). Whereas the median of all publications for the freenet share amounted to five comments per broker in the financial year 2016, this figure declined to three comments per analyst house in the reporting period 2017.

As was the case in the previous year, the analyst estimates of freenet AG were mainly positive in the course of 2017. Accordingly, 30 per cent issued a buy decision (previous year: 35 per cent). Approximately half of all analysts again issued a hold recommendation for the freenet share in the reporting year (previous year: 50 per cent). The remaining 20 per cent issued a sell recommendation (previous year: 15 per cent). In total, six analyst estimates issued a buy recommendation for the freenet share, and ten issued a "hold" recommendation. Only four analysts issued a sell recommendation. The average price target of the analysts as of 31 December 2017 amounted to 29.44 euros, and was thus higher than the average target of 28.39 euros established in the previous year.

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



As per 31 December 2017

Investor Relations

Using an extensive investor relations activity, freenet AG aims to ensure that institutional investors, private shareholders, financial analysts, business partners, employees as well as all other interested stakeholders are provided continuously with comprehensive information about the company. Up-to-date and transparent communication plays a fundamental role in this respect.

Accordingly, freenet AG again continued its intensive dialogue with shareholders and stakeholders in the reporting year 2017. Management and the IR department were available for comprehensive discussions and questions in the form of personal meetings, telephone calls as well as in writing via e-mail. The annual and quarterly figures were presented to the interested public within the framework of telephone conferences.

In addition, at the Executive Board and investor relations level, freenet AG was also represented at a wide range of conferences and also within the framework of roadshows in the international financial centres of Europe and the USA. The focus was on individual and Group discussions with institutional investors. 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 total, approximately 200 investor discussions were held in the course of the year (previous year: 300). The discussions focused on the current earnings expectations in the traditional Mobile Communications segment and in the Digital Lifestyle segment, the business development and profitability in the TV and Media segment.

As has been the case in previous years, the IR activities in the current financial year 2018 continue to be of major relevance for freenet AG. The company's management and the investor relations team intend to further intensify communication with the financial world.

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

Information on the security:	
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

Syndicated bank loan prolonged by a further 5 years

In the reporting period, freenet AG successfully prolonged the syndicated bank loan which was concluded in March 2016 until October 2022, subject to improved conditions.

The original syndicated bank loan had a total volume of 1.14 billion euros and permitted the company to draw funds in three different tranches for possible acquisitions and current operations. The first two tranches were used as bridging loans for the two acquisitions and equity participations carried out at the end of 2015 or in the first quarter of 2016, and were also used for refinancing the corporate bond which expired in April 2016. In 2016, the first tranche was completely repaid, and the second tranche had been reduced to a volume of 610.0 million euros. The third tranche with a volume of 100.0 million euros has been structured as a revolving credit facility; in this way, the funds can be drawn down and repaid at any time.

In October 2017, the remaining two tranches of the bank loan were prolonged by an “amend & extend” transaction to a syndicated bank loan due to mature in October 2022; this is applicable for the amortising loan of 610.0 million euros due upon final maturity as well as for the revolving credit facility for 100.0 million euros which has currently not been drawn down. Variable interest on the basis of EURIBOR is applicable for both tranches – an initial margin of currently 1.60 per cent is applicable for the amortising loan (previously 2.10 per cent); for the revolving credit facility, the margin is now 1.40 per cent (previously 1.80 per cent). Some ancillary contractual conditions have also been improved for the benefit of freenet AG, which means that the existing bridging finance has now been replaced by a long-term unsecured bank financing arrangement. The transaction was arranged by Bayerische Landesbank, Commerzbank AG, Landesbank Baden-Württemberg as well as UniCredit Bank and was placed entirely within the existing bank syndicate.

The “amend & extend” transaction has enabled the company to obtain long-term financing assurance for a further 5 years, and means that the company is even more flexible with regard to future investment decisions. The prolongation of the term of the arrangement and the simultaneous considerable improvement in the conditions mean that the excellent creditworthiness of freenet AG has been confirmed as a result of the conclusion of this transaction.

Repayment of two borrower’s note loan tranches from 2012

In December 2012, freenet AG raised a borrower’s note loan of 120.0 million euros. Of this figure, a fixed-income tranche of 44.5 million euros was due to be repaid in December 2017. In addition, a figure of 20.0 million euros of the variable income part was repaid, so that a total of 64.5 million euros has been repaid.

Financial information online

Shareholders and other interested members of the public can find detailed information about the freenet share on our website at www.freenet-group.de/investor-relations.

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

The business model

As the largest independent telecommunications service provider without own network, the freenet Group offers its approximately 13 million customers products, services as well as hardware from the fields of mobile communications, digital lifestyle as well as TV and media.

In the core business of mobile communications, the portfolio comprises the company's own tariffs and services as well as corresponding offerings of the mobile network operators Deutsche Telekom, Vodafone and Telefónica in Germany. In order to meet the needs and demands of various customer groups, the freenet Group distributes mobile communications tariffs and options throughout Germany with around 6,000 outlets, using subscription agreements and a multi-brand strategy.

With regard to attracting new customers and managing existing customers, the main brand mobilcom-debitel focuses on high-quality contract relations which are reflected in various factors, including exceptional customer ownership of 9.59 million. In addition, the discount brands of freenet Group – klarmobil, freenet mobile, callmobile and debitel light - cover the no-frills sector. The freenet Group operates throughout the whole of Germany with approximately 570 shops which it can manage directly as well as numerous additional mobile communication outlets. The company guarantees extensive and extremely service-oriented marketing of the mobile communication services due to the exclusive distribution right for tariffs in the T-Mobile and Vodafone networks in the approximately 430 electronics stores of Media-Saturn-Deutschland GmbH ("Media-Saturn Deutschland") and also by way of various online distribution channels covering all brands.

In addition, the freenet Group supplies the digital lifestyle growth market with innovative digital applications relating to home automation and security, health, data security, entertainment and infotainment – including the latest smartphones, tablets, notebooks/ PCs and 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.

Since 2016, the fact that the company has broken into the new TV and Media segment means that modern high-definition digital TV in two technological versions now forms part of the company's product portfolio – freenet TV for terrestrial TV, with currently approximately 975,000 subscribers, and waipu.tv for IPTV entertainment, with currently approximately 464,000 registered customers (exclusive about 76,000 pre-registered customers), including roughly 102,000 subscribers. freenet TV transmits TV with optimum image quality via the new DVB-T2 HD standard. In addition to the public sector programmes, this will enable customers to receive approximately 20 private stations in full-HD quality – although in encrypted form. For this purpose, viewers will require in addition to an internal or external antenna only a CI+ module (to be retrofitted) with new TVs with DVB-T2-HD capability; on the other hand, a small set-top box is necessary for all other devices. With waipu.tv, on the basis of the closed 12,000 km EXARING fibre-optic network, 80 TV stations, of which half in HD quality, can easily be transmitted to the user's smartphone and from there, via Google Chromecast or the Amazon Fire-TV stick, to the user's TVs at home.

In the Group's view, the key factors for its commercial success are customer development and the average monthly revenue per user in mobile communications as well as the development of digital lifestyle and the recent TV activities.

Corporate strategy

In accordance with the market study of the association of providers of telecommunication and value-added services (Verband der Anbieter von Telekommunikations- und Mehrwertdiensten; VATM) published in October 2017 in conjunction with Dialog Consult, the freenet Group continues to have an unchanged market share of approximately 12 per cent of the telecommunications market, and is thus still the largest reseller in Germany.

The corporate strategy continues to focus on the core business of mobile communications and mobile Internet, in which the high-quality contract relations play a fundamental role with regard to attracting new customers and managing existing customers. Two major strategic elements are: further boosting its customer base in the valuable customer segments of postpaid and no-frills (together: customer ownership) as well as the profit-oriented expansion of high-street service-oriented sales.

A further key aspect of the corporate strategy is the value-added expansion of the Digital Lifestyle segment with products from the fields of entertainment, energy, security, SmartHome and e-health. The focus is on continuously optimising and extending the corresponding service and product portfolio. The freenet Group positioned itself at an early stage as a digital lifestyle provider in this market segment, and thus transfers existing skills such as sales strength, service orientation and long-standing experience in subscription business to new markets closely related to its core business. Besides the continuous optimisation of the shops operated under the main brand mobilcom-debitel in respect of location, product and service portfolio and sales support, the focus is on further development of the GRAVIS stores as a premium supplier of so-called digital lifestyle products. The resultant cross-selling potential is to be strategically used mainly in customer ownership, for instance by way of the marketing of integrated lifestyle product worlds.

The freenet Group is consistently continuing its process of transformation into a comprehensive digital lifestyle provider with investments in the TV and Media segment. The company addresses a wide range of customer groups with two very promising TV products in the field of digital-terrestrial as well as Internet-based TV. In this way, the freenet Group has laid the foundation for a comprehensive and innovative TV experience and prepares the way for TV of the next generation.

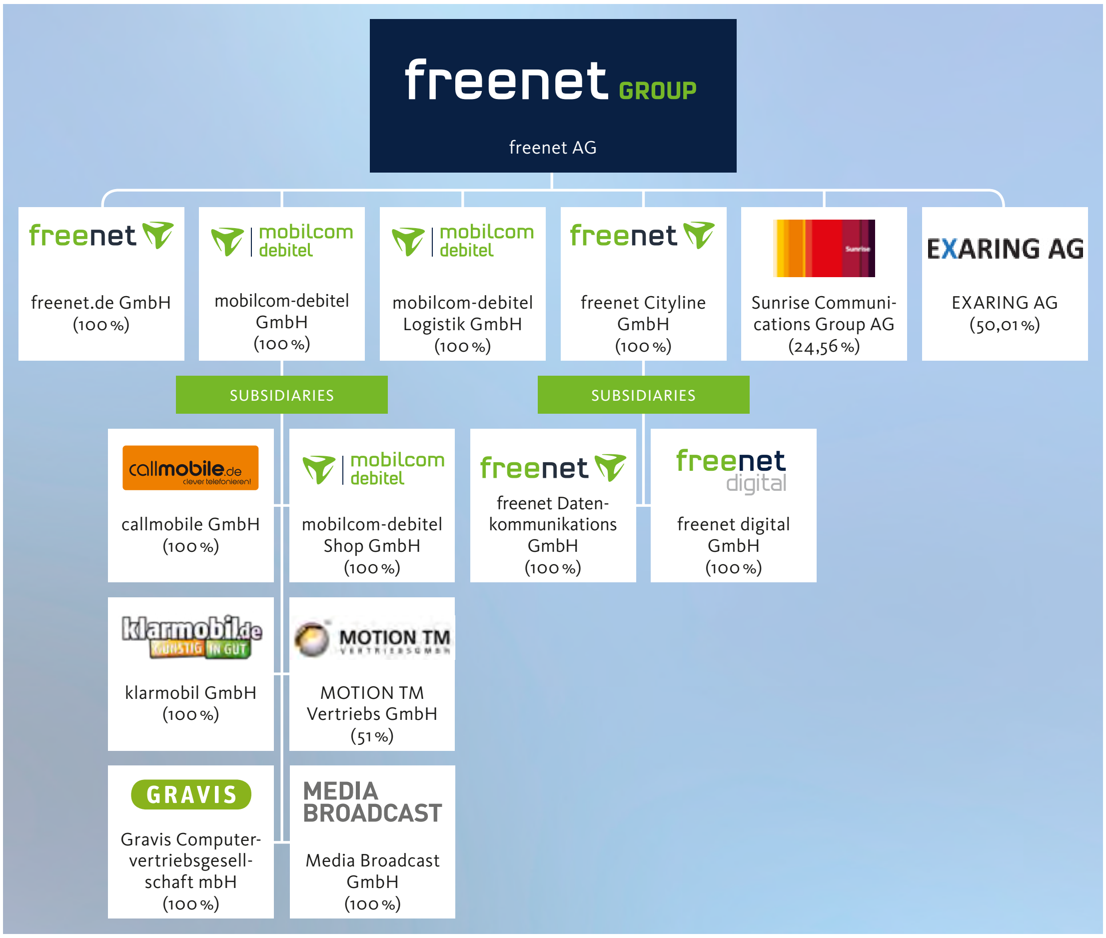
Also in the course of the next few years, the freenet Group will continue to evaluate additional strategic areas of operation apart from its core business mobile communications operations and the retailing of mobile communications products in line with precisely defined profitability and investment requirements and taking account of demand patterns and market momentum.

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 providers of borrowed capital to the company's are mainly concerned not just with an attractive interest rate 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 importance to an open, respectful and appreciative corporate culture in the competition for qualified employees. Overall, the strategic focus of the freenet Group is based on sustainable and responsible action and management. Both of these factors are counted among the mainstays for designing the processes of the freenet Group.

Group structure and acquisitions

The main Group companies as of 31 December 2017, measured in terms of their contribution to the main financial performance indicators of the Group, are set out in the following:

Figure 6: **Material Group companies of freenet AG as at 31 December 2017**



Segment specific disclosures

The organisation and management of freenet AG are not conducted along the lines of customer sectors or geographical territories. In line with the internal management of freenet AG, a distinction is made between the “Mobile Communications”, "TV and Media” as well as “Other/Holding” segments.

The "Mobile Communications" segment comprises not only the original mobile communications activities but also the growth area of internet-based mobile applications (digital lifestyle products). The “TV and Media” segment comprises all services relating to IPTV (mainly to end users), the planning, project management and establishment, operation, service and the marketing of broadcast-related solutions for business clients in the radio and media sector as well as DVB-T2 services to end users.

For the purpose of assessing the net assets, financial position and results of operations of freenet AG, the “Other/Holding” segment is only of minor importance.

Management system

To implement the operative and strategic objectives of the Group, 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. Taking account of the ongoing expansion of our digital lifestyle activities and in view of the planned development of the new area of TV operations in connection with the acquisition of the Media Broadcast Group and our equity participation in EXARING, we constantly monitor the composition of all internal control parameters. If a corresponding need for adjustment is identified, we may adjust our internal control parameters. The following financial and non-financial performance indicators are relevant for management purposes.

Financial performance indicators

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

- Revenue
- EBITDA
- Free cash flow
- Postpaid ARPU
- freenet TV ARPU

The financial performance indicator free cash flow is not used for management purposes at the segment level; it is used exclusively at the group level. Postpaid ARPU is used as a management parameter only in the Mobile Communications segment, freenet TV ARPU only in the TV and Media segment.

A calculation for deriving the non-GAAP measures (also: alternative performance measures) EBITDA and free cash flow is shown in the section "Definition of alternative performance measures" at the end of this chapter.

Revenue

The freenet Group's traditional field of business is dominated 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.

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 applies in particular to the digital lifestyle business activities and the TV business which is still in the process of being developed. In addition to EBITDA, the success of activities in digital lifestyle as well as in TV and Media will be reflected primarily in the company's future revenue trend.

EBITDA

In general, EBITDA is therefore regarded as the operational viability of a company 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 to a comparatively low level of annual investment within the scope of its corporate planning and management. As EBITDA focuses on the operating efficiency ascertained by the accounting process, this performance indicator makes comparability possible even independently of the structurally conditioned different capital costs in the respective business models. Accordingly, EBITDA is also used for valuation purposes within the framework of corporate acquisitions and disposals.

With regard to a precise definition of EBITDA, please refer to the section "Definition of alternative performance measures" in this chapter.

Free cash flow

Free cash flow as a group-wide 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 pay-out 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 borrowed capital because it contains all of a company's operational payment obligations and as such is a benchmark for potential interest and redemption payments.

For a precise definition of free cash flow, please refer to the section "Definition of alternative performance measures" in this chapter.

Postpaid ARPU

Postpaid ARPU is the monthly average revenue per customer in the business segment Mobile Communications, generated by selling 24-month contracts. Postpaid 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 the calculation. Changes in the market and competitive situation in Germany have a significant impact on the development of postpaid ARPU.

freenet TV ARPU

freenet TV ARPU is defined as the monthly average revenue per subscriber generated with the freenet TV product within the TV and Media segment. The revenue comprises the revenue generated with postpaid contracts, the revenue generated with wholesale partners as well as generated by sales of prepaid cards and electronic vouchers. Similar to the postpaid ARPU, freenet TV ARPU thus represents the willingness of customers to pay monthly charges for the TV service.

Non-financial performance indicators

In view of the company's strategic positioning as a digital lifestyle provider, the company uses financial performance indicators as well as customer ownership as a key non-financial performance indicator for management in the Mobile Communications segment and the development of TV customer numbers in the TV and Media segment.

Customer ownership

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

TV customer base

As a result of entering the field of TV business, freenet AG addresses a further segment, with the aim of strengthening and expanding the company's strategic positioning as a digital lifestyle provider. The development in freenet TV customer numbers as well as waipu.tv customers (registered customers as well as subscribers) is used as a key measure for the success in establishing the new segment and thus for market penetration with both TV products.

- freenet TV subscribers
- waipu.tv registered customers
- waipu.tv subscribers

Other performance indicators

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

In addition to its traditional mobile communications and mobile internet segments, freenet AG is increasingly addressing the digital lifestyle growth market and the TV and Media segment. 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 particularly by the approximately 530 shops which are operated under the main brand mobilcom-debitel, via the company's presence in approximately 400 large electronic stores and via numerous additional sales outlets and retail partners as well as by the networking of these channels with the various online platforms.

In addition, the discount brands of the Group - klarmobil, freenet-mobile, callmobile and debitel light - address the so-called no-frills segment: Customers in this segment are interested primarily in inexpensive tariffs and to a lesser extent in subsidised terminals or special services; the discount tariffs are sold largely via company-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 constitute a focal point of marketing the company's portfolio of products and services. In this connection, the main discount subsidiaries of freenet have restructured their tariff portfolios; and the main brand has again set accents in competition with temporary discounts and tariff promotions.

The discount brand klarmobil.de first revised its entire mobile communications portfolio at the beginning of the year: For this purpose, it set up two new tariff worlds, each with three different D-network tariffs – the "Smartphone Flat Flex" and the "Allnet Flat Flex"; they now offer more flexibility in conjunction with the option of monthly termination. At the same time, the prices of the existing tariffs were reduced. With the Smartphone Flat Flex, the customer can choose between 500, 1000 and 1500 MB unthrottled data volume, for prices of 6.95 euros, 7.95 euros and 10.95 euros per month and with maximum bandwidth of 7.2 to 21.6 mbps. The user also receives 100 free minutes and texts. In the Allnet Flat Flex flatrate, the unthrottled data volumes are 1000, 2000 and 4000 MB and with maximum bandwidths of between 21.6 and 42.2 mbps, for monthly charges of 14.85 euros, 16.85 euros and 21.85 euros. All three options provide a telephony flat, the Allnet Flat 4000 option also offers unlimited texts. The one-off connection prices are 19.95 euros for the Smartphone Flat Flex and 29.95 euros for the Allnet Flat Flex.

In addition, klarmobil restructured the offered data tariffs in the D-network of Vodafone: The three new data flatrates are 9.95 euros, 14.95 euros and 19.95 euros per month; in the cheapest version, they offer 1000 MB with a speed of 14.4 mbps, in the medium version, they offer 2000 MB also with 14.4 mbps, and in the top version, they offer 5000 MB with 21.6 mbps. Texts cost 9 cent each in all three versions.

As a further discount brand of freenet, callmobile also restructured its tariff portfolio in mid-2017, reducing its choice of tariffs to three options, and lowered the prices: The "cleverSMART 1000" comprises 100 free call minutes and texts for approximately 10 euros per month as well as a data flatrate of 1000 MB and up to 21.6 mbps. With the "cleverALLNET 2000" for approximately 15 euros per month, the data volume rises to 2000 MB with a call flatrate and 100 free texts; with the "cleverALLNET 4000" for approximately 20 euros per month, the data volume increases to 4000 MB with a call flatrate and text flatrate. In addition, in the case of number portability, new customers receive a bonus of 25 euros in the case of all three 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. In the course of a "Withings Health Weekend", GRAVIS discounted numerous Withings products, in certain cases by more than 40 per cent - including Smartwatches and Fitnesstracker, body analysis scales and sleep monitoring systems. In addition, the freenet subsidiary extended its range of products in selected stores to include the Surface products as well as corresponding accessories of Microsoft and started a cooperation agreement with Microsoft as an exclusive launch partner of the new products Surface Studio, Surface Laptop and Surface Pro in Germany - with the addition of the Surface Book Performance Base in some major cities. In addition, GRAVIS carried out competition-oriented product offensives throughout the whole year in its stores; they comprised for instance free sports wrist bands as a give-away for purchasers of the popular Apple Watch Series 2 or two inexpensive versions of the Bluetooth keyboards of the French manufacturer Orée - unique products made from a single piece of walnut or maple wood with a grained surface and an invisible coating designed to provide protection against stains. GRAVIS offered several headset innovations for users of the new iPhone 7: for instance the in-ear headphones Jaybird X3 with the patented "Secure-Fit" sport ear insert; the Libratone Q Adapt of the Danish design sound studio Libratone as on-ear and in-ear version; and also the JBL Reflect Aware with a Lightning connector and ANC for app-driven individual noise cancellation. In end-of-year business, GRAVIS set additional accents - starting with "Black Friday" and products whose prices had been reduced considerably, such as selected Macs, MacBooks and the iPad of Apple as well as a wide selection of accessory articles.

mobilcom-debitel GmbH (“mobilcom-debitel”) continued the "Sunday stunners" which had been originally launched in November 2015. Within the framework of the weekly bargain promotions for low-cost online purchases of devices, the company in the course of 2017 offered a series of inexpensive top products of all relevant manufacturers. And mobilcom-debitel, as one of the very first mobile communications pioneers, went back to the roots at the beginning of the year, when it brought back the traditional Nokia brand exclusively for Germany with the new Nokia 150 - classic key mobile phone with built-in FM radio, MP3/video player and a battery capacity of 22 hours of voice calls and up to 31 days standby time. This was followed at the end of the first half by the new premium smartphones of the Finnish brand: the Nokia 3, 5 and 6 as well as the retro-cult device Nokia 3310.

freenet’s main brand was also one of the first providers on the market for the iPhone X and eSIM marketing. For instance, in November, the new top-of-the-range smartphone model of Apple was available with mobile contracts in the high-quality D-networks with additional payments starting at 350 euros for the 64 GB version or 500 euros for the 128 GB version. And starting in December, the eSIM card for the Apple Watch Series 3 was also available at mobilcom-debitel in the network of Deutsche Telekom. For a monthly price of 4.95 euros, the virtual embedded card makes the smartwatch more independent of the iPhone; it is bookable for all tariffs.

Also in March, mobilcom-debitel was one of the first providers in Germany to offer the products “Amazon Echo” and “Amazon Echo Dot”. The audio devices linked with Amazon’s cloud-based voice service “Alexa” can be integrated in the user’s home network, and act as a digital assistant and haptic audio interface relating to the networked SmartHome.

In the field of eHealth, mobilcom-debitel extended its existing range of products at the end of February, initially in the digital lifestyle shops in Düsseldorf, Munich and Straubing, to include the mobile back exercise course "Valedo". The package contains two sensors for the back: They record the exercises of the user, and transmit them to a linked smartphone or to a pre-configured tablet which is also supplied. Valedo is available either in the form of a subscription for 35 euros per month with a two-year contract including a tablet or for a one-off price without a tablet of 299 euros.

In the TV and Media segment, the end of the first quarter of 2017 saw the start of commercial marketing of freenet TV – the new joint brand of freenet and the subsidiary Media Broadcast which was acquired in 2016. Since that time, high-definition TV images of approximately 20 private stations have only been able to be received via antenna in the core regions of Germany. This full-HD range of services of the private stations was initially available free-of-charge up to the end of the first half; after that time, a monthly fee of 5.75 euros was payable. In conjunction with the product start, the freenet TV USB stick with integrated DVB-T2 antenna was also launched on the market: It is targeted at users who wish to view full-HD quality on their notebook or PC with Windows; in April, the offering was extended to include MacBooks. This is the only stick which permits reception of private stations in addition to the public-sector stations – without requiring an Internet connection of the device for a monthly charge of 5.75 euros.

In the run-up to Christmas, freenet TV, Samsung and Disney jointly offered an entertainment package for the entire family: the product bundle for a considerably discounted price of 99 euros consists of a DVB-T2 receiver “Media Box Lite freenet TV”, a free year for freenet TV as well as a Disney-Store voucher for 20 euros; the Samsung receiver also provides access to freenet TV connect – with more than 40 additional free TV programmes, apps, catch-up services and stations of Radioplayer.de.

Commercial marketing of digital motion picture entertainment of EXARING – a further participation of freenet in the TV and Media segment – started in the third quarter of 2016 as waipu.tv. waipu.tv has been available in two options since that time: as a Comfort version with 25 hours of storage for 4.99 euros per month and as a Perfect version with 100 hours of storage for initially 14.99 euros – each with the option of monthly termination and with a free test month. With the aid of the free waipu.tv app and on the basis of the latest EXARING fibre-optic infrastructure, brilliant audio and video quality can easily be transferred to the user’s smartphone, and from there to the user’s TVs at home; the user can quickly change stations and programmes by simply swiping on the smartphone.

In the course of 2017, EXARING continuously extended the potential uses and contents of waipu.tv: for instance, the Amazon Fire TV stick or the Fire TV box extended Google Chromecast for use on the user's home TV - also in the multi-user and multi-room mode for several users and simultaneously on several TVs. In addition, waipu.tv has been provided with a free series recording function, the Amazon Alexa voice service as well as further programmes. These included the weekly highlights of the Bavarian league, as well as ´Rocket Beans TV` and also ´Sport1 US HD´ and ´Motorvision TV` - two pay-TV stations for US sports highlights and automotive refinement and motorsport. At the end of the year, the company permanently reduced its monthly charge for the Perfect package to 9.99 euros; the user is also able to book an option for mobile TV use.

Partnerships

In April, mobilcom-debitel commenced a co-operation with Sky Deutschland. Under the terms of this partnership, mobilcom-debitel will handle marketing of the various Sky subscriptions in its own shops, and will thus round off its full-service offering in the TV field.

In mid-2017, the company started its own accessory brand "freenet Basics" in co-operation with the accessory supplier Strax. This portfolio comprises articles for the smartphone and every-day digital life - with a focus on small products, such as charger cables, covers and cases, power banks and headsets. The aim of the partnership is to ensure that new product trends are integrated promptly in the portfolio and that extensive services regarding product availability and returns management are made available to the company's distribution partners.

In the TV and Media segment, waipu.tv together with Amazon started at the end of 2017 the three-week test series ´Watch & Shop` within the framework of T-Commerce – i.e. shopping during the TV advertising spots for users of the Fire TV stick: Clicking on a shopping button takes the user directly to the product site of the advertised article, where he can view further information and place an order immediately if desired. The test series comprised five major advertising partners on five broadcasting groups.

With more than 30 nation-wide and regional energy utilities as well as well-known eco providers, freenet Energy GmbH is one of the top-performing energy distributors among specialist retailers and at the point of sale in Germany. The various products are now distributed via the Group's own mobilcom-debitel shops, via co-operations with 5,600 retailers and via 400 large electronic stores, as well as via a wide-coverage online distribution network as well as in a direct distribution system with various partners. As the first service-certified energy distributor in Germany, the company addresses private as well as business customers with its products and services.

In the second half of 2016, the freenet subsidiary started to expand its portfolio to include strong regional brands; freenet Energy continued this strategy in 2017. The new co-operation partners include:

- Badenova, one of the strongest providers in the southwest of Germany – operating primarily in the government district of Freiburg im Breisgau. The public-sector owners of the company comprise the cities of Freiburg, Lahr, Lörrach and Offenburg as well as a total of around 100 municipalities in the Black Forest region. Badenova supplies private and commercial customers with nuclear-power-free electricity, natural gas, water and heat supplies.
- energis GmbH, a networked provider, with an equally strong regional presence, from the VSE Group in the Saarland, with a tradition of more than 100 years and experience in energy supply; the energis offering comprises electricity, gas, water and communication.

In April, freenet Energy started its own offering for the first time – in co-operation with SAVERO Energie. The exclusively developed products focus on the issues of ecology and sustainability: "freenet Energy green Austrian power" is obtained as an electricity product from renewable hydroelectric sources in Austria; "freenet Energy blue power" in turn is based on eco-gas, for which meaningful climate protection measures compensate for emissions arising as a result of gas consumption.

Sales activities

In February 2017, the discount subsidiary klarmobil started the new second brand "mobinio" as an additional sales platform – with three tariffs in the network of Vodafone and Deutsche Telekom:

- The mobinio Flat 3000 flatrate offers a voice and text flatrate for all German networks for 15.95 euros per month, as well as an Internet flatrate with a high-speed data volume of up to 3 GB with max. 21.6 mbps in downstream;
- With the mobinio Flat 4000 flatrate for 16.95 euros per month, the data volume is increased to 4 GB with max. 42.2 mbps, with otherwise identical conditions, and
- With the mobinio Flat 5000 flatrate for 17.95 euros per month, the data volume rises to 5 GB also with max. 42.2 mbps.

All three tariffs have a minimum contract of only one month and a one-off set-up fee of 29.95 euros.

In October 2017, mobilcom-debitel prolonged (ahead of schedule) the existing cooperation agreement with Media-Saturn Deutschland. The duration of the cooperation agreement is initially limited to a maximum of five years. The exclusive high-street sales of mobilcom-debitel products in the electronics stores of the co-operation partner complement and strengthen the activities of the subsidiary in the retail field.

At the beginning of 2017, die subsidiary GRAVIS opened digital lifestyle lounges of approximately 50 m² in major shopping malls in four German cities; presenting complex sound worlds with powerful devices, gadgets such as app-driven robots as well as innovative lighting concepts, SmartHome and SmartCare products. In addition, visitors were given the opportunity of obtaining live repair for their Apple devices, and were able to test and enjoy virtual reality scenarios in separate rest areas.

In the first half of 2017, the subsidiary Motion TM commenced a co-operation between its retail brand MOON and Review Bridge Research GmbH. The company operates the shopping portal "einfach.kaufen", which uses millions of aggregated product assessments to derive a buy recommendation for potential customers and to refer them to local high-street dealers; the latter can also be rated by customers and can then be found at "einfach.kaufen" by way of a "dealer review score".

In order to facilitate this listing, MOON Fachhandel developed "MultiCommerce", a cross-sector multi-channel solution for high-street outlets. These outlets thus benefit from the high-value online traffic, drawing customers from the Internet into their own shops. Within the framework of the co-operation with Review Bridge Research, the MOON partners are able to use the advantages of the review score free-of-charge for one year, and can also use their review score as an official seal at the PoS.

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. A major objective is to achieve long-term assurance of the company's competitive position in this dynamic market environment. In this connection, freenet AG in 2017 addressed the continuously changing market and customer requirements with its own mobile communications, mobile Internet and digital lifestyle product and service portfolio.

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

In the digital lifestyle growth market, the freenet Group expanded its product offensive in the course of 2017 with new offerings, focusing on the fields of entertainment, data security, home automation & security as well as eHealth. In the case of some products, the company is involved in the final phase of their development in order to guarantee maximum customer friendliness. At the same time, this also enhances the added value of the company achieved with the relevant products.

In addition, within the framework of IT-, strategy- and product development projects, the Group also carried out cash-effective investments totalling 18.5 million euros in 2017 (previous year: 18.7 million euros).

Employees

In the fiercely competitive Mobile Communications, Mobile Internet as well as TV and Media segments, the ability to attract and retain highly qualified employees and to provide basic and further training for them is a crucial factor of success for the company. In 2017, the freenet Group employed a total of 4,113 persons at 10 locations and also in the mobilcom-debitel shops and GRAVIS stores. In the field of vocational training and studies combining theory and practise, the freenet Group makes available more than 100 training places every year; these consist of a total of 12 training courses at more than 150 training locations. At the end of the year, the number of trainees in the freenet Group amounted to 322.

In addition, the ability to maintain the competence levels of employees and to ensure that they are continuously adapted to meet the challenges posed by current market and technology developments in a dynamic and digital environment also plays an important role. In this regard, 403 qualification measures have been held throughout the Group for employees in the form of specialist, method and competence training.

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 a comprehensive treasury management based on established controlling structures.

The capital structure is managed primarily through financial performance indicators consisting of debt ratio, interest cover and equity ratio.

The following overview shows the key indicators of financial management with their current figures compared with the previous year. For all periodic figures such as EBITDA and net interest income, the relevant period is the previous 12 months (January 2017 to December 2017 and January 2016 to December 2016).

Table 3: **Key figures of financial management**

	2016	2017	Target
Debt ratio	1.7	0.9	1.0 – 2.5
Pro forma debt ratio	3.2	2.5	-
Interest Cover	8.0	10.8	> 5
Equity ratio in %	32.7	33.9	> 50

The debt ratio indicates the relationship between financial debt (1,673.1 million euros) less liquid assets (322.8 million euros), less the Suisse Sunrise Communications Group AG (“Sunrise”) share of market value as of 31 December 2017 (11,051,578 shares multiplied by the closing price of 76.04 euros - source: Bloomberg) and the EBITDA generated within the past 12 months. As of 31 December 2017, the debt ratio was 0.9 (previous year: 1.7). The decline of the debt ratio is mainly attributable to the considerable increase in EBITDA and also to the increase in the share price of Sunrise. The debt primarily comprises borrowers' note loans with a total nominal value of 1,064.5 million euros which fall due upon final maturity between 2018 and 2026 as well as the syndicated amortising loan with a nominal value of 610.0 million euros which was concluded in October 2017.

The pro-forma debt ratio (financial debt less liquid assets in relation to the EBITDA generated in the last 12 months) is stated as 2.5, due to the acquisitions and equity participations of the previous year.

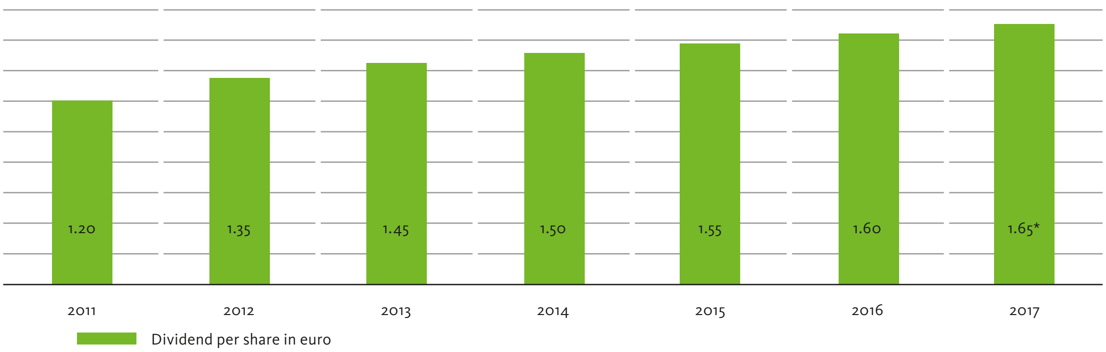
At 10.8, interest cover (ratio between EBITDA and net interest income) is higher than the corresponding previous-year figure (8.0), and is thus still higher than the target of 5.0 The change is mainly attributable to the borrower's note loan which was placed in October 2016 and which had a positive impact on interest expenses as a result of favourable interest rate conditions.

As of 31 December 2017, the equity ratio was below the target of 50 per cent; this is connected with the refinancing in the previous year.

The Executive Board remains committed to its financial strategy and thus also the objectives.

Concerning the derivation of the input value for the indicators, please refer to section "Definition of alternative performance measures" in this chapter.

Figure 7: **Dividend policy KPIs**



** The dividend will be paid out subject to the resolution of the annual general meeting in May 2018. Further information on the dividend can be found in the section "freenet AG and the capital markets".*

On 1 June 2017, freenet AG's annual general meeting decided to pay a dividend of 1.60 euros per eligible no-par-value share for the financial year 2016, representing a pay-out ratio of 60.0 per cent of free cash flow. The dividend was distributed to the shareholders on 6 June 2017 through Clearstream Banking AG, Frankfurt am Main, by way of the respective custodian banks and financial institutions. The payment 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 17 May 2018 the payment of a dividend for the 2017 financial year in the amount of 1.65 euros per no-par-value share from the cumulative profit. This corresponds to a payout ratio of around 62.0 per cent of free cash flow.

Definition of alternative performance measures

In order to illustrate the financial position and results of operations of the freenet Group, we use the following alternative performance measures (APM) which do not form part of the IFRS. Please note that these do not replace historical financial results, assets or liabilities of the company or other performance indicators defined by the company or IFRS figures, and therefore should not be viewed in isolation and should be considered to be additional information. Even though that management and investors commonly use APM for assessing the current operating performance and the company's debt situation, these are only meaningful to a limited extent when used as a sole analysis tool. In addition, even though they might use similar or even identical designations, the listed APM are not necessarily equivalent to the APMs used by other companies because of different calculation methods which may be used.

The alternative performance measures used by freenet AG are as follows:

- EBITDA and EBITDA excluding Sunrise
- EBIT
- Gross profit and gross profit margin
- Net debt, pro-forma net debt and related debt ratios
- Interest cover
- Free cash flow and free cash flow excluding Sunrise
- Equity ratio.

Special factors which have an impact on establishing some alternative performance measures result from the process of integrating and subsequently recognising business which has been acquired.

Definition and calculation of EBITDA and EBITDA exclusive Sunrise

EBITDA is a financial performance indicator of the freenet Group and is defined as earnings before interest and taxes, including the earnings elements of the companies included using the equity method (EBIT) excluding depreciation and deferred taxes resulting from the subsequent recognition of companies included using the equity method and including write-downs and impairments. The amortisations resulting from the subsequent recognition of the shadow purchase price allocation do not affect EBITDA. In this connection, please also refer to note 17 of the notes to the consolidated financial statements.

EBITDA excl. Sunrise corresponds to EBITDA less the recognised profit share of Sunrise.

Table 4: **Calculation of EBITDA and EBITDA exclusive of Sunrise**

In EUR `000s	1.1.2017-31.12.2017	1.1.2016-31.12.2016
EBIT	372,992	298,822
Depreciation and impairment write-downs	148,234	124,324
Recognition from purchase price allocation	19,969	15,678
EBITDA	**541,195**	**438,824**
Profit share Sunrise	-133,167	-36,493
EBITDA exclusive Sunrise	**408,028**	**402,331**

EBITDA is a non-GAAP figure which management uses for evaluating the business development and operational viability of the company.

Because the company is not able to influence the profit share of Sunrise, the Executive Board manages EBITDA without including profit share of Sunrise results (EBITDA excluding Sunrise). Accordingly, the budget-actual comparisons as well as the forecast of the financial performance indicator do not take account of the Sunrise profit share.

Definition and calculation of EBIT

EBIT is defined as the result before interest and taxes on income, including the profit shares of companies accounted for using the equity method.

Table 5: **Calculation of EBIT**

In EUR `000s	1.1.2017-31.12.2017	1.1.2016-31.12.2016
Operating result	260,831	277,803
Share of results of associates accounted for using the equity method	112,161	21,019
EBIT	**372,992**	**298,822**

Definition and calculation of gross profit and gross profit margin

Gross profit is defined as the balance of revenue and cost of materials. The gross profit margin represents the ratio between revenue and cost of materials.

Table 6: **Calculation of gross profit**

In EUR `000s / as indicated	1.1.2017-31.12.2017	1.1.2016-31.12.2016
Revenue	3,507,263	3,362,407
Cost of material	-2,557,501	-2,463,670
Gross profit	**949,762**	**898,737**
Gross profit margin in %	**27.1**	**26.7**

Definition and calculation of net financial debt, pro-forma net financial debt and related debt ratios

Net debt is defined as long-term and short-term financial debt shown in the balance sheet, less liquid assets, less the interest of the freenet AG in the market value of Sunrise as of the reference date. The latter adjustment has been carried out because the acquisition of shares in Sunrise ("Sunrise acquisition") in 2016 was financed entirely via the raising of new debt. Accordingly, after the Sunrise acquisition, it would not have made much economic sense to detail the net debt without including the interest held in Sunrise.

The market value of Sunrise is calculated by multiplying the closing price of the Sunrise share on the Swiss stock exchange by the number of shares held by the freenet Group (11,051,578) as of the relevant reference date. Swiss francs are converted into euros using an officially defined reference date rate based on data of Bloomberg.

Table 7: **Calculation of net financial debt**

In EUR `000s	31.12.2017	31.12.2016
Non-current borrowings	1,666,001	1,673,871
Current borrowings	7,145	60,302
Liquid funds	-322,816	- 318,186
Market value of Sunrise	-840,344	- 690,171
Net debt	**-509,986**	**725,816**

Pro-forma net debt is defined as long-term and short-term financial debt less liquid assets.

Table 8: **Calculation of pro-forma net financial debt**

In EUR `000s	31.12.2017	31.12.2016
Non-current borrowings	1,666,001	1,673,871
Current borrowings	7,145	60,302
Liquid funds	-322,816	318,186
Pro forma net debt	**1,350,330**	**1,415,987**

In general, net debt is a non-GAAP figure which is used by management for managing the financing structure of the Group. It is thus an integral part of Group-wide capital risk management, and is included in the calculation of the debt ratio and pro-forma debt ratio.

The debt ratio is calculated as the ratio between net debt and EBITDA generated in the last 12 months. This is also applicable for the pro-forma debt ratio; however, in this case, pro-forma net debt is used as the basis for calculating the ratio. The developments of the two figures as well as the target range are detailed in the section “Financial management”.

Definition and calculation of interest cover

Interest cover is the ratio between EBITDA and net interest income in the last 12 months. Net interest income is defined as the balance between “Interest receivable and similar income” and “Interest payable and similar expenses” in the consolidated income statement.

Table 9: **Calculation of interest result**

In EUR `000s	1.1.2017-31.12.2017	1.1.2016-31.12.2016
Interest payable and similar expenses	51,132	55,675
Interest receivable and similar income	-830	-809
Interest result	**50,302**	**54,866**

The development of this figure as well as the target range are detailed in the section “Financial management”.

Definition and calculation of free cash flow and free cash flow exclusive of Sunrise

Free cash flow is a financial performance indicator of the freenet Group and 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.

The free cash flow exclusive Sunrise corresponds to the free cash flow less the dividend received from Sunrise.

Table 10: **Calculation of free cash flow**

In EUR `000s	1.1.2017-31.12.2017	1.1.2016-31.12.2016
Cash flow from operating activities	385,356	389,649
Investments in property, plant and equipment and intangible assets	-61,118	-62,792
Proceeds from the disposal of property, plant and equipment and intangible assets	18,597	14,681
Free cash flow	**342,835**	**341,538**
Sunrise dividend	-34,409	-30,124
Free cash flow exclusive Sunrise	**308,426**	**311,414**

In addition to the presentation of EBITDA, this parameter is used as an indicator for showing the long term ability of the Group to generate cash.

Because the company is not able to influence the amount of the dividend of Sunrise, the Executive Board determines the free cash flow without including the Sunrise dividend (free cash flow exclusive Sunrise). Accordingly, the budget-actual comparisons as well as the forecast of the financial performance indicator do not take account of the Sunrise results elements.

Definition and calculation of the equity ratio

The equity ratio defines the ratio between equity and the balance sheet total, and is used as an additional measurement for an efficient modulation of corporate financing.

Table 11: **Calculation of the equity ratio**

In EUR `000s / as indicated	31.12.2017	31.12.2016
Shareholders` equity	1,462,901	1,402,267
Balance sheet total	4,314,123	4,284,759
Equity ratio in %	**33.9**	**32.7**

ECONOMIC REPORT

Macroeconomic conditions

The global economy achieved dynamic growth in the course of 2017. In its world economic outlook of October 2017 and as a result of the good development, the International Monetary Fund (IMF) upgraded its growth expectation for global gross domestic product (GDP) in 2017 to 3.6 per cent compared with 3.2 per cent in 2016. In view of the continuation of positive global economic conditions, the Organisation for Economic Cooperation and Development (OECD) also adjusted its forecast for growth in global gross domestic product in the full twelve-month period by 0.5 percentage points to the current figure of 3.6 per cent. However, the IMF has also identified considerable risks in an increase of protectionist measures and trends. Geopolitical crises in some countries might also have a negative impact on economies. And finally, there is also a risk of a slowdown in global economic growth – due to the high level of valuations on many capital markets and the simultaneously high levels of debt in several countries.

In the reporting period, growth was also recorded in the emerging and developing countries. Growth in China in particular was stronger than had been originally anticipated at the beginning of the year. The Chinese economy has been benefitting from strong growth in domestic demand. The economic recovery process in the industrialised countries also continued. Between January and December 2017, the US economy reported stronger growth than the corresponding previous-year figure. This was due mainly to the strong increase in private consumer spending as well as industrial output, which also expanded strongly compared with the previous year – also thanks to the relative stable situation on the oil and commodity markets.

For the Eurozone, the IMF and OECD in October and November 2017 respectively upgraded their estimates for GDP growth from 1.8 per cent in 2016 to 2.1 per cent in 2017 and from 1.8 per cent to 2.4 per cent in the same period. This expectation of a continuing economic upswing is justified with strong domestic and export demand in many European regions, and is also supported by the unchanged expansionary monetary policy of the European Central Bank (ECB). However, the separatist tensions in Catalonia might pose a risk for the Eurozone. Italy is also providing cause for concern, as the economy of the country does not yet appear to have fully recovered from the government debt and financial market crisis. The forecast for next year is also very uncertain, as it very much depends on the development, perspectives and result of the decision of the United Kingdom to leave the EU (Brexit). On the other hand, the economy in Greece in 2017 reported positive growth rates for the first time since that country's financial crisis.

Measured against the Eurozone, economic growth in Germany in 2017 was above average according to the Institut für Wirtschaftsforschung (ifo) – despite the negative effects arising from the relatively drawn-out process of forming a new government. Overall, growth is expected to accelerate further by 0.5 percentage points to 2.3 per cent. A major growth driver was private consumption, which in turn benefitted from favourable labour market and income conditions. In 2017 a pproximately 44.3 million persons were economically active in a job in Germany – this meant that the number of economically active persons set a new high for the twelfth year in succession. The good economy is also reflected in corporate sentiment, and the ifo business climate index accordingly rose almost to its all-time high as of 31 December 2017.

Telecommunications market 2017

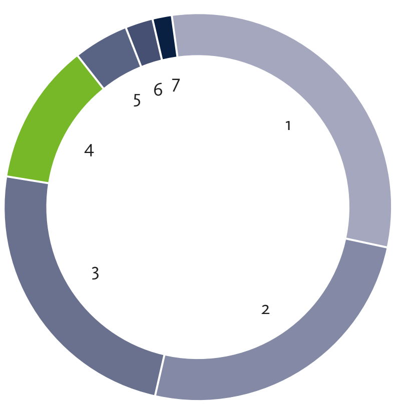
The trend which had been in evidence in previous years continued in 2017: Increasing digitalisation has been having a major impact on the telecommunications market and the competitors. As a result of slightly lower overall revenue in conjunction with stable investments, the sector is still facing numerous challenges in order to take account of the changes in end customer patterns. The increasing smartphone and mobile data use in conjunction with higher transmission speeds are significantly intensifying competition. Regulatory intervention by the Bundesnetzagentur (BnetzA) should have a positive impact in terms of accelerating the process of expanding fibre-optic networks to create similar penetration rates such as those seen in Spain or France. Fair competition is to be assured by the Roaming Ordinance which was issued in June 2017 and which prohibits the imposition of extra charges for call and data use in the EU as well as Iceland, Liechtenstein and Norway. Economic opportunities on the other hand are provided by digital growth fields, e.g. intelligent mobility, cloud services as well as the Internet of Things, which are likely to become more and more important in future years.

In October 2017, VATM published the “19th Telecommunication Market Analysis Germany 2017” in conjunction with the management consultant Dialog Consult. This analysis which was carried out in the course of the year shows that the German telecommunications market must expect to see a slight decline in 2017. Accordingly, total revenue for telecommunications services in Germany at the end of 2017 will decline by an estimated 1.5 per cent compared with the previous year, to 58.8 billion euros. Of this decline, 0.4 billion euros is attributable to land-line operations (revenue expected to be 0.4 billion euros lower than the corresponding previous year figure), and 0.5 billion euros is attributable to the mobile communications market, where Mobile Communications revenue is expected to be 26.2 billion euros at the end of 2017, compared with 26.7 billion euros in 2016.

Prof Dr Torsten J. Gerpott from Dialog Consult GmbH states that the decline in the German mobile communication market in 2017 is a result of lower charges for national termination or EU roaming, as a consequence of regulatory adjustments. Including the mobile providers without their own network (service providers), the mobile revenue continues to be spread over a total of six market players. Other providers are also shown separately for the first time. Only Deutsche Telekom was able to increase its position with a market share of 30.6 per cent (previous year: 30.3 per cent). On the other hand, Vodafone (with a market share of 25.2 per cent compared with the previous-year figure of 26.1 per cent) and Telefónica Deutschland (with a market share of 24.0 per cent compared with the previous-year figure of 25.0 per cent) both declined by approximately 1 per cent each.

The market share of other providers (e.g. service providers) increased from 18.6 per cent to 20.2 per cent in 2017. This means that freenet AG, with probably 11.8 per cent (previous year: 12.1 per cent), will continue to lead the third-provider market in Germany. 1&1 has recorded growth with a market share of 4.6 per cent (previous year: 3.8 per cent), whereas Drillisch saw a decline in its market share with 2.3 per cent (previous year: 2.7 per cent) according to the forecast.

Figure 8: **Mobile revenue according to network operators and third providers***

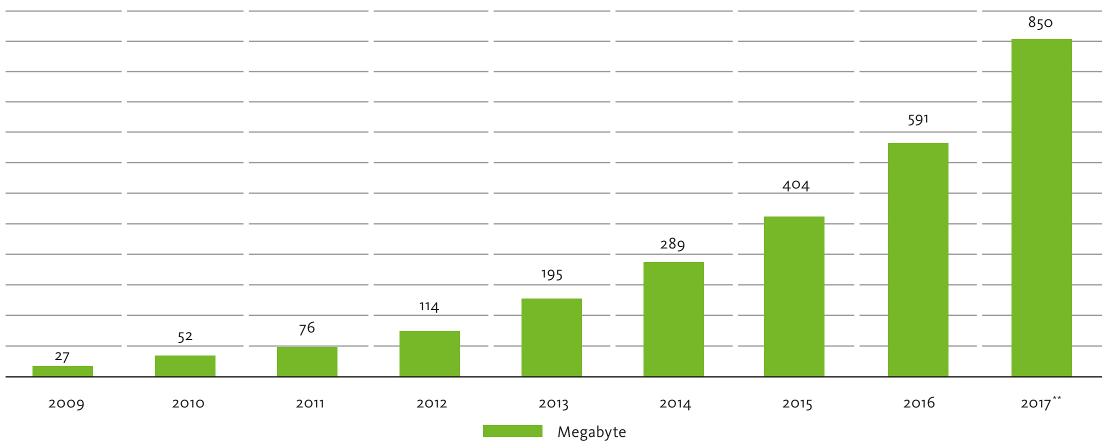


1 **30.6 %** Telekom Deutschland
2 **25.2 %** Vodafone
3 **24.0 %** Telefónica
4 **11.8 %** freenet AG
5 **4.6 %** 1&1
6 **2.3 %** Drillisch
7 **1.5 %** Further providers

** Source: Dialog Consult/VATM - 19. TK-Marktanalyse 2017*

According to the Federal Office of Statistics, prices for telecommunication services in Germany continue to decline; however, the trend since 2011 has been weakening. Between 2011 and 2016, there were signs of a slight recovery particularly for mobile prices. According to VATM and Dialog Consult, revenue generated with mobile data services in 2017 will account for more than half (50.4 per cent) of total revenue of the mobile network operators – in the previous year, this figure was approximately 44.9 per cent. The year 2017 will be the first time that more than one thousand million GB will probably be sent or downloaded by means of mobile devices, namely 1,350 million GB. The volume of data traffic in 2016 amounted to 902 million GB. The average data volume per SIM card per month increased by 43.8 per cent to an estimated 850 MB in the reporting year compared with 591 MB in 2016. On the other hand, analysts expect to see 309 million minutes per day in 2017, representing a reduction of 1 million minutes compared with the previous year. Accordingly, software-based call applications are expected to amount to 260 million minutes per day, representing an increase of 4 per cent compared with the previous year.

Figure 9: **Average data volume per SIM card and month* in Germany**



* *According to the source based on SIM cards.*

** *The value for 2017 is estimated.*

Source: *Dialog Consult/VATM - 19. TK-Marktanalyse 2017*

The significant increase in mobile data use illustrates the fact that market penetration with smartphones continues to rise in all user groups – according to a survey carried out by TNS Infratest, 85 per cent of 14- to 69-year-olds used an Internet-capable device in 2017. Of this figure, approximately 73 per cent of the persons surveyed used the smartphone for at least one minute per day for surfing in the Internet. According to the survey, the average daily duration of use is stated as 1.5 hours per day; indeed, the group of 14- to 29-year-olds spent an average of 2.5 hours online with the smartphone. A considerable amount of this time was spent by means of exchanging and communicating via instant messengers. The smartphone was also used for networks and video clips. Other elements of the Internet of Things also became more and more important, for instance smartwatches, activity trackers and virtual-reality glasses. According to TNS Infratest, three per cent of all users already wear a fitness wristband which consumes media content at all times and in all places.

However, the Ericsson Mobility Report which was published in June 2017 shows that Germany, in terms of its monthly data traffic per smartphone, ranked considerably lower than the European average of 2.7 GB in 2016; compared with the USA (5.0 GB per month), it does not even attain one fifth of the data volume which is usual in that country. According to the Swedish network provider, monthly data consumption per user will increase four-fold world-wide by the year 2022 – in Europe, this is estimated to be approx. 22 GB, and a figure of 26 GB per month per smartphone user is expected to be seen in the USA. According to the analysis, the number of world-wide mobile devices will increase by a further 1.5 billion from 7.5 billion in 2016 to 9 billion devices in 2022. Between 2016 and 2022, the number of smartphone users world-wide will increase from 3.9 billion to 6.8 billion. For Germany, VATM and Dialog Consult in October 2017 were still anticipating 135.0 million issued SIM cards and thus a probable increase of 5.2 million compared with the previous year. According to information provided by the Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V. (Bitkom), 54 million Germans in total will use a smartphone in 2017, compared with 51 million in 2016. This means that the number of users has more than doubled during the past five years – the increase in 2017 in the over-65 age group was particularly significant.

TV market 2017

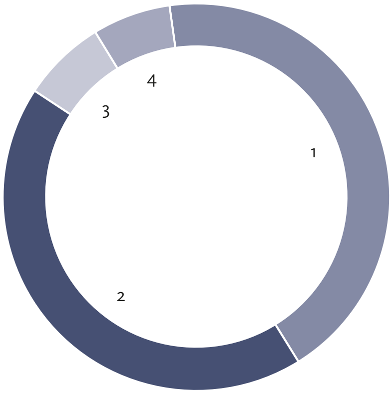
German TV market first showed signs of declining regarding the revenues in the financial year 2016 (-0.7 per cent); an equally slight increase in revenue is forecast for 2017. As reported by the auditing and consultancy company PricewaterhouseCoopers (PwC) in its annual German Entertainment and Media Outlook in the autumn of 2017, growth in the TV and home cinema market is predicted to be 11.6 billion euros, which is 0.1 billion euros higher than total revenue for 2016 and thus in line with the figure seen in the record year 2015. The main revenue drivers produced almost identical performances: TV reception contributions will continue to account for most of the entire volume, with a stable figure of 5.3 billion euros, whereas the revenue generated by all subscriber services constitutes the strongest growth segment of the TV market and is estimated to be 5.2 billion euros at the end of 2017. The German TV advertising market will probably also continue its continuous growth – PwC expects to see a new record of 4.8 billion euros in the financial year 2017 compared with 4.7 billion euros in 2016.

The German TV landscape is still undergoing extensive changes, primarily due to the increasing process of digitalisation and the associated stronger levels of motion picture consumption via the Internet. Whereas most of this content is made available free-of-charge to the Internet user, the year 2017 for the first time saw a virtual two-fold increase in the use of pay video-on-demand (VOD) services. These figures are based on a representative survey carried out by Kantar TNS in September 2017. This analysis also stated that traditional linear TV patterns will nevertheless remain stable over time. However, TV and video consumption will no longer take place exclusively in the user's living room at home – approximately of 41 persons covered by the survey stated that they also viewed audio-visual content when on the move.

The annual digitalisation report published by the media institutions in August 2017 also stated that the TV is still the most important screen device for over 14-year olds (33.3 per cent). This is followed by the smartphone with approximately 32.5 per cent, whereas laptops and PCs/desktops (each approx. 12 per cent) only play a minor role with regard to the consumption of motion pictures. The digitalisation report also differentiates between the different age groups: According to the report, there is a direct relationship between the importance of the traditional TV and the age of the user; on the other hand, the use of smartphones and laptops as the primary source becomes more important for younger-age groups.

The year 2017 saw a constant development in the direction of full digitalisation with regard to the distribution of TV reception methods. According to the report of the media institutions, only one in 20 TV households in Germany currently receive analogue TV; this represents a digitalisation ratio of more than 90 per cent for the first time. The number of cable connections remained constant with approximately 46 per cent, whereas satellite reception declined slightly by 0.8 per cent to also approximately 46 per cent of TV households. Even after the start of the process of shutting down the old DVB-T standard on 29 March 2017, 7.4 per cent of TV households still continue to receive the TV signal via antenna (previous year: 9 per cent). Approximately 75 per cent of these digital-terrestrial households or 5.5 per cent of TV households overall are therefore already using the new DVB-T2 HD standard. According to the digitalisation report, this third most important transmission channel for digital TV in Germany has become established as the changeover process has been constantly prepared and coordinated since the summer of 2014. This is because, compared with the previously completed digitalisation of cable as well as satellite reception, the "hard" shutdown of terrestrial frequencies meant that the parties involved had a period of only approximately 9 months in order to create the required reception conditions in the households. In June 2015, these frequencies were auctioned in Germany (the first time in Europe) to the three mobile communication operators Deutsche Telekom, Vodafone and Telefónica at the expense of radio so that it would be possible for high-speed Internet to be also guaranteed in weak coverage regions.

Figure 10: **Market volume German TV market 2017 (estimate)***



1	**45.9 %**	**[45.9 %]**	Cable
2	**45.7 %**	**[46.5 %]**	Satellite
3	**7.4 %**	**[9.8 %]**	Terrestrial
4	**6.9 %**	**[6.2 %]**	IPTV

** Information in square brackets indicate the corresponding previous year's figures.*
Total >100% due to multiple reception.
Source: die medienanstalten - Digitalisierungsbericht 2017

In particular, the opinion researchers of Kantar TNS have retrospectively stated that the process of approaching and providing timely information to households with regard to the DVB-T2 changeover which took place at the end of the first quarter of 2017 was successful. Accordingly, 69 per cent of the 2.1 million households which changed over to DVB-T2 HD were notified of the imminent change of the standard via the "TV" medium itself. Superimposed information banners in the current programme reached approximately 50 per cent of viewers. Approximately one third of all households was prepared for the changeover process by way of advertising spots for the new freenet TV platform and also via the traditional periodical and newspaper channel; more than 20 per cent of DVB-T users were notified of the changeover via friends and acquaintances, the Internet and radio (more than 20 per cent in each case). On the other hand, social networks played a minor role with regard to the announcement. Overall, most of the affected TV households were reached by two or more channels – only 9 per cent considered that they were inadequately informed.

With the new antenna TV, the private programme offerings can be received almost exclusively in HD quality. HDTV is thus continuing its success story. Three quarters of German TV households now have at least one HD-capable TV. The frontrunners in this respect are the IPTV users with HD reception potential of approximately 90 per cent, closely followed by 87 per cent of terrestrial households. The level of HD penetration is much lower among viewers with a satellite dish – according to the digitalisation report, 76 per cent of households possess a corresponding reception device in this case. In addition, "only" 71 per cent of cable users have so far been able to enjoy the higher-quality TV. However, overall, 7.1 per cent or almost 3 million households have plans to buy a new TV. On the basis of the trends which have been detailed, and for the next few years, PwC is forecasting a slight decline in the number of cable households and also a decline in the terrestrial reception channel up to the year 2021. On the other hand, a slight increase in the number of satellite dishes has been assumed. Thanks to progress made with technological developments, the strongest growth for IPTV is expected to be seen after four years. The revenue volume is also estimated to be much higher in 2021: Subscriber service revenue is expected to rise by 2.7 per cent per annum to 5.8 billion euros; of this figure, approximately 4.2 billion euros is attributable to pay-TV with an average growth rate of 8.7 per cent. On the other hand, radio revenue of the public-sector stations is expected to remain stable at 5.3 billion euros up to 2020. And finally, revenue generated by physical rentals and sales is expected to decline by 12.7 per cent to 619 million euros in 2021. There will be a significant decline in volume sales and rental of DVDs, and there will probably be only a minor decline in total revenue generated with Blu-rays. Overall, the future prospects for the entire TV and home cinema market are positive, so that, despite all opposite trends, revenue is expected to increase slightly to 12 billion euros in 2021.

Business performance

The Group can draw a positive conclusion from the financial year 2017: We have been able to meet the targets which we set ourselves with regard to the key performance indicators at the beginning of the financial year 2017.

Compared with the previous year, Total revenue has improved by 4.3 per cent from 3,362.4 million euros to 3,507.3 million euros – we have thus easily attained our target of reporting slightly higher revenue.

EBITDA which we achieved in 2017 amounted to 541.2 million euros, and is 102.4 million euros significant higher than the corresponding previous year figure of 438.8 million euros. Excluding the pro-rata results of our holding in Sunrise we generated an EBITDA of 408.0 million euros – which means that we have approximately met our original target (slightly above 410.0 million euros). A significant contribution to this was made by the 5.7 per cent increase in gross profit to 949.8 million euros.

Free cash flow, one of the most important management-relevant performance indicators in the Group, amounted to 342.8 million euros in the reporting period (previous year: 341.5 million euros). Even when the dividend of 34.4 million euros received from Sunrise is excluded, the forecast figure of 310.0 million euros has been realised. Net debt declined from 725.8 million euros as at 31 December 2016 to the current figure of 510.0 million euros at the end of financial year 2017.

Compared with the previous year, revenue in the Mobile Communications segment has increased by 2.3 per cent to 3,198.9 million euros, confirming our forecast of stable revenue. This development is mainly attributable to the increase in postpaid and no-frills customer ownership to 9.59 million customers at the end of 2017, representing an increase of approximately 60,000 customers compared with the previous year. As a result, the target of a slight increase in customer ownership was also reached. In the year under review, the monthly postpaid-ARPU amounted to 21.4 euros, and was exactly in line with the corresponding previous year figure (21.4 euros), thus meeting our original expectation.

Compared with the previous year (420.4 million euros), EBITDA in the Mobile Communications segment has increased by 22.2 per cent to 513.6 million euros. Excluding the profit share attributable to the participation in Sunrise, EBITDA amounted to 380.4 million euros (previous year: 383.9 million euros). The change is attributable mainly to a one-off effect in the previous year within the framework of the disposal of assets from "mds Repair/Service" in the amount of 3.3 million euros. We have thus achieved our target (namely stable EBITDA).

Compared with the previous year, revenue in the TV and Media segment has increased by 34.7 per cent to 294.8 million euros. Taking account of the different consolidation periods of the Media Broadcast Group acquired in the previous year (12 months in the financial year 2017 and 9.5 months in the financial year 2016), we have been able to meet our target of reporting slightly higher revenue in the TV and Media segment. The segment EBITDA generated for the financial year 2017 amounted to 40.2 million euros (previous year: 28.0 million euros), and has even exceeded our expectations of slightly higher EBITDA.

With regard to the non-financial performance indicators in the TV and Media segment, freenet TV reported approximately 975,000 subscribers as of the end of December 2017. This has considerably exceeded the target of more than 800,000 users planned for the end of the year. freenet TV ARPU amounted to 4.3 euros, and is roughly in line with our published prediction (4.5 euros). With regard to the IPTV product waipu.tv, the actual number of approximately 464,000 registered users was slightly lower than the target (more than 500,000), whereas the actual number of subscribers (approximately 102,000) was in line with the expected figure of more than 100,000.

Table 12: **Key performance indicators in 2017**

In EUR million / as indicated	2016	Forecast 2017	2017
Revenue	3,362.4	moderate increase	3,507.3
EBITDA exclusive Sunrise	402.3	slightly above 410.0	408.0
Free cash flow exclusive Sunrise	311.4	around 310.0	308.4
Customer Ownership in million	9.53	slight increase	9.59
Postpaid ARPU in EUR	21.4	stable	21.4
freenet TV ARPU in EUR	-	4.5	4.3
freenet TV subscribers	-	> 800,000	975,000
waipu.tv registered customers	60,000	> 500,000	464,000[1]
waipu.tv subscribers	7,500	> 100,000	102,000

These results confirm the company's strategic alignment as a digital lifestyle provider covering the mobile communications as well as the TV and Media 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 13: **Development of Mobile Communications customers**

In EUR million / as indicated	31.12.2017	31.12.2016	Change in %
Customer Ownership	**9.59**	**9.53**	**0.6**
Thereof Postpaid	6.71	6.51	3.0
Thereof No-frills	2.88	3.02	-4.6
Prepaid	2.24	2.53	-11.6
Mobile Communications customers/cards	11.83	12.06	-1.9

As has been the case in previous years, the processes of attracting new customers and managing existing customers in our core business of mobile communications will again be characterised by two assumptions in the financial year 2017: the establishment of long-term customer relations as well as the consistent expansion of the Digital Lifestyle segment. The result of this strategy will be a further increase in the non-financial performance indicator Customer Ownership which is important for the company. Compared with the figures for the previous year, the numbers have increased by approximately 60,000 customers from 9.53 million to 9.59 million. This is equivalent to growth of approximately 0.6 per cent.

The main factor behind this positive development is the further strong increase in the number of postpaid customers. The number of customers with 24-month contracts in this strategically most important group rose to 6.71 million by the end of the reporting year (previous year: 6.51 million). This is equivalent to an increase of 3.0 per cent or approximately 200,000 users. This development was underpinned by a targeted approach to customers through all sales channels in high-street retailing and on the mobilcom-debitel website, as well as through continuous optimisation of the freenet Group's customer management.

The number of no-frills customers amounted to 2.88 million at the end of 2017, and had thus declined by approximately 138,000 compared with the corresponding previous-year figure of 3.02 million. This development mainly reflects the impact and the requirements of the registration obligation on the process of attracting new customers.

1 Exclusive of about 76,000 pre-registered customers.

The number of prepaid cards issued in the financial year ended again decreased and amounted to 2.24 million as of the end of the year (previous year: 2.53 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 resulting from the Anti-Terrorism Act when purchasing prepaid cards after July 2017.

Accordingly, the total number of mobile communication customers declined by approximately 233,000 customers, namely from 12.06 million in the previous year to 11.83 million at the end of December 2017.

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

The development of postpaid ARPU also demonstrates the success of our strategy of focussing on valuable customers for the purpose of signing up new customers and managing existing customers. In the financial year 2017, we again succeeded in stabilising postpaid ARPU at the level of the last three years (21.4 euros).

No-frills ARPU increased by 0.4 euros to 2.8 euros compared with the previous year. Following declines in the past two years (which have been considerable in certain cases) as a result of the fierce price pressure in the discount market segment, there is also evidence of a positive development in ARPU in this customer group.

The monthly average revenue per prepaid customer (prepaid ARPU) in the financial year 2017 (3.1 euros) was in line with the previous year's level (3.1 euros).

Table 14: **Monthly average revenue per customer in the mobile communications segment (ARPU)**

In EUR	2017	2016
Postpaid	21.4	21.4
No-frills	2.8	2.4
Prepaid	3.1	3.1

Digital Lifestyle

In addition to optimising its core business of mobile communications the freenet Group has been concentrating on the still young growth sector of internet-based mobile applications for private customers since 2013. 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 markets modern, digital entertainment formats and services.

Customer development in the TV and Media segment

Table 15: **Customer development in the TV and Media segment**

In '000s	31.12.2017	31.12.2016
freenet TV subscribers	974.6	-
waipu.tv registered customers[1]	463.6	60.2
waipu.tv subscribers	102.3	7.5

As a result of breaking into the TV business, freenet AG now addresses a third segment which represents an addition to the attractive digital lifestyle growth market.

There has been a very positive development in the number of customers since the start of freenet TV as a new brand and commercial provider on 29 March 2017. Approximately 160,000 paying customers had been registered at the end of March 2017. The number of subscribers increased to approximately 500,000 by 30 June, and met the target for the whole of 2017 on 30 September with approximately 875,000. This positive development continued in the final quarter of the financial year 2017, enabling freenet to report approximately 975,000 freenet TV subscribers as of 31 December.

The digital motion picture entertainment of the freenet majority holding EXARING entered the pre-launch sales phase with the product waipu.tv at the end of 2016. After the actual launch in March 2017, EXARING has continuously improved and expanded the use and contents, and it has thus also been possible for a positive development in customer numbers to be reported for this product. At the end of 2017, approximately 464,000 users had decided to use the waipu.tv product and had registered (previous year: approximately 60,000). The number of subscribers is approximately 102,000 (previous year: approx. 7,500), and has accordingly met the target of more than 100,000 subscribers for 2017.

Monthly average revenue per user (freenet TV subscribers)

With the launch of the new DVB-T2 standard, high definition TV images of approximately 20 private stations in the core regions of Germany can now only be received via antenna in encrypted form. This service was free until the end of the first half of 2017; since that time, a monthly charge of 4.80 euros (5.75 euros incl. VAT) has been levied. Taking account of the initial free months, freenet TV ARPU has been constantly rising in recent months, peaking at 4.3 euros in December 2017.

Table 16 : **Monthly average revenue per user in the TV and Media segment (ARPU)**

In EUR	2017	2016
freenet TV	4.3	-

1 Exclusive of about 76,000 pre-registered customers.

Assets, earnings and financial position

Revenue and earnings position

Table 17: **The Group's key performance indicators**

In EUR `000s	2017	2016	Change
Revenue	3,507,263	3,362,407	144,856
Gross profit	949,762	898,737	51,025
EBITDA	541,195	438,824	102,371
EBITDA exclusive of Sunrise	408,028	402,331	5,697
EBIT	372,992	298,822	74,170
EBT	322,690	243,956	78,734
Group result	**275,574**	**216,420**	**59,154**

GROUP REVENUE increased by 4.3 per cent compared with the previous year from 3,362.4 million euros to 3,507.3 million euros. Compared with previous year, revenue in the TV and Media segment increased by 75.9 million euros to 294.8 million euros in the reporting year. In addition, revenue in the Mobile Communications segment increased by 72.9 million euros compared with the previous year, to 3,198.9 million euros, primarily due to a higher customer ownership (31 December 2017: 9.59 million customers – previous year: 9.53 million customers) in conjunction with a stable postpaid ARPU (for 2017 and also for the previous year: 21.4 euros in each case) as well as higher digital lifestyle revenue.

The **GROSS PROFIT MARGIN** improved by 0.4 percentage points to 27.1 per cent. At 949.8 million euros, the gross profit has increased by 51.0 million euros compared with the figure reported for the previous year. Both developments are primarily connected with the segment TV and Media contributing 166.4 million euros to the group gross profit (previous year: 110.8 million euros). It has to be borne in mind that the Media Broadcast Group which was acquired in March 2016 is only reflected for nine and a half months in the gross profit of the previous year.

OTHER OPERATING INCOME declined compared with the previous year period by 5.6 million euros to 54.9 million euros. The change is mainly attributable to the one-off income generated in the previous year within the framework of the disposal of assets from "mds Repair/Service" in the amount of 3.3 million euros.

THE OTHER CAPITALISED OWN WORK relates to internally generated software, and at 18.5 million euros is roughly in line with the corresponding previous-year figure (18.7 million euros).

PERSONNEL EXPENSES have increased by 5.2 million euros, from 220.4 million euros in the previous year to 225.7 million euros. This development is mainly attributable to the Media Broadcast Group which was acquired in March 2016 and which is included for only nine and a half months in the personnel expenses of the previous year. The personnel expenses in the TV and Media segment have increased by 16.8 million euros to 65.0 million euros, whereas they have declined in the Mobile Communications segment by 13.8 million euros to 125.2 million euros, mainly due to the outsourcing of the customer service to Capita.

OTHER OPERATING EXPENSES increased compared with the previous year level by 33.0 million euros to 388.5 million euros. On the one hand, the changing over to the new antenna standard DVB-T2 HD resulted in higher marketing expenses; on the other hand, the outsourcing of business processes in customer service to Capita increased the appropriate costs.

Apart from marketing and outsourcing costs, the other operating expenses comprised mainly administration costs (e.g. rents and incidental costs of the shops and administration building), costs of impairments and bad debts, legal/consultancy fees as well as costs of billing.

The **RESULT OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD** of 112.2 million euros (previous year: 21.0 million euros) is almost exclusively attributable to Sunrise. A figure of 113.2 million euros (previous year: 20.8 million euros) is disclosed as of 31 December 2017 for the result attributable to Sunrise; of this figure, 133.2 million euros relates to shares in the group earnings of Sunrise after tax (previous year: 36.5 million euros) and -20.0 million euros is attributable to the subsequent accounting of the shadow purchase price allocation (previous year: -15.7 million euros) The increase in the share of results of the equity participation in Sunrise is due to the considerable improvement in the group result of Sunrise after tax - mainly due to the one-off profit of Sunrise of 420 million Swiss Francs attributable to the sale of Swiss Towers AG to a syndicate of buyers. In the run-up to this transaction, Sunrise had spun off the passive network infrastructure (antenna masts) to Swiss Towers AG.

EBITDA in the financial year 2017 is stated as 541.2 million euros, which is 102.4 million euros higher than the corresponding previous-year figure. Without recognising the shares of profit of the participation in Sunrise of 133.2 million euros, EBITDA is reported as 408.0 million euros (previous year: 402.3 million euros). In the reporting year, the Mobile Communications segment contributed 513.6 million euros to EBITDA (including 133.2 million euros relating to the participation in Sunrise; previous year: 420.4 million euros, including 36.5 million euros relating to the participation in Sunrise); the TV and Media segment contributed 40.2 million euros (previous year: 28.0 million euros) and the Other/Holding segment contributed -12.6 million euros (previous year: -9.6 million euros).

DEPRECIATION AND AMORTISATION increased by 23.9 million euros to 148.2 million euros, compared with the previous year. The change is due to the higher depreciation and amortisation in connection with the partial sale of VHF infrastructure in the TV and Media segment. In addition, the Media Broadcast Group which was acquired in March 2016 is only included for nine and a half months in the depreciation, amortisation and impairments of the previous year.

NET INTEREST INCOME, i.e. the difference between interest income and interest expenses, is disclosed as -50.3 million euros in the reporting period (previous year: -54.9 million euros). The positive development in net interest income is essentially attributable to the borrower's note loan placed in October 2016, which had a positive impact on interest expenses in conjunction with more favourable interest conditions.

This has resulted in **EARNINGS BEFORE TAX** of 322.7 million euros in 2017 – representing an increase of 78.7 million euros compared with the previous year (244.0 million euros).

INCOME TAX EXPENSES increased by 19.6 million euros compared with 2016 to 47.1 million euros. The current tax expenses have declined by 5.2 million euros compared with the previous year, to 27.3 million euros. Expenses of 19.8 million euros (previous year: income) from deferred taxes has also been netted in this position (previous year: 5.0 million euros). The increase in the deferred taxes is essentially attributable to higher write-downs recognised in relation to deferred income tax claims in connection with tax loss carry-forwards as well as temporary differences between the figures shown for assets under IFRS and tax law.

In consequence, **GROUP EARNINGS** after tax increased by 59.2 million euros, from 216.4 million euros in 2016 to 275.6 million euros in 2017.

Assets and financial position

Table 18: **Selected Group balance sheet figures**

Assets

In EUR million	31.12.2017
Non-current assets	3,440.3
Current assets	873.9
Total assets	**4,314.1**

In EUR million	31.12.2016 adjusted*
Non-current assets	3,421.0
Current assets	863.8
Total assets	**4,284.8**

Shareholders' equity and liabilities

In EUR million	31.12.2017
Shareholders' equity	1,462.9
Non-current and current liabilities	2,851.2
Total equity and liabilities	**4,314.1**

In EUR million	31.12.2016 adjusted*
Shareholders' equity	1,402.3
Non-current and current liabilities	2,882.5
Total equity and liabilities	**4,284.8**

** The previous year figures have been adjusted in line with the new disclosure structure. Please refer to note 2.17, Comparative figures, in the notes to the consolidated financial statements.*

The **BALANCE SHEET TOTAL** as of 31 December 2017 amounted to 4,314.1 million euros, and thus increased by 29.4 million euros (0.7 per cent) compared with the previous year (4,284.8 million euros).

NON-CURRENT ASSETS have increased by 19.3 million euros to 3,440.3 million euros (31 December 2016: 3,421.0 million euros). The companies included in accordance with the equity method increased by 65.9 million euros to 811.0 million euros, mainly due to the interest in the higher consolidated net income of Sunrise after tax in the amount of 133.2 million euros. At this point, please refer to our comments to note 17.1 Associated companies, in the notes to the consolidated financial statements.

The increase of 37.3 million euros in intangible assets to 563.5 million euros is mainly attributable to the prolongation of the exclusive sales co-operation with Media-Saturn Deutschland last year and the associated distribution right. Please refer to note 2.2, Intangible assets in the notes to the consolidated financial statements.

The decline of 57.3 million euros in property, plant and equipment to 435.8 million euros is mainly attributable to the reduction in service lives within the framework of the sale of VHF infrastructure in conjunction with lower investments.

The decline of 20.7 million euros in deferred income tax receivables compared with the previous-year reference date, to 153.5 million euros, is mainly attributable to the increase in deferred tax assets in connection with tax goodwill which is recognised in the Media Broadcast Group and also the amortisation in relation to deferred income tax receivables from tax loss carry-forwards.

CURRENT ASSETS increased slightly by 10.1 million euros to 873.9 million euros (31 December 2016: 863.8 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 453.7 million euros as at 31 December 2017, 14.9 million euros higher than the previous year's figure. Most of the increase is attributable to receivables due from network operators, dealers and distributors.

LIQUID ASSETS are stated as 322.8 million euros as of 31 December 2017 (31 December 2016: 318.2 million euros). Whereas the Group reported an inflow of 385.4 million euros for cash flow from operating activities in 2017, it reported outflows of 42.1 million euros for cash flow from investing activities and 338.6 million euros for cash flow from financing activities.

On the liabilities' side of the balance sheet, there has again been an increase in **EQUITY**. As of 31 December 2017, equity is stated as 1,462.9 million euros (31 December 2016: 1,402.3 million euros). The increase of 60.6 million euros resulted in the amount of 275.6 million euros from the Group's net income for the financial year 2017 and in the amount of -204.8 million euros from the dividends for the financial year 2016 that were paid out in 2017.

The equity ratio accordingly increased from 32.7 per cent as of 31 December 2016 to 33.9 per cent as of 31 December 2017.

Total non-current and current debt declined by 31.3 million euros to 2,851.2 million euros.

As of 31 December 2017, **FINANCIAL DEBT** was again the major item within **NON-CURRENT AND CURRENT LIABILITIES**, but declined from 1,734.2 million euros in the previous year to 1,673.1 million euros. The decline in financial debt is mainly attributable to the partial repayment of the borrower's note loan from 2012 in the amount of 64.5 million euros (nominal). In the financial year 2017, the bridge financing facility which was raised in the previous year (consisting of a tranche of 610.0 million euros and a revolving credit facility of 100.0 million euros) was replaced by a syndicated five-year bank loan with a total volume of 710.0 million euros. The first tranche of the syndicated bank loan consists of an amortising loan (due upon final maturity of 610.0 million euros); interest is applied at a variable rate with an initial margin of 1.6 per cent. The second tranche has a volume of 100.0 million euros; interest is also applied at a variable rate, with an initial margin of 1.4 per cent. It is designed as a revolving credit facility.

NET DEBT declined to 510.0 million euros as of 31 December 2017 (31 December 2016: 725.8 million euros). In the case of this indicator, the financial debt is reduced by the liquid assets and the interest in the market value of Sunrise as of 31 December 2017 (11,051,578 shares multiplied by the closing price of 76.04 euros – source: Bloomberg). The decline in net debt is mainly attributable to the increase in the share price of Sunrise. Accordingly, the debt ratio, fell further from 1.7 in 2016 to 0.9 in 2017. In this context, please refer to the statements in the chapter "Financial management" in this Group management report.

The current income tax liabilities have declined by 13.0 million euros compared with the previous year, to 33.8 million euros as of the balance sheet date, primarily as a result of payments for previous years.

The decline of 12.2 million euros in the other provisions to 75.9 million euros is attributable to the significant decline in the provisions for decommissioning obligations within the framework of the sale of VHF infrastructure.

This was opposed by the increase in the other financial liabilities from 343.6 million euros in the previous year to 381.3 million euros – mainly due to the liabilities relating to the prolongation of the exclusive sales co-operation with Media-Saturn Deutschland GmbH last year.

In addition, as of 31 December 2017, the other liabilities and deferred items are stated as 81.8 million euros (31 December 2016: 61.4 million euros); the increase is due to deferrals relating to the reference date in connection with TV operations.

Cash flow

Table 19: **The Group's key cash flow indicators**

In EUR million	2017	2016	Change
Cash flow from operating activities	385.4	389.6	-4.3
Cash flow from investing activities	-42.1	-862.4	820.3
Cash flow from financing activities	-338.6	521.2	-859.8
Change in cash and cash equivalents	**4.6**	**48.4**	**-43.8**
Free cash flow [1]	**342.8**	**341.5**	**1.3**

With respect to the comparison period, the **CASH FLOW FROM OPERATING ACTIVITIES** declined by 4.3 million euros to 385.4 million euros. Excluding the non-cash-effective earnings elements from the associated company Sunrise (133.2 million euros), EBITDA has increased by 5.7 million euros compared with the previous year. In the financial year 2017, freenet AG received a dividend payment of 34.4 million euros as a result of the dividend payment of 3.33 CHF per share adopted in the annual general meeting of Sunrise on 11 April 2017. Net working capital increased in 2017 by 25.6 million euros, compared with an increase of 3.8 million euros in the previous year. The increase of 25.6 million euros in net working capital can be

1 For a definition of free cash flow see section "Definition of alternative performance measures".

attributed mainly to the cash-effective reduction in liabilities and accruals vis-à-vis distribution partners arising from distribution rights as well as the increase in receivables due from network operators as well as dealers and distributors. This has been opposed mainly by the volume of factoring of mobile option receivables, which increased by 22.1 million euros compared with 31 December 2016 – please refer in this respect to note 32.6, Transfer of financial assets.

In addition, there were net cash outflows in the financial year 2017 amounting to 30.1 million euros (previous year: 40.0 million euros) that resulted from income tax payments and refunds.

In 2017, the **CASH FLOW FROM INVESTING ACTIVITIES** developed from -862.4 million euros in the previous year to -42.1 million euros. The change is mainly attributable to the outflows in the previous year for the acquisition of the shares in Sunrise as well as the Media Broadcast Group.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets, fell in 2017 by 5.6 million euros compared with the previous year from 48.1 million euros to 42.5 million euros. The cash-effective investments were financed entirely out of the company's own resources, and mainly related to property, plant and equipment of the Media Broadcast Group. The increase in inflows from the disposal of assets from 14.7 million euros in the previous year to 18.6 million euros in the reporting year is mainly attributable to the partial sale of VHF infrastructure of the Media Broadcast Group.

On the occasion of the shares in the capital of EXARING being increased to 50.01 per cent in the financial year 2017 (31 December 2016: 24.99 per cent), there were no cash outflows as the consideration for the acquisition of the additional shares had been paid into the already fully consolidated EXARING.

Compared with the corresponding previous year period, **CASH FLOW FROM FINANCING ACTIVITIES** developed from 521.2 million euros to -338.6 million euros.

The change is mainly attributable to the repayment of the corporate bond in the previous year and the raising of financial debt as part of the acquisition of the Media Broadcast Group as well as the shares in Sunrise.

Dividend payments had a negative impact on the cash flow from financing activities in the financial year ended in the amount of 204.8 million euros (previous year: 198.4 million euros).

The repayments of 64.6 million euros in relation to financial debt relate mainly to the scheduled partial repayment of the borrower's note loan from 2012 in the amount of 64.5 million euros (nominal). There were also repayments of 24.4 million euros relating to the framework rental agreement of the Media Broadcast Group classified as a finance lease. Please refer to note 25, Trade accounts payable, other liabilities and accruals.

In the reporting year, the interest payments declined from 68.1 million euros to 42.9 million euros, mainly as a result of improved interest conditions.

FREE CASH FLOW amounted to 342.8 million euros in the financial year 2017 – it thus increased by 1.3 million euros compared with 2016. Excluding the dividend payment from our participation in Sunrise, free cash flow amounted to 308.4 million euros (previous year: 311.4 million euros).

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No events of major significance for the freenet Group have occurred after the balance sheet date. In this connection, please also refer to note 35 of the notes to the consolidated financial statements.

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 freenet Group. 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. At these meetings, not only current themes, but also future internal and external developments, measures and potential opportunities are discussed. The identification, analysis and communication of the opportunities, as well as their exploitation, is a commercial (management) task that is performed by the Executive Board, the responsible managers in the individual business areas and units, and the relevant decision-makers in a process of permanent communication.

freenet AG sets itself the objective of performing a pioneering role in all areas of digital lifestyle and of successfully defending this role. For this reason, freenet AG and its subsidiaries continued the strategy of focusing on mobile voice and data services and the marketing of digital lifestyle products with a careful and consistent approach. Apart from customer quality and the stabilisation of the contract customer base, the focus of commercial activity in the marketing of smartphones and flat-rate tariffs was mainly the expansion of the TV and Media segment. The existing digital lifestyle product and service portfolio has thus been continuously expanded.

As a consistent continuation of its digital lifestyle strategy, freenet AG completed the process of breaking into the new TV and Media segment with the acquisition of the Media Broadcast Group and the equity participation in EXARING. In 2017, freenet AG increased its holding in EXARING to 50.01 per cent, thus becoming the majority shareholder. The entry into the new field of terrestrial and internet-based TV is providing the company with the opportunity of achieving further diversification in the digital lifestyle field and of developing new growth potential and sources of revenue. The company considers that this is an opportunity to establish a further relevant mainstay in addition to its core business of Mobile Communications. The expansion of the possibilities of using waipu.tv on Amazon Fire TV as well as the extension of the station and content offerings are important steps along the way towards constantly higher market penetration. In connection with the launch of freenet TV, freenet AG stepped up the intensity of its product, sales and marketing activities. The new offerings include the freenet TV USB stick with an integrated DVB-T2 antenna enabling the use of full-HD on the user's notebook or PC with Windows and also on Apple MacBooks.

The end of 2016 saw the start of commercial marketing of digital motion picture entertainment of EXARING with waipu.tv; the potential uses and contents of this service were continuously expanded in the course of 2017. The Amazon Fire-TV stick and the Fire-TV box are offered as alternatives to Googles Chromecast; further new features are the free function of series recording, the extension of the station portfolio as well as the inclusion of waipu.tv in the StreamOn catalogue of Deutsche Telekom.

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

- Increasing readiness of customers to pay for mobile communication devices
- Continuation of the trend towards mobile Internet and data use via smartphone, tablet and PC
- Trend towards higher-priced devices (smartphones) and concomitant increased use of flat-rate products Trend towards the interconnection of products ("Internet of Things", "integrated product landscapes") with new possibilities in digital lifestyle
- Changed consumption patterns for motion pictures and trend towards individually designed TV programmes via streaming services
- Increasing demand for bundle products (e.g. mobile communications and TV)
- Potential from combining customer groups from the individual segments (cross-selling)

In addition to the development of the TV and Media segment, the effects of the increased mobile internet and data usage and the associated trend towards higher-priced flat rate products could lead to a stronger increase in customer ownership than expected, although overall, the latter tends to be regarded as rather improbable.

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

Internal opportunities for freenet AG could emerge in particular from:

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

The assessment and implementation of strategic options in the mobile communications and the digital lifestyle areas, the implementation and marketing of new, innovative products and the enhancement of our own selling power could have a positive effect on the development of the underlying financial performance indicators and hence exceed our expectations. A stronger 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.

klarmobil revised its tariff portfolio at the beginning of 2017. The monthly charges of the existing old tariffs were reduced, and customers are able to enjoy greater flexibility with regard to determining the lengths of their contract. The new klarmobil brand “mobino” was launched in February 2017. Callmobile also changed its tariffs in mid-2017; in future, customers will be able to choose between three options which are less expensive than was previously the case.

If the brands perform more strongly 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 digital lifestyle applications was accelerated further. This Group-level orientation of business activities will be pursued consistently in the future as well, as the trend towards the continuing digitalisation and interconnection of products and services will carry on into the future. In this connection, we continue to see growth opportunities, potential synergy and opportunities for new strategic partnerships with regard to rendering digital lifestyle services. As a result of the co-operation with our new accessories supplier Strax, new trends and products can be made available more quickly for our customers in our shops, and further revenue opportunities can be realised. 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.

With the possible sale of its VHF antennae, the Media Broadcast Group has the opportunity to generate a further book profit.

The Sunrise Communications Group might sell further parts of its infrastructure; this might mean that the contributions to earnings might be more positive than originally predicted.

Overall evaluation of the opportunities situation

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

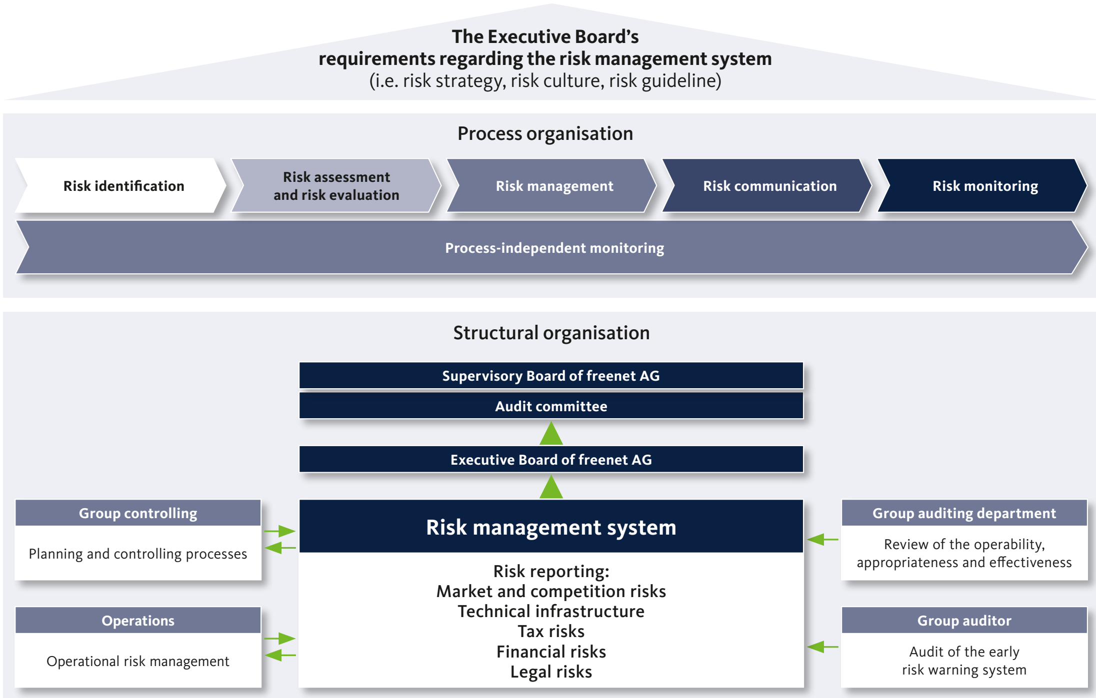
Both external and internal opportunities that had basically remained at the same level since the previous year were identified. The significance of the opportunities shown and the resulting positive effects on the forecast financial and non-financial performance indicators, and therefore on the development of freenet AG as a whole, are collectively rated as low. The management is therefore expecting the 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 executives of the Group and communicated in a systematic, transparent manner to the responsible decision-makers in the company. The timely communication of risks to the responsible decision-makers is designed to ensure that appropriate steps are taken to deal with the identified risks, thereby averting damage to our company, our employees and our customers.

To this end, the freenet AG Executive Board has set up within the Group an efficient early warning, monitoring and management system 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.

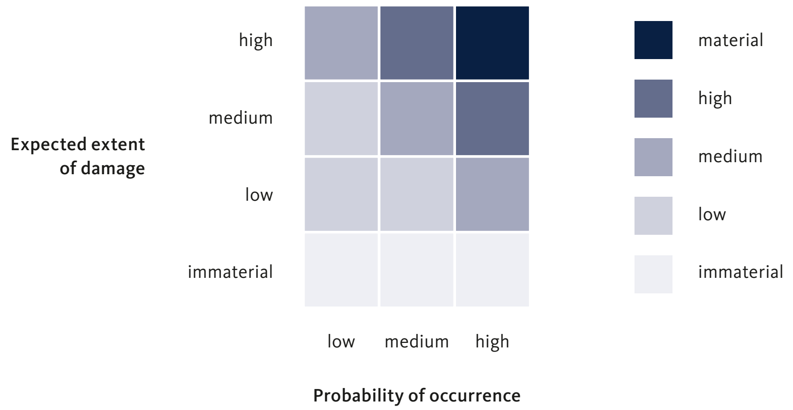
Figure 11: **Process and structural organisation of freenet AG's risk management system**



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 consider the probability of their occurrence, as well as their implications for the company, on the basis of standardised criteria (risk analysis and assessment).

The risks within freenet AG are assessed in accordance with the net principle, by which the risk is observed in conjunction with the impact of any risk mitigation measures 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 to 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 be able to react appropriately to the identified risks (risk control and risk monitoring). The individual risk reports are consolidated into a Group risk report and forwarded 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 internal control system (ICS) of freenet AG also provides further support for the risk management system. Formally documented controls are used to provide protection against internal risks. The Supervisory Board, in particular freenet AG's audit committee, monitors the effectiveness of the risk management system and the internal control 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).

Risk report

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, strategic risks and operating 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 could 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 and services attractively, market them successfully and carry out customer retention activities. In addition, freenet AG must respond flexibly to the development of the competition's business and anticipate new customer requirements. This involves a medium risk for the achievement of the company's goals.

Network operators

Bonus payments and commissions of the network operators form part of the revenue of freenet AG. Reducing these network operator premiums may increase capital commitment and marketing risk. This aspect constitutes a medium risk for freenet AG. Freenet AG is trying to minimise the risk by negotiating flexible purchasing terms and by continuously monitoring goal attainment for premium payments and renegotiating as and when necessary.

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

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. 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 network operators remaining after the merger to the detriment of all service providers. Any coordinated action of these three network operators might mean that they would be less willing to negotiate and that freenet AG would find it more difficult to achieve positive negotiation results. The network capacity provided by Telefónica Deutschland to another market player without its own mobile network will probably be marketed quite aggressively. freenet AG has gained a certain amount of protection as a result of the duration of the own agreements with Telefónica up to 2025. 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.

Distribution

As a countermeasure with regard to the loss of distribution partners, freenet AG concludes long-term contracts with its main distribution partners and offers them attractive incentive systems (e.g. Airtime models). As a result of its co-operation with the Media-Saturn Deutschland which was prolonged in 2017, freenet AG has been able to assure its strengths in high-street distribution for the next few years. An additional possibility of maintaining and expanding existing distribution channels is to be seen in the acquisition of further franchise partners. freenet AG considers that this risk of loss of distribution channels is of a minor nature.

Law 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.

Regulation of EU roaming

The implementation of the new EU Roaming Directive (“Roam like at Home”) will result in the risk that the network operators will charge wholesale costs for the roaming service despite lower end user revenue. To combat this risk, negotiations are held with the network operators for ensuring cost-neutral implementation of the roaming regulations. The risk has been classified by freenet AG as immaterial.

Risks in the TV market

The acquisition of the Media Broadcast Group which took place in 2016 means that the company is facing the risk that customer demand for the product freenet TV might be less strong than originally anticipated. This represents a medium risk for freenet AG.

freenet AG has held a majority stake of 50.01 per cent in EXARING since 30 June 2017. This holding might result in the risk that costs, particularly in the field of content (TV stations) and acquisition (distribution partners/marketing partners), might turn out to be higher than originally anticipated or that it might not be possible for the planned number of customers to be met. Freenet classifies this risk as medium. In addition, limited functionalities in the product portfolio might have a negative impact. On the part of freenet this risk is classified as medium as well.

IT-Risks

System failures/errors

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 minor risk that network failures or service problems as a result of system errors or failures resulting from the absence of opportunities for providing customer support might lead to losses of customers or that the TV segment might be affected by problems in the broadcasting of TV and radio signals. 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. A back-up is created in a 24-hour cycle in order to avoid the loss of sensitive data.

Data theft and hacker attack

Successful attacks carried out by malware in the Mobile Communications field might, in a worst case scenario in the theft of customer data. A hacker attack on the freenet TV database on the other hand might result in harmful data manipulation which, under extreme circumstances, might result in failure of the TV boxes. Extensive security mechanisms have been implemented in order to prevent this. The risk has been classified as low by freenet.

Management of employee rights

There is a risk that sensitive customer data might be stolen or published as a result of inadequate security measures regarding the allocation of employee rights. The company combats this risk by means of extensive authorisation management for employee rights in all IT systems. The risk is also combatted by way of a uniform process of allocating rights, in which senior executives are also included. freenet AG considers that there is a medium risk of loss of customer data as a result of the absence of security measures for the process of allocating employee rights.

Tax risks

Loss carry forwards

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-a-vis the mobile communications company, but rather as remuneration from a third party as defined by section 10 (1) sentence 3 of the German VAT Act (UStG) for the supply of the mobile communications device or the other electronic article. This applies irrespective of the amount of any additional payment to be made by the customer. The application of this rule as from 1 January 2015 will not involve any reportable risks for the company. As for the revenue 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 of freenet AG and hitherto ascertained separately by the tax authorities might be reduced or discontinued. All in all, this is regarded as a low risk.

Financial Risks

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

Bad debt losses

A risk of bad debt losses is the unexpected loss of funds or revenue as a result of the partial or complete default on receivables owed. There is a medium default risk with regard to the trade accounts receivable 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 dealers 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 (dealers and distributors). The risks associated with uninsured dealers and distributors are restricted by an internal limit system — generally, customers with a poor credit standing must pay cash in advance or the commercial relationship will not come into being. Finally, the appropriate formation of valuation allowances takes the risks of default on receivables into account.

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

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

Impairment of 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 significant impairments might occur in future. Possible triggering events, which might result in considerable impairments in subsequent periods, are identified in the course of impairment tests.

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 borrowings relate to the borrower's note loan concluded in December 2012, May 2015, February 2016 and October 2016 (disclosed as 1,067.0 million euros, including interest accruals, as of 31 December 2017 as well as the loan tranche in the syndicated facility agreement of October 2017 for a total of 610.0 million euros (shown as 606.1 million euros, including interest accruals, as of 31 December 2017. The second tranche for 100.0 million euros - in the form of a revolving credit line - had not been drawn as of 31 December 2017.

The credit agreements that were concluded entail 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, freenet AG classifies the existing risk of a restriction of the financial leeway as low.

There is also a medium liquidity risk for the event that the company's annual general meeting adopts a dividend that is higher than originally envisaged in liquidity planning; this would result in a higher outflow of liquidity directly after the annual general meeting, and might have a negative impact on the company's ability to act with regard to investments or acquisitions.

Capital risk

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 (equity ratio) and the debt (ratio of Group net debt to EBITDA generated in the past 12 months). If the macroeconomic conditions were to deteriorate, this might under certain circumstances lead to a situation where the freenet Group can no longer deliver on its agreements with the financing banks. There is a medium risk of the financing banks being entitled to declare the loans due and payable. Freenet AG minimises the risk by monitoring the financial ratios continuously.

Interest rate risk

As regards variable-interest financial debt, our company is subject to interest rate risks related largely to the EURIBOR. The company counters these medium risks by having a mix of fixed- and variable-interest financial debt. Although the interest rate risks are not explicitly 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. The risk has been classified as low by freenet.

Other financial risks

Other financial risks might occur in the form of foreign exchange and share price risks. The company is only exposed to foreign currency risks to a limited extent; this is the reason why the management report does not detail these risks separately. With regard to the exchange rate risks, it must be borne in mind that the company holds an interest of 24.56 per cent in the share capital of Sunrise. Sunrise uses the Swiss franc (CHF) as the reporting currency for preparing its consolidated financial statements. The exchange rate between the euro and Swiss franc has an impact on the calculation of both elements of the item of our consolidated income statement "Results of associates accounted for using the equity method", namely the interest in the current result of Sunrise and also the depreciation relating to the shadow purchase price allocation for Sunrise. Accordingly, this exchange rate also has an influence on the results of operations of the freenet Group; however, this is considered to be minor at present.

Strategic risks

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. This development would have a negative impact on the forecast results and the free cash flow. 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.

Stake in Sunrise

freenet AG has held a 24.56 per cent stake in Sunrise since 2016. It is possible that the business of Sunrise might develop less positively than originally anticipated; this in turn might have a negative impact on the results of operations and the financial performance indicators of freenet. The risk has been classified as low by freenet.

Acquisition of customer service of mobilcom-debitel by Capita

Since March 2017, Capita has been handling the entire customer service of mobilcom-debitel as a strategic partner. If the operations are unexpectedly discontinued by Capita, there is the risk of additional costs as a result of the need to implement the return of the activities contractually agreed for such a case or for the external provider to be changed at short notice. The risk has been classified as low by freenet.

Operating risks

Service prices for customers in default of payment

Across the entire sector consumer protection agencies have taken legal action against network operators and service providers in relation to the nature and extent of charges imposed on customers in default of payment. In this connection, legal action relating to “cease and desist” and where appropriate payment has been initiated against freenet AG by consumer protection agencies regarding the imposition of service charges for customers in default of payment. freenet AG considers that there is a medium risk of a downturn in revenue or possible payment.

Overall assessment of the risk position

Risks	Probability of occurrence	Expected extent of damage	Risk	Tendency
Market risks				
Highly competitive markets	medium	medium	medium	→
Network operator				
Bonuses and commission	medium	medium	medium	→
Premiums and margins	low	medium	low	→
Shift to direct	medium	low	low	→
O2 and E-Plus	medium	immaterial	immaterial	→
Sales	low	immaterial	immaterial	→
Termination charges	low	medium	low	→
Laws and regulation	low	low	low	→
Regulation EU-Roaming	medium	immaterial	immaterial	→
Risk in the TV market				
Customer demand freenet TV	medium	medium	medium	→
Participation EXARING AG	medium	medium	medium	→
IT risks				
System malfunctions / failures	low	low	low	→
Data theft and hacker attack	low	low	low	→
Administration of employee rights	low	high	medium	→
Tax risks				
Loss carry forwards	low	high	medium	→
VAT risk on renumeration of a third party	low	low	low	→
Other tax risks	low	medium	low	→
Financial Risk				
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	→
Dividend payment	low	high	medium	→
Capital risk management	low	high	medium	→
Interest rate risk	medium	medium	medium	→
Other financial risks	low	medium	low	→
Strategic risks				
Acquisition of companies	medium	medium	medium	→
Impact of earnings Sunrise	low	medium	low	→
Takeover customer service by Capita	low	medium	low	→
Operational risks				
Service prices for customers in default of payment	medium	medium	medium	→

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

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

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. These risks remain virtually unchanged compared with the previous year as far as their probability of occurrence or their impact are concerned. All in all, it can be assumed that the risks have no impact on the continued existence of freenet AG. The Executive Board is convinced that if the risk management approach used to date is continued, freenet AG will again be in a position to identify relevant risks in a timely manner and initiate suitable countermeasures to tackle them in the coming financial year.

Market, IT, tax, financial, strategic as well as operational risks were identified as of 31 December 2017. Their potential effects on the general future development of freenet AG and its financial and non-financial performance indicators are classified by the management in overall terms as low. The management is therefore expecting that the positive trend forecast will not be compromised significantly as a result of the aforementioned risks.

Key features of the internal control and risk management system in relation to the Group accounting process (section 315 (2) no. 4 HGB)

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

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

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

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

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

Structure of the Group accounting process

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

Internal controls ensure the correct function of the interface between SAP-FI and the consolidation system SAP EC-CS, as well as the reconciliations of the standardised reporting packages of the subsidiaries right through to the consolidated financial statements of freenet AG. In addition, the auditor of the consolidated financial statements of freenet AG regularly audits this interface and these reconciliations.

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.

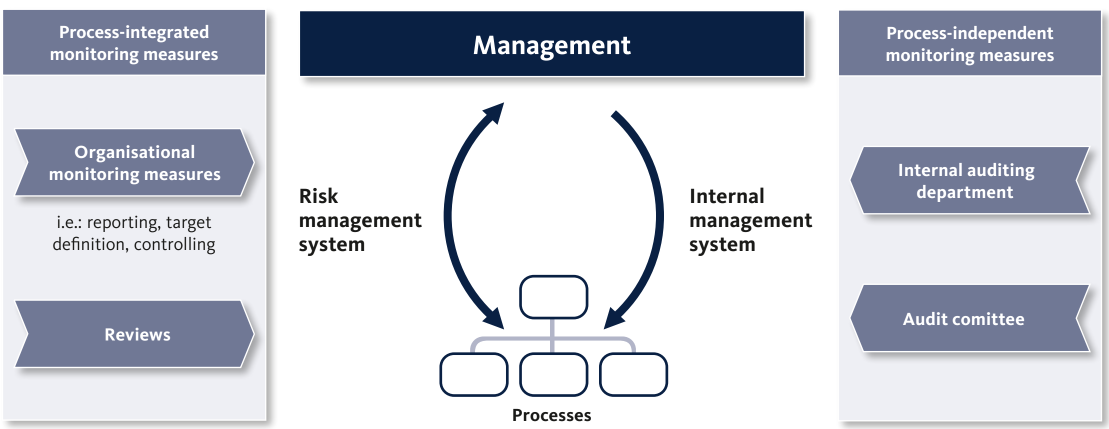
The regular elements in the Group's internal control system are aimed at achieving the extensive automation of the formation and cross-checking of all relevant data, from raw accounting data and customer invoicing to valuation allowances, accruals, depreciation and amortisation. These automated controls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

The Group internal audit department's review of the internal control system in 2017 showed that potential improvements ascertained in the departments audited in previous years have been implemented. They have carried out and constantly extended their control activities, and have also increased the degree of automation within the control activities. The control results are used to systematically derive measures and to monitor their success.

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

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

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



NON-FINANCIAL STATEMENT

About this report

Business model and framework conditions[1]

Mobile communications and mobile Internet are the key pillars of the business activity of the freenet Group. Operating as an independent service provider without own network infrastructure, the company sells mobile communications tariffs and options on a subscription basis throughout Germany with a multiple brand strategy as well as the latest devices such as smartphones, tablets and notebooks including accessories. A further key element is the company's positioning as a digital lifestyle provider, offering a framework for the marketing of innovative digital applications relating to home automation and security, health, data security, entertainment and infotainment. The freenet Group has expanded its operations into the TV and Media segment by way of various acquisitions – particularly of the Media Broadcast Group in 2016. The Media Broadcast Group is the largest service provider in the radio and media sector in Germany: in its core business, the company designs, sets up and operates multimedia broadcasting platforms for TV and radio based on modern transmitter and line networks. Accordingly, the Media Broadcast Group has a business-area-specific structure which differs from the remainder of the freenet Group and which is therefore to a certain extent considered separately in the following chapters.

The group of consolidated companies of the non-financial statement – unless otherwise stated – corresponds to the group of fully consolidated companies included in the consolidated financial statements (see section 1.2 in the notes to the consolidated financial statements). This non-financial statement is the first reporting in this form regarding sustainability issues. The identified issues reflect the current specific understanding of the freenet Group regarding sustainability. An external framework has therefore not been used for drawing up the non-financial statement.

Process of the materiality analysis

The freenet Group is characterised by entrepreneurial diversity and independence; however, this also represents a challenge for preparing the first non-financial statement. In this context, we have initially identified potential issues of the non-financial statement based on a sector/peer review and on the basis based on the materiality assessment of the Global e-Sustainability Initiative (GeSI) for the information and communication technology sector. This is followed by the determination of the material issues in a two-stage procedure comprising individual interviews and a materiality workshop involving internal experts from the corresponding specialist areas. Decisive for the assessment was the relevance of the issues for understanding the business development, performance and position as well as the impact of the activities on the thematic aspects specified in the law.

The material issues which have been identified are reflected in the following chapters. They relate to the following: employees, digital responsibility, customer matter, corporate environmental protection, anti-corruption and supply chain. The following overview shows which aspects of the CSR Guideline Implementation Act (CSR-RUG) can be allocated to the specified issues.

1 An extensive description of the business model is set out in the corresponding section of the Group management report.

Table 20: **Material issues allocated to the thematic aspects of the CSR-RUG**

Material issues	Aspect of CSR-RUG
Employees	Employee matters
Digital responsibility	Social matters/ Respect for human rights
Customer matters	Social matters/ Environmental matters
Corporate environmental protection	Environmental matters
Anti-corruption	Anti-corruption and bribery matters
Supply chain	Respect for human rights/ Environmental matters

The Supervisory Board of freenet AG has reviewed the content of the non-financial statement with the support of Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (independent auditor) in the form of a limited assurance engagement. The audit was based on the International Standards on Assurance Engagements ISAE 3000 (revised). Unless stated otherwise, all disclosures in the non-financial statement apply in equal measure to the Group and the parent company.

Material non-financial issues

Employees

In the fiercely competitive sector of mobile communications, mobile internet as well as TV and media, the ability to attract and retain highly qualified employees and to provide them with training and education are key factors of success for the company. At the same time, the freenet Group in this way also discharges its social and economic responsibility as an employer – regarding the young generation as well as the social community at the respective locations. Occupational health and safety considerations for employees complement this mission.

The freenet Group works continuously on optimising these conditions with specific measures and programmes. The aim is to achieve a harmonious, secure, healthy and performance oriented working environment: This is intended to encourage the skills, talents and performance of each individual employee, to underline the particular corporate culture of the freenet Group and also strengthen the employer brand, to reflect the diversity of our modern society, thereby avoiding all types of discrimination – for instance on the basis of gender, age, nationality, religion or sexual orientation. These aspects are an integral element of the internally practised guiding principle of the Group.

Employee attraction and retention

For the freenet Group, the ability to attract and retain employees represents the basis for the company's success. In 2017, the freenet Group employed 4,113 persons at 10 locations as well as in the mobilcom debitel shops and GRAVIS stores. Employee turnover[2] at freenet Group level amounted to 19.0 per cent in 2017 (2016: 15.0 per cent). mobilcom-debitel and GRAVIS recorded in 2017 an employee turnover of 36.0 per cent (2016: 33.0 percent) in their shops or stores.

The freenet Group carries out a group-wide employee survey at regular intervals to measure the bond and satisfaction of the employees. There are plans to carry out a survey focussing on leadership in spring 2018. The following were key aspects regarding attracting and retaining employees in 2017:

- The expansion of strategic recruitment, by way of campaigns, cooperation with universities and student scholarship, employee presence in channels and exhibitions targeted at specific groups and by way of a target-group based concept on the career website,
- A systematic onboarding process for new employees, which encourages organisational as well as personal integration to support the process of retaining staff right from the very beginning, as well as

2 Number of employees who leave the organisation voluntarily or due to dismissal, retirement, or death (exits) in the ratio to the average number of employees [(Exits * 100) / Ø Number of employees]. The figure was calculated excluding the EXARING AG. This data is expected to be included in the reporting in the future.

- A systematic onboarding process for new executives in the freenet Group, comprising support and systematic information as well as the development of senior executives with the aid of training,
- The year 2017 saw the establishment of a trainee programme for the fifth time. For a period of one year, eight trainees are developed into specialists in the respective departments and are prepared for their future tasks within the freenet Group.
- In addition, the pilot project “Denkfabrik” (an initiative of the participants of the freenet entrepreneur programme) was also started in autumn 2017. Employees can use the platform to publish ideas for improvement and innovations which strengthen the company in economic, organisational or cultural terms.

In addition, further attractive offerings are intended to strengthen employee retention. For instance, employees of the freenet Group can take advantage of the company’s pension scheme, subsidised staff tariffs for products or the attractive staff vehicle model. They are also able to take advantage of location-specific benefits (e.g. subsidies for sports offerings or local transportation services). Joint employee events also support interaction between colleagues.

Training and education

The need to maintain the competence levels of employees and to bring them into line with current market and technology developments play an important role in a dynamic and digital environment. The freenet Group therefore defines staff development as a major task of every executive; this is because these persons have the relevant information concerning the knowledge, abilities and skills of their employees. The group-wide “freenet Group competence model” has already been introduced in 2016.[3]

Based on this competence model, the company introduced binding annual development dialogues in several stages in 2016 and 2017 – initially for executives and then for all employees. In addition to evaluation of the competences, the definition of development areas and activities is an important aspect for expanding competence levels; the model also integrates the approach of enhancing existing strengths. The discussions are documented and systematically stored by the human resources department. In 2017, 229 executives took part in a total of 36 executive trainings[4] with the aim of assuring the quality of the annual development dialogues, and particularly with the aim of enhancing the evaluation competence and boosting the dialogue quality.[4]

In addition, 403 qualification measures were held for employees throughout the Group in the form of specialist, method and competence training sessions. For vocational training and studies combining theory and practice, the freenet Group makes more than 100 training positions available every year; these are broken down into a total of twelve training courses at more than 150 training locations. At the end of the year, the number of apprentices in the freenet Group was 322.

Key aspects of employee development in 2017 comprised the following:

- The autumn of 2017 saw the start of the third round of the group-wide “freenet entrepreneur” programme. In addition to the personal development of eight employees who have been identified as high achievers, the aim is to establish “entrepreneurs in the company” who will drive a start-up culture as influencers.
- A separate programme “GRAVIS next steps” was set up in May 2017 to assure the future generation of executives in the GRAVIS stores; the aim is to develop the specialist and management skills of eight selected high-potential employees.
- The summer of 2017 saw the start of the project for the conception and implementation of the new group-wide training centre “freenet Campus” in Hamburg; the opening is planned for the spring of 2018.
- A new digital platform for qualification management has been introduced for processing specialist, method and competence training.

3 The competence model focusses on the fields “Cooperation and Collaboration”, “Developing Personal Impact”, “Entrepreneurial Thinking and Action”, “Driving Changes” and “Experiencing Management”. The latter is applicable solely for executives.

4 The figures do not include the Media Broadcast GmbH and freenet digital GmbH.

Occupational health and safety

Within the framework of health management, health and safety committees have been established for the Group companies. These are supported by service providers in the fields of health care and safety technology. They meet four times a year, monitor and analyse measures implemented in relation to the physical and mental health and safety of the company's employees, and develop further concepts for continuous improvement in this field. In addition to health symposia, target-group-specific actions and campaigns were held in 2017 at the locations of the Group. Additional support for health management is provided by check-ups carried out by occupational doctors and physiotherapists. Moreover, persons responsible for the various locations can independently access a separate heading in the Intranet concerning the subject of health, with current health tips. In 2017, the freenet Group reported an absentee rate[5] of 4.7 per cent (2016: 5.4 per cent).

The subject of safety at work is particularly relevant at the Media Broadcast Group. This is because approximately 150 of the total of 700 employees are involved with the maintenance and possible repair of transmission masts and antennas, some of which are several hundred metres high, for broadcasting TV and radio signals. Accordingly, precautions have been taken to comply with the stringent safety requirements in these particular areas: The employees are equipped with appropriate safety equipment, are subject to regular check-ups carried out by occupational doctors and, once every year, take part in the prescribed climbing and rescue exercises. Every three years, they attend follow-up seminars concerning the subjects of fall protection and rescue measures. The activities and the associated increased levels of risk and requirements is the reason why the ratio of occupational injuries and commuting accidents at the Media Broadcast Group (2017: 35.0 per 1,000 employees) is higher than the ratio for the overall Group[6] (2017: 25.3 per 1,000 employees).

Table 21: **Occupational injuries and commuting accidents**

Per 1,000 employees	2017	2016
Group	**25.3**	**23.8**
Thereof occupation injuries (accident notifications/notes)	13.3	13.1
Thereof commuting accidents	12.0	10.7
Media Broadcast Group	**35.0**	**27.5**
Thereof occupation injuries (accident notifications/notes)	19.0	18.8
Thereof commuting accidents	16.0	8.7

Digital responsibility

As the freenet Group, we are aware that our customers are concerned about the increasing volume of reporting on cyber-attacks and data abuse. Accordingly, a transparent and secure method of handling the sensitive personal data which are provided to the company within the framework of its telecommunication services is becoming more and more important. The freenet Group therefore considers data protection and data security to be the basis and essential requirement for its business operations. They are therefore an essential element of the IT strategy of the freenet Group, which is developed centrally by the department "freenet Group IT". In addition, regulation and the high degree of digitalisation of the business processes in the telecommunications sector have previously focussed on this particular issue in the past.

Data protection and data security are therefore one of the five fundamental principles of the IT strategy of the freenet Group IT. The IT strategy which is derived from these principles embodies objectives and initiatives in which the underlying processes and concepts are regularly reviewed and adapted in a meaningful manner to the current situation and risk situation. In addition, the freenet Group IT also has a regularly updated crisis plan, an emergency plan as well as a recovery plan for the IT infrastructure and software applications.

IT Management and the management levels of the freenet Group consider data security is a central task. All issues and projects which are relevant for data protection purposes are agreed beforehand with the data protection officer of the Group. In the case of all IT measures which relate to employee data, the IT control committee of the works council is consulted.

5 Share of labour capacity lost because of health issues [Sick days per calendar day * 100 / calendar days]. The figure was calculated excluding the EXARING AG. This data is expected to be included in the reporting in the future.
6 Frequency of accidents per 1,000 full-time employees [((occupational injuries + commuting accidents) * 1,000) / Number of full-time employees]. The figure was calculated excluding the EXARING AG and Motion TM Vertriebs GmbH. This data is expected to be included in the reporting in the future.

The Executive Board and Supervisory Board or the latter's committees are regularly informed of the relevant developments and requirements in the field of data protection.

At the same time, the customer should retain control over his data. For this reason, the freenet Group ensures that the process of handling the customer's data is more transparent for the customer: Extensive information concerning this subject is set out on the corresponding website under the heading "Data protection". These contents are regularly revised, taking account of customer enquiries from the Customer Care Center for optimum comprehensibility. In addition, every customer can request information concerning what data are stored about him. This enables the customer to take a responsible decision as to what should happen with his data. And in the customer section of the freenet website, he can also view and modify his existing data as well as any approvals which he has provided.

To check the data security concepts which are applied, external security experts regularly carry out penetration tests of the exposed IT systems on behalf of the Internal Audit department. Security patch management is part of normal IT operation in all IT functions. In this way, the freenet Group is able to respond quickly and in an appropriate manner to changes in threat scenarios. Overall, the freenet Group has an up-to-date IT system landscape. The security level in the company's own data centre is state-of-the-art and complies with the requirements of the regulatory authorities.

In order to be in a position to provide an even better response to existing threats posed by possible cyber-attacks, the freenet Group, together with a consultancy company (KPMG AG Wirtschaftsprüfungsgesellschaft), has developed a security-incident-management-concept which is expected to have been established by no later than mid-2018. In this connection, the company has already set up a "security board" which is responsible for all guidelines and processes and which is also responsible for managing the way in which any future cyber incidents are handled.

All employees are required to comply with the legal requirements and the regularly updated data protection requirements of the freenet Group. A list of the processing activities for all data processing processes is maintained for all major departments in the company; it is regularly reviewed to ensure that it is accurate. In addition, for the processing of customer data, regular analysis of the level of protection are carried out to identify appropriate protection measures. If customer data are used for analysis purposes or for product design purposes, an approval process ensures in each case that such data are adequately pseudonymised or anonymised.

Beyond its own operational processes, the Media Broadcast Group is very much involved with KRITIS – a joint initiative of the Federal Office of Civil Protection and Disaster Assistance (Bundesamt für Bevölkerungsschutz und Katastrophenhilfe) and also of the Federal Office for Information Security (Bundesamt für Sicherheit in der Informationstechnik) to protect critical infrastructure: This initiative defines sectors which make a society vulnerable; these also include the field of media and culture. The Media Broadcast Group takes its responsibility very seriously for this mission applicable for the whole of society for ensuring the maintenance of transmitters in a stable manner. It therefore works in the corresponding sector working party "Media and Culture" on the development of standards as well as providing advice and support to public-sector and private broadcasting stations to ensure that this part of the critical infrastructure functions properly. In this respect, the customers of the major public-sector TV and radio stations have very strong links with the Media Broadcast Group, for the legally required assurance of information and communication technology. The Media Broadcast Group in its entirety has enjoyed the corresponding certification ISO 27001 Information security since 2013. Within the Group, it is also applicable for the freenet datacentre in Düsseldorf and also for the information chain and chain of measures resulting from the KRITIS tasks and the references to security cases by the alliance for cyber security, some of which are strictly confidential.

The EU General Data Protection Regulation (EU-GDPR) will come into force in May 2018. As a telecommunication company which is subject to legal data protection regulations and also within the framework of ISO 27001 certifications[7], the companies of the freenet Group already comply with most of the requirements of the EU-GDPR. There are plans for the small number of points which are still outstanding to be implemented before the regulation comes into force.

7 The certification is applicable for the entire value chain of the Media Broadcast Group and also for the datacentre services "Housing and Hosting" for external business customers which are rendered by freenet Datenkommunikations GmbH.

Customer matters

Aware of its responsibility towards its customers, the freenet Group focusses on sustainable customer relations: These are based on high service quality as well as customer satisfaction and product solutions which go beyond offering attractive tariffs and devices. The head of Customer Service Management reports directly to the Executive Board – this also confirms the high priority enjoyed by this department within the company.

Customer satisfaction by way of service quality

For a service provider operating in the mobile communications sector – the core business segment of the freenet Group – the quality of services provided to customers and lasting customer satisfaction are of vital importance: In this way, the company is able to gain new customers and retain them in the long term, for instance by way of recommendations and positive test results/press releases.

As part of a business process outsourcing process, the freenet Group outsourced the customer service completely to an external company in March 2017 – namely Capita. The services have been outsourced to a service provider for whom customer service is the sole business model and thus constitutes its core competence. At the same time, the freenet Group in this way intends to press on ahead with digitalisation in customer service quickly and professionally and to benefit from the know-how of the new partner.

For this purpose, the freenet Group has, together with Capita, established an extensive governance structure for regulating the cooperation and regularly reviewing the service quality. In addition, the insights gained from the customer contacts are permanently evaluated to identify any negative developments at an early stage and to implement any countermeasures. The agreement with the service provider comprises agreed performance indicators; regular reports of Capita enable the actually rendered service to be compared with the contractually agreed service.

Sustainable product solutions

The freenet Group offers a comprehensive and differentiated portfolio of digital lifestyle offerings. It results from the wide range of customer needs and a rapid and systematic method of identifying and testing new digital trends and solutions. The portfolio also includes products which meet the customer's wishes for product solutions in the fields of environmental protection, data protection and child protection – so-called sustainable product solutions. Regarding the choice and development of digital lifestyle products, there is no explicit focus on sustainability criteria, which means that a concept in the narrower sense of the term is not available at present.

Notwithstanding the above, the offerings of the individual brands and subsidiaries include a wide range of solutions which can be combined with added value for society. With regard to the subject of security of data and devices, they comprise a comprehensive range of security software (e.g. Norton Security Online) or online protection for children with regard to certain digital contents. In the field of environmental protection, the company offers its customers a digital solution for reducing heating consumption by 20 percent with its Smart Home product[8]. In addition, the company provides the possibility of participating in the digital world to low earners by way of a tariff portfolio with attractive pricing as well as customers with a less than optimum degree of creditworthiness by way of a special deposit model[9] for subscription-based offerings. In the financial year 2018, the freenet Group will further expand its product portfolio in the digital lifestyle field including the sustainable product solutions; the aim is to achieve an overall growth of around 10 per cent in terms of revenue.

8 The hardware supplier assigned an institute to measure the savings potential under standardised and defined conditions. The measuring showed a savings potential in the heater consumption of at least 20 per cent. Prerequisite for this is, that the regulators were installed und programmed consequently at the respective area. If the guaranteed goal is not achieved, the customer receives his basic fee back.

9 The deposit model is for customers who failed the credit assessment for subscription-based offerings. The deposit is staggered in 50/100/200/400 euros. Paying the deposit enables the respective customer to use mobile services within his selected tariff. Moreover, the customer benefits from the bundle with a subsidised handset.

The range of sustainable product solutions is extended by the cooperation between mobilcom-debitel and Fairphone B.V., a niche provider operating in the market for smartphones. With its modular structure, Fairphone offers the possibility of components to be repaired or replaced and thus to extend the service life of the device. The manufacturer also focusses on materials obtained from conflict-free extraction sites and also on continuously improving working conditions in production and in the supply chain. With regard to sales of the Fairphone in Germany, mobilcom-debitel currently has the largest market share with approximately 15 per cent (2016: approximately 5 per cent).

Corporate environmental protection

For a medium-sized company, the optimum use of resources and efficient utilisation of energy are not only important for economic success in a competitive environment dominated by major groups. The freenet Group explicitly endorses the climate protection endeavours formulated in the international context. These include the major factors of reducing electricity as well as fuel consumption to reduce carbon emissions.

Energy consumption and CO2 emissions

Within the overall Group, the Media Broadcast Group is a large energy consumer as a result of its business model: For supplying its broadcasting and transmission technology, it takes energy at approximately 932 transmitter sites and radio towers. The resource consumption of the Media Broadcast Group is backed by an energy management system certified in accordance with ISO 50001 as well as an environmental management system certified in accordance with ISO 14001. In this way, the company places particular emphasis on optimum and efficient use of resources.

The strategic decision to change over to the new HD standard DVB-T2 in TV business also makes a contribution towards greater efficiency. The new T2 transmitters broadcast more highly compressed signals (more programmes in the same bandwidth), which means that frequency utilisation is more efficient and energy consumption is considerably reduced. This is also applicable for radio with regard to the replacement of the outdated VHF standard by the equally more energy-efficient digital DAB+. In consequence, in the past two years, the electricity consumption of the Media Broadcast Group has declined by approximately 14.3 per cent, and the associated CO2 emissions have declined by approximately 15.4 per cent. In this respect, it should be noted that implementing energetic savings in the field of broadcasting and transmission technology are set boundaries. Contracting and using frequencies underlies regulatory framework conditions. The Media Broadcast Group is therefore not free in establishing and expanding an efficient infrastructure. In order to safeguard a nationwide suitable and sufficient coverage of services, the Media Broadcast Group has to comply with statutory requirement of third parties.

In the remainder of the Group, the datacentre and the company vehicle fleet of the freenet Group represent the main areas for reducing CO2 emissions. Accordingly, the datacentre of the Group in Düsseldorf is supplied exclusively by renewable energy (2017: 5.4 GWh). In addition, with regard to its company car fleet, the company focusses on ensuring low-consumption and low-emission solutions. Deutsche Umwelthilfe confirmed in 2015 that the freenet Group had the most climate-friendly company car fleet in Germany. The Media Broadcast Group in 2016 replaced its fleet of company cars which comprised approximately 400 vehicles with the aim of achieving reduced fuel consumption and CO2 emissions. In consequence, there has been a decline in consumption as well as CO2 emissions of the vehicle fleet.

Table 22: **Energy consumption and CO2 emissions**

Unit as specified		2017	2016	2015
Group[10]				
Fuel consumption[11]	GWh	30.9	30.0	32.6
Thereof CO_2 emissions (Scope 1)	tCO_2eq[12]	7,555.7	7,346.0	7,994.9
Electricity consumption[13]	GWh	114.4	125.5	134.0
Thereof CO_2 emissions (Scope 2)	tCO_2eq	60,267.2	66,131.5	71,576.5
Energy consumption	**GWh**	**145.2**	**155.5**	**166.7**
Thereof CO_2 emissions	**tCO_2eq**	**67,823.0**	**73,477.5**	**79,571.4**
Thereof:				
Media Broadcast Group				
Fuel consumption	GWh	6.0	6.4	7.2
Thereof CO_2 emissions (Scope 1)	tCO_2eq	1,475.6	1,565.2	1,755.5
Electricity consumption	GWh	99.6	109.5	116.2
Thereof CO_2 emissions (Scope 2)	tCO_2eq	52,468.3	57,681.9	62,029.2
Energy consumption	**GWh**	**105.6**	**115.8**	**123.3**
Thereof CO_2 emissions	**tCO_2eq**	**53,944.0**	**59,247.1**	**63,784.8**

Consumption of resources

In order to continue to successfully press on ahead with the process of digitalising the company, the freenet Group focusses primarily on digital communication among employees as well as in dialogue with customers and business partners. It thus makes a contribution towards reducing paper consumption and making efficient use of resources in the administration. This starts with the digital networking of all available sales channels and extends right through to avoiding the printing and posting of millions of invoices every month. At the mobile communications segments primary brand mobilcom-debitel, approximately 74.2 per cent of all invoices in 2017 are already sent out by electronic means (2016: 74.0 per cent); at the Group's discount brands, paperless invoices account for 95.7 per cent of all invoices (2016: 94.8 per cent). Overall therefore, approximately 78.0 per cent of all invoices are sent out by digital means (2016: 77.0 per cent).

The programme "FLIP4NEW", which the subsidiaries GRAVIS and mobilcom-debitel carry out in partnership with the external provider Flip4 GmbH, represents a further contribution towards ensuring the efficient use of resources and for reducing electric waste. The aim is to purchase old devices – in particular smartphones, tablets and CPUs – to extend the lifecycle of the devices by selling them on and by recovering spare parts. Devices which can no longer be used are recycled. The recycling partner is recycle-IT, which has the necessary certifications. The decision of the customer is always the factor which determines whether the service is utilised.

In addition, in 2017, the company was able to improve the overall return ratio as well as the percentage of returns of so-called A-products (i.e. devices which can be resold immediately) to the company's own shops, and was thus able to make a contribution towards avoiding electronic waste. Compared with the previous year, the returns from the shops virtually fell by half to 1.5 per cent (2016: 3.1 per cent). The percentage of A-products within the returns increased from 53.3 per cent (2016) to 85.8 per cent (2017). The effects are essentially attributable to the measure, carried out in 2017, of foiling devices before they are shipped to customers. In relation to end users, the percentage of A-products in 2017 was 95.0 per cent (2016: 96.1 per cent).

10 The Media Broadcast Group has only belonged to the consolidation group since 18 March 2016. No consolidation adjustments for the years before 2017 have been made due to simplification and presentation considerations.
11 The fuel consumption comprises consumption in the form of diesel and petrol for the fleet of company cars. Other fuels – for instance gas or heating oil, etc. – have not been included as because of the billing cycle of energy providers and building managers no valid consumption figures were available and extensive estimates would have been necessary. This data is expected to be included in reporting in future. The conversion factors of the British Ministry for the Environment, Food and Rural Affairs (DEFRA) have been used for converting fuel consumption in GWh and CO2 emissions.
12 CO2eq corresponds to CO2 equivalent = CO2, CH4 und N2O.
13 Electricity consumption calculated on the basis of appropriate estimates and extrapolations. The CO2 emissions factor of the Federal Environmental Office (Umweltbundesamt) is used for converting electricity consumption into CO2emissions, although the datacentre of freenet Datenkommunikations GmbH is operated with renewable energy (2017: 5.4 GWh).

Anti-corruption

As is the case with all modern economies, Germany has recognised the negative impact of corruption on the economy, and has therefore defined it as an offence. The freenet Group is committed to the applicable laws and standards as well as the underlying ethical principles: It is also aware of the negative effects of economic penalties, and therefore is particularly critical of corruption and confronts it vigorously. The company of course follows a policy of zero tolerance for criminal acts. The Executive Board underlines the company's strict attitude towards combatting corruption by way of a tone from the top. In addition, the works councils also support all guidelines which serve to combat corruption. Compliance is a strong element of the freenet corporate culture, and is also expressed by the active actions and support of all parts of the company.

As a typical economic crime, bribery occurs particularly where a person intending to commit bribery can have an impact on large cash flows for his own benefit with comparatively minor funds. In the freenet Group, this risk is thus to be seen particularly in the context with high-revenue contract partners, on the customer as well as the supplier side. In order to be able to successfully combat this risk, the company has implemented a compliance management system which has identified the need to combat corruption as one of its primary objectives (for the detailed structure and procedure organisation, please refer to "Corporate management statement"). Management of corruption risks has several approaches, which are characterised by prevention, identification and reaction.

For prevention purposes, the focus is on specific employee information. By means of customised training, personal discussions and generally binding guidelines, the company's employees are provided with a stable framework for orientation purposes. In this context, the gift, purchasing and signature guidelines have a vital role to play in certain risk areas. In addition, the Compliance department offers a hotline which enables it to always provide legal and content-specific advice in order to enable any uncertainty in daily work to be resolved quickly.

A multiple-channel approach is also used for identifying any legal infringements. On the one hand, all employees must submit a report every quarter to the Compliance department via their superiors with regard to all gifts worth more than 20 euros which have been given and received, so that gifts, invitations and benefits can be checked to establish whether they are correct and legally proper. On the other hand, the freenet Group actively pursues possible misconduct by the Internal Audit department and also by the central Fraud Management department. And finally, all employees are also able to report suspicious incidents to the Compliance department via a whistle-blower system – also anonymously if desired.

Since the existence of the long-standing compliance management system, no confirmed instance of corruption has become known in the freenet Group. The measures for combatting corruption intended by the company's management have been implemented and are regularly reviewed to bring them into line with new forensic findings or changes to the law.

Supply chain

The freenet Group works with more than 1,500 suppliers within the framework of selling mobile communications services. Most of the cost of sales and thus more than 90 per cent of the monetary purchasing volume concentrates on a small number of large suppliers, namely:

- the three mobile network operators Deutsche Telekom, Vodafone and Telefónica (costs of mobile communications services as well as mobile devices),
- Devices/accessory manufacturers such as Apple, Huawei or Samsung (costs of purchasing mobile devices) as well as
- services in (outsourced) customer support such as Capita.

Cooperation with the network operators, device manufacturers and service providers in customer support are handled by purchasing units created specifically for that purpose. All other suppliers are handled centrally by a further purchasing unit.

In view of the national and in particular the overall international market as well as the positioning in the value chain, the freenet Group has only a limited possibility of exerting influence on the major suppliers set out above. Nevertheless, the freenet Group is aware of its ecological responsibility and its responsibility for human rights. The objective is therefore to take up the cooperating manufacturers and network operators to utilise their influence on the value chain to ensure fair working conditions and to exclude conflict minerals for the production of telecommunications hardware and accessories. Suppliers of the freenet Group have so far not been systematically audited to determine whether they comply with ecological, social or human rights criteria. In order to underline the company's responsibility which it has set itself, the internal purchasing guideline has been revised and extended to include these aspects. As a group-wide framework, it is intended to draw the attention of the responsible employees to the fact that they should also take account of sustainability criteria in their purchasing decisions. The amended purchasing guideline was adopted by the Executive Board of the freenet Group in the course of the fourth quarter of 2017, and has since that time been binding for all relevant purchasers.

In a next stage, the company intends to draw up a supplier code of conduct which defines the sustainability criteria to be observed by the suppliers. In this connection, the desired quality- and quantity-related objectives of the freenet Group are also to be defined. In addition, in the case of one-off, initial and repeat orders, the sustainability criteria are included as an element of the new orders with the suppliers within the framework of the contracts concluded in accordance with standard invitations to tender (every three years according to the purchasing guideline for repeat orders). For strategic purchases of products which are not covered by the purchasing guideline – such as the purchasing of network services or devices – the company should conclude agreements with the suppliers confirming the acceptance of sustainability-relevant aspects. Starting with the financial year 2018, the freenet Group aims to conclude such agreements within a period of three years. And finally, supplier surveys and self-disclosures should check (at intervals which still have to be defined) whether and to what extent the suppliers have complied, and will in future be able to comply, with the criteria.

The Media Broadcast Group has a separate purchasing department; its purchasing guidelines focus to a greater extent on the aspects of environmental protection and particularly energy efficiency as the subsidiary is an intensive electricity consumer. Accordingly, assuming that all other criteria are equivalent, the company should prefer suppliers who adequately take account of environmental protection and in particular energy efficiency.

Non-financial risks

The risk management system of the freenet Group established throughout the Group has been used for the risk analysis as part of the non-financial statement. The recognised risks are analysed to establish whether the contents comply with the issues and aspects of the non-financial statement. For risks relating to specific issues, a risk evaluation has been carried out in line with the evaluation for the Group risk report (for this purpose, please refer to the opportunity and risk report in the Group management report). Measured in terms of the legal materiality criteria for reporting of non-financial risks, and after the implementation of risk-mitigation measures, none of the identified risks is of a material nature; this is applicable particularly in the context of a very probable occurrence.[14]

14 The following distinction is made in the freenet Group for the probability of occurrence: low (< 50 per cent), medium (50-75 per cent) and high (> 75 per cent). The categories "very probable" or "very high" are not distinguished; the category "high" has therefore been used for the purposes of non-financial risk reporting.

CORPORATE GOVERNANCE

In this section, the Executive Board and Supervisory Board report on the Corporate Governance in the freenet Group in accordance with clause 3.10 of the German Corporate Governance Code. The chapter also contains the statement concerning corporate management in accordance with sections 289f, 315d HGB as well as the information relating to sections 289a (1), 315a (1) 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.

In its meeting on 5 December 2017, the Supervisory Board considered the regulations of the German Corporate Governance Code and, together with Executive Board, issued the annual statement of compliance with regard to the German Corporate Governance Code. The Supervisory Board and Executive Board have essentially continued the stated differences and the related reasons from the previous years. The declaration of compliance from 7 December 2017 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 sections 289f, 315d 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. Also to be found in the following are the information regarding the percentage of women in the Executive Board and in the two management tiers below the level of the Executive Board, as well as information regarding compliance with minimum percentages of women on the Supervisory Board. And finally, details are provided of the reasons why the company does not adopt a diversity concept for the Executive Board and Supervisory Board.

freenet AG made the following corporate management statement in accordance with sections 289f, 315d HGB which is simultaneously a part of its management report for the financial year 2017.

Declaration in accordance with section 161 AktG

Since submitting the last declaration of compliance on 8 December 2016, freenet AG has complied with the recommendations of the German Corporate Governance Code ("Code") in the version of 5 May 2015 (subject to the following differences), and will continue to comply with the recommendations of the Code in the version of 7 February 2017, unless otherwise stated by the company in the following.

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 compensation of the Executive Board members, the separate components of which are disclosed and discussed individually in the compensation report. Nonetheless, the Executive Board and Supervisory Board have decided not to use the model tables in the compensation report to depict the Executive Board's compensation. 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 compensation 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, selection in accordance with the criteria for the composition of the Executive Board specified in Code clause 5.1.2 (1) is of subordinate significance. (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 therefore also does not draw up a competence profile for the entire body. It can therefore not follow the recommendations made in clause 5.4.1 (4). 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), (4) 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 compensation 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 compensation 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 compensation 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 compensation. (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 ("CCO") 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 CCO also reports regularly to the Supervisory Board's audit committee. The CCO 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 CCO 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. We therefore consider that it is important for these data to be protected against unauthorised access. For this reason, we use modern security technologies and regularly draw the attention of our employees to this subject in order to continuously improve the overall security level and to meet the challenges posed by the increasing threats.

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: Prof Dr Helmut Thoma (chairman since 1 June 2017), Thorsten Kraemer (since 1 June 2017), Gesine Thomas (since 1 June 2017), Knut Mackeprang

Members who stepped down in 2017: Dr Hartmut Schenk (chairman) until 1 June 2017, Birgit Geffke until 31 March 2017

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 compensation, the compensation 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: Prof Dr Helmut Thoma (chairman) (since 1 June 2017), Sabine Christiansen (since 1 June 2017) Claudia Anderleit, Knut Mackeprang (since 1 June 2017)

Members who stepped down in 2017: Dr Hartmut Schenk (chairman) until 1 June 2017, Birgit Geffke until 31 March 2017, Thorsten Kraemer until 1 June 2017

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 choice of auditor and his independence and the additional services rendered by the auditor, the awarding of the audit engagement to the auditor, the determination of key audit matters and the fee agreement. It is also responsible for approving the permissible non-audit services to be 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: Prof Dr Helmut Thoma (chairman) (since 1 June 2017), Fränzi Kühne (since 1 June 2017), Gesine Thomas, Knut Mackeprang

Members who stepped down in 2017: Dr Hartmut Schenk (chairman) until 1 June 2017, Thorsten Kraemer until 1 June 2017

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: Prof Dr Helmut Thoma (chairman) (since 1 June 2017), Marc Tüngler, Sabine Christiansen

Member who stepped down in 2017: Dr Hartmut Schenk (Chairman) until 16 January 2017

Defined targets for the percentage of women in the Executive Board and in the two management tiers below the Executive Board; information on compliance with minimum percentages of women on the Supervisory Board

The Supervisory Board and Executive Board have each defined targets to be achieved by 30 June 2017 for the percentage of women in the Executive Board and in the two management tiers below the Executive Board. These targets were attained as of 30 June 2017 as follows:

	Target for 30 June 2017	As of 30 June 2017
Executive Board	0%	0%
Management tier 1 (direct reports)	25%	40%
Management tier 2 (heads of department)	27.5%	33.3%

The Supervisory Board and Executive Board have each defined the following targets for the period until 31 December 2021 with regard to the percentage of women in the Executive Board and in the two management tiers below the Executive Board:

	Target for 31 December 2021
Executive Board	0%
Management tier 1 (direct reports)	30%
Management tier 2 (heads of department)	30%

In the period under review, the percentages of men and women on the Supervisory Board complied with the legal requirements regarding the minimum percentages.

Details of the diversity concept for the Supervisory Board and Executive Board

The company has not adopted a diversity concept which defines the criteria for the composition of the Executive Board and the Supervisory Board with regard to aspects such as age, gender or education or career background.

With regard to its own composition, the Supervisory Board has complied with the legal requirements regarding gender diversity. It has so far always rejected the further recommendations of the German Corporate Governance Code regarding the composition of supervisory boards, and has explained the differences in its statements of compliance with the German Corporate Governance Code. In the case of proposed candidates for election to the Supervisory Board, the Supervisory Board is convinced that it should focus exclusively on the suitability of the candidates. In addition, there is no current requirement for considerations regarding the future composition of the Supervisory Board after the shareholders' representatives in the Supervisory Board were re-elected in the annual general meeting 2017.

The Supervisory Board aims to achieve continuity with regard to the composition of the Executive Board, and wishes to avoid the possibility of uncertainty among the members of the Executive Board. Such uncertainty might arise if the Supervisory Board sets up a general diversity concept for the composition of the Executive Board without a specific reason. The Supervisory Board therefore does not consider that there is any requirement for a diversity concept at present, and wishes to adopt a wait-and-see attitude for the time being with regard to the specific developments, with reference to lack of experience with this new specification.

Information in accordance with sections 289a (1), 315a (1) 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.

Restriction 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 of 31 December 2017, and on the basis of the existing notifications of voting rights, Flossbach von Storch AG, Cologne, holds a capital stake of 10.08 per cent of the voting rights in freenet AG indirectly via Flossbach von Storch Invest S.A., Luxembourg, in accordance with sections 21 et seqq. WpHG.

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 annual general meeting, 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 on one or more occasions, however, in total to a sum of not more than 12,800,000.00 euros until 5 June 2018 (authorised capital 2013).

The Executive Board, with the approval of the annual general meeting, is also authorised by a resolution of the annual general meeting of 12 May 2016 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 1 June 2021 (authorised capital 2016).

In addition, on 12 May 2016, the annual general meeting adopted a resolution regarding a conditional capital increase involving up to a total of 12,800,000.00 euros, consisting of 12,800,000 new no-par registered ordinary shares (conditional capital 2016). The purpose of the conditional capital increase is to enable no-par-value bearer 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 12 May 2016 under agenda item 10, 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

Pursuant to the resolution of the annual general meeting of 12 May 2016, the Executive Board was authorised, until 11 May 2021, to acquire treasury shares equivalent to up to 10 per cent of the current share capital or – if lower – 10 per cent of the share capital existing at the point at which the authorisation is exercised. 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 seqq. AktG.

Change of control

A change of control might have an impact on the repayment claims resulting from the syndicated loan agreement between the freenet Group and a syndicate of banks as well as the borrower's note loan issued by freenet AG. In such a case, these loans might be called in either in part or in their entirety without freenet being able to influence such a move. Such a change of control, irrespective of whether it precedes the take-over offer, might exist in the event of the acquisition of more than 50 per cent of the voting rights in freenet AG or if one or more jointly acting persons have the right to determine the majority of members of the Supervisory Board of freenet AG. In such a case, freenet would be exposed to the risk that subsequent financing for settling the repayment claims might not be agreed or might only be agreed subject to less favourable conditions.

Compensation agreements of the company

There are no compensation agreements between the company and members of the Executive Board or employees to cover the case of a take-over bid.

Declaration in accordance with section 289f HGB

The declaration in accordance with sections 289f, 315d 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.

On 26 February 2014, agreements were concluded with the members of the Executive Board regarding the service agreements which grant compensation with long-term incentive effect ("LTIP programme 2"). In the LTIP programme 2, the target attainment years 2014 to 2018 are defined for Mr. Vilanek, and the target attainment years 2015 to 2019 are agreed for Mr. Preisig and Mr. Esch.

In LTIP programme 2, an LTIP account is maintained for each member of the Executive Board; in each financial year, depending on the extent to which defined 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, 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 various factors, including 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 GAS 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 23: **Executive Board Compensation for financial year 2017 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[1]
Christoph Vilanek	765	703	1,468	0	1,468
Joachim Preisig	544	562	1,106	0	1,106
Stephan Esch	493	301	794	0	794
Total	**1,802**	**1,566**	**3,368**	**0**	**3,368**

Table 24: **Executive Board Compensation for financial year 2016 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[1]
Christoph Vilanek	765	613	1,378	0	1,378
Joachm Preisig	544	491	1,035	0	1,035
Stephan Esch	492	245	737	0	737
Total	**1,801**	**1,349**	**3,150**	**0**	**3,150**

1 The total amount of compensation in the above table does not include the benefit costs of 669 thousand euros (previous year: 662 thousand euros). Please refer to the following explanations.

In the financial year 2017, the Executive Board compensation in accordance with section 314 (1) no. 6a HGB amounted to 3,368 thousand euros (previous year: 3,150 thousand euros). The total for 2017 and 2016 contains no compensation with long-term incentive effect; as such components had already been disclosed in the financial years in which the compensation instruments under HGB had been granted.

In the financial year 2017, there were payments of 329 thousand euros made out of the LTIP programme 2; these payments were made to Mr. Preisig. In the financial year 2016, there were no payments resulting from the LTIP programme 2.

As of 31 December 2017, the value of the provision under HGB for LTIP programme 2 for Mr. Vilanek was 5,212 thousand euros (previous year: 3,473 thousand euros); the value for Mr. Preisig was 1,713 thousand euros (previous year: 1,159 thousand euros), and the value for Mr. Esch was 1,414 thousand euros (previous year: 773 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 of 1 May 2009. freenet AG had taken on the pension commitment granted to Mr. Preisig from the former debitel AG as of 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 of 31 December 2017, the defined benefit obligation (DBO) relating to commercial law for Mr. Vilanek amounted to 2,787 thousand euros (previous year: 2,201 thousand euros), the DBO for Mr. Preisig totalled 3,207 thousand euros (previous year: 2,681 thousand euros) and Mr. Esch's DBO came to 2,486 thousand euros (previous year: 2,045 thousand euros). The obligation amount for Messrs Spoerr, Krieger and Berger, as former Executive Board members, totalled 6,121 thousand euros as of 31 December 2017 (previous year: 5,429 thousand euros).

Current service time expenses of 747 thousand euros (previous year: 669 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, 319 thousand euros for 2017 (previous year: 284 thousand euros) were accounted for by Mr. Vilanek, 245 thousand euros (previous year: 222 thousand euros) by Mr. Preisig and 183 thousand euros (previous year: 163 thousand euros) by Mr. Esch.

In 2017, the personnel expenses for the members of the Executive Board related to the pension commitments did not include any past service costs as was the case in the previous year.

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 2017 and the previous year, and about the compensation from actual payments to the members of the Executive Board in the financial year 2017 and the previous year.

Table: **25: Compensation awarded to the Executive Board for the financial year 2017 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	13	42
Total	**765**	**544**	**493**	**1,802**
Annual variable compensation	600	480	260	1,340
Perennial variable compensation				
LTIP-programme 2	939	495	330	1,764
Total	**1,539**	**975**	**590**	**3,104**
Pension expense				
Current service cost	**482**	**338**	**281**	**1,101**
Total compensation	**2,786**	**1,857**	**1,364**	**6,007**

Table 26: **Compensation awarded to the Executive Board for the financial year 2016 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 2	1,169	559	373	2,101
Total	**1,669**	**959**	**573**	**3,201**
Pension expense				
Current service cost	391	285	227	903
Total compensation	**2,825**	**1,788**	**1,292**	**5,905**

Table 27: **Compensation from actual payments to the Executive Board in the financial year 2017 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	13	42
Total	**765**	**544**	**493**	**1,802**
Annual variable compensation	703	562	301	1,566
Perennial variable compensation				
LTIP-programme 2	0	329	0	329
Total	**703**	**891**	**301**	**1,895**
Pension expense				
Current service cost	**482**	**338**	**281**	**1,101**
Total compensation	**1,950**	**1,773**	**1,075**	**4,798**

Table 28: **Compensation from actual payments to the Executive Board in the financial year 2016 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	613	491	245	1,349
Perennial variable compensation				
LTIP-programme 2	0	0	0	0
Total	**613**	**491**	**245**	**1,349**
Pension expense				
Current service cost	391	285	227	903
Total compensation	**1,769**	**1,320**	**964**	**4,053**

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 per cent 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 per cent 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 25, 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 pay-out 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 per cent 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 40 per cent 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 former 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 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 of 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 2017, the members of the company's Supervisory Board received fixed compensation of 405 thousand euros plus attendance fees amounting to 73 thousand euros.

In addition, profit-linked compensation of 405 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 2017. The aggregate compensation paid for Supervisory Board activities thereby amounted to 883 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 29: **Compensation for financial year 2017**

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Prof Dr Helmut Thoma	47.4	6.0	47.6	101.0
Knut Mackeprang[1]	45.0	4.0	45.0	94.0
Claudia Anderleit[1]	30.0	5.0	30.0	65.0
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	8,0	30.0	68.0
Gesine Thomas[1]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	7.0	30.0	67.0
Robert Weidinger	30.0	11.0	30.0	71.0
Sabine Christiansen	30.0	4.0	30.0	64.0
Thomas Reimann[1]	22.5	3.0	22.6	48.1
Fränzi Kühne	17.5	3.0	17.6	38.1
	372.4	**68.0**	**372.8**	**813.2**
Former members				
Dr Hartmut Schenk	25.2	3.0	25.0	53.2
Birgit Geffke[1]	7.5	2.0	7.4	16.9
	32.7	5.0	32.4	70.1
Total	**405.1**	**73.0**	**405.2**	**883.3**

Table 30: **Compensation for financial year 2016**

In EUR `000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr Hartmut Schenk	60.0	7.0	60.0	127.0
Knut Mackeprang[1]	45.0	3.0	45.0	93.0
Claudia Anderleit[1]	30.0	3.0	30.0	63.0
Birgit Geffke[1]	30.0	2.0	30.0	62.0
Thorsten Kraemer	30.0	4.0	30.0	64.0
Ronny Minak[1]	30.0	7.0	30.0	67.0
Michael Stephan[1]	30.0	7.0	30.0	67.0
Prof Dr Helmut Thoma	30.0	3.0	30.0	63.0
Gesine Thomas[1]	30.0	2.0	30.0	62.0
Marc Tüngler	30.0	8.0	30.0	68.0
Robert Weidinger	30.0	11.0	30.0	71.0
Sabine Christiansen	30.0	3.0	30.0	63.0
Total	**405.0**	**60.0**	**405.0**	**870.0**

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

FORECAST

The market in 2018

In October 2017, the International Monetary Fund (IMF) published a world economic outlook. In this outlook, the Fund expects to see global gross domestic product (GDP) increase by 3.7 per cent in 2018 and also in 2019. On the occasion of the World Economic Forum (WEF), information was released in January 2018 that the Fund is now anticipating even stronger growth for the world economy. It is now predicting growth of 3.9 per cent for global GDP in 2018 and also in 2019. At the same time however, the head of the IMF Christine Lagarde issued a warning against too much optimism. Politicians must implement reforms to combat the end of the phase of low interest rates and the fact that the levels of debt are rising and providing cause for concern in many countries, according to Christine Lagarde at this year's WEF. At the same time, the recently implemented US tax reform is having a positive impact on the economic activities of all major trading partners. The effects of the significant reduction in American taxes is likely to have a significant effect until the year 2020, before negative factors might be felt for the first time.

The Organisation for Economic Co-operation and Development (OECD) also raised its predictions for global GDP growth to 3.7 per cent in 2018. Both organisations are also optimistic with regard to the upward trend of the Euro zone: Not only the IMF is expecting stable growth of 0.3 percentage points to 2.2 per cent in 2018; the OECD, in its economic outlook of November 2017, also predicted growth of 0.3 percentage points to 2.1 per cent in 2018. Both institutions state that the loose monetary policy of the ECB is responsible for this development; however, they are assuming that there will be a gradual reduction in the volume of its bond and security purchases in the course of 2018.

And finally, the forecasts for Germany are also positive: The IMF has upgraded its previous assumption by 0.5 percentage points, to 2.3 per cent in the year 2018. The DIW (Deutsches Institut für Wirtschaftsforschung, Berlin) is also of the opinion that growth in the domestic economy in 2018 will increase by 0.25 percentage points to 2.2 per cent. The economic researchers have identified opportunities in the form of the low level of unemployment, which is boosting private consumption, as well as the flourishing world economy, which is having a positive impact on German investments and exports. On the other hand, there are global risks which are impossible to estimate, such as the direction of economic policy in the USA, the challenges posed by Brexit and the still unclear direction of German financial policy over the next few years.

Growth in the German mobile communications market is expected to be somewhat more moderate: VATM expects to see revenues increase by between 0.5 and 1.0 per cent in 2018. The digital association Bitkom is slightly lower with its forecasts of plus 0.4 per cent, which it published in its recent digitalisation analysis in February 2018. According to Bitkom, the "device" sub-market will probably achieve growth of 1.3 per cent compared with the previous year. Approximately 95 per cent of these revenues will be generated by sales of smartphones. With regard to the original telecommunication services, it is expected that opposite developments will overall stop the downward trend seen in recent years. Whereas revenues generated with voice services in the landline and mobile communications sectors are expected to continue to decline at rates of approximately 8 per cent, business with mobile data services is expected to report growth of approximately 6 per cent compared with 2017. Overall therefore, revenues are expected to be virtually stable; in view of increased levels of investment in fibre-optic infrastructures for landline and 5G mobile communications, this will confront the market players and also the digital policy of the German government with increasing challenges.

One of these challenges will continue to be the creation of a viable fibre-optic landscape in Germany in order not entirely to lose touch with gigabit nations such as Spain and the USA. The increasing use of data-intensive services (e.g. video-on-demand) requires high levels of investment in the German broadband infrastructure; such investment is to be borne by industry and on the other hand supported by a state subsidy of 3 billion euros per annum. It is the stated aim of the German government and companies to be able to guarantee an Internet speed of at least 50 mbps for each household by the end of 2018. During the past three years, broadband availability has been increased from 60 per cent to 75 per cent of households. Overall, investments of 80 billion euros are planned until the year 2025 to create the conditions for a high-performance digital society.

On the other hand, the complete digitalisation of the German TV market is about to take place in the near future – only approximately 10 per cent of households are still receiving their TV signal via the traditional analogue channel. HD-TV is also becoming more and more important. The expanding range of video content which is available via the Internet by means of a wide range of receivers will complement the traditional linear TV in future. This over-the-top consumption ("OTT-consumption") will offer various possibilities.

According to the auditing and consultancy company Deloitte, the number of digital media subscriptions will rise by 20 per cent in 2018 and double by 2020 to keep up with the wide range of entertainment content. In its "Technology, Media and Telecommunications Predictions 2018", Deloitte forecast that, by the end of the year, 50 per cent of all consumers will have taken out at least two subscriptions (rising to four online subscriptions in the year 2020). Overall, in the industrial nations, it is assumed that there are 680 million subscriptions with 350 million subscribers. The average monthly cost of using TV and film as well as music and print content is estimated to be approximately 10 dollars per user; this is also expected to rise significantly over the two-year period. And finally, personalised online advertising will also become much more important in the course of the next few years to enable users to participate in the advancing digitalisation of society and the economy.

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

- Economic growth in Germany expected to continue
- Investment in digital infrastructures as well as the digital transformation of the economy and society, particularly regarding the consumption of media content will create growth potential
- Mobile communication revenues will probably remain stable

freenet Group

As the largest independent telecommunications provider, the freenet Group, in its capacity as a digital lifestyle provider, offers its approximately 13 million customers products, services and hardware for mobile communications, TV and media as well as all other areas of digital life. The Group thus considers that it is a pioneer of digital change.

The freenet Group has adopted a policy of profitability-oriented expansion of its business activities to combat the constantly increasing presence of mobile Internet and the "always-on" mentality. It offers a comprehensive and differentiated portfolio of digital lifestyle offerings. This results from the wide range of needs of its customers and a policy of rapidly and systematically taking on and testing new digital trends and solutions. Digital technologies such as the Internet of Things, intelligent data analysis and cloud computing provide a wide range of areas for marketing products in the fields of entertainment, smart home, health and safety. In total, these activities generated revenue of approximately 165 million euros in 2017, representing an increase of 20 per cent compared with the previous year. In the financial year 2018, the freenet Group will further expand its digital lifestyle product portfolio; the aim is to achieve revenue growth of around 10 per cent.

The TV and Media segment – and in particular the freenet TV brand – underwent a process of far-reaching change last year. The shutting-down of the DVB-T standard at the end of March 2017 saw the start of the phase of changing over all users of terrestrial TV to the new standard DVB-T2. As announced on the capital market day on 12 April 2017 in Cologne, management was initially anticipating approximately 800,000 paying HD-TV customers by the end of 2017. When the quarterly figures for the period ending 30 September 2017 were published, this expectation was upgraded appreciably by 150,000 to 950,000 subscriptions taken out by the end of 2017. Ultimately, 975,000 subscribers were won. However, the number of more than 2.5 million users as of 31 December 2017, as well as changes from cable and satellite, means that there is still scope for a further increase in the number of paying customers.

The second TV product waipu.tv also almost matched and even exceeded the forecast made in April 2017: With roughly half a million registered customers and more than 100,000 paying viewers, the freenet Group has confirmed its original expectation. In addition, in the course of the year, the company was able to carry out various product optimisations and enter several co-operations, for instance in particular the strategic co-operation with Amazon. Accordingly, waipu.tv can now be received not only with Google Chromecast but also via Amazon Fire TV stick. It is also the company's stated aim to extend the range of products and to manage marketing activities in such a way that constant growth in the number of paying customers can be achieved.

And finally, there is also the strategic focus of original core business – namely sales of mobile communication contracts of all three network operators. With a stable market share of approximately 12 per cent in a stagnating field, the main brand mobilcom-debitel as well as all other mobile communication brands of the Group focus on gaining and maintaining valuable customer relations. The focus on the premium segment as well as the declining pressure on prices in the No-frills sector support this objective. The focus was on boosting the Customer Ownership as well as stabilising the postpaid ARPU. In March 2017, freenet started the announced co-operation with Capita, which permits accelerated further development of our customer service in the direction of customer excellence and digitalisation.

The up to now successful business strategy of the freenet Group continues to be based on an efficient distribution network with a variety of cross-selling possibilities. For this purpose, the freenet Group with its multiple brand strategy uses high-street outlets as well as online channels for marketing its mobile communications, media and digital lifestyle portfolios. With a clear focus on customer service and its further development the company will in future continue to focus on the individual needs of its customers and participate in Germany in the growth of the digital lifestyle and TV market with customised products and services.

The business outlook of the freenet Group for the financial year 2017 that was forecast with the help of the defined financial and non-financial performance indicators in the group management report 2016 has proved to be accurate. The targets forecast by the Executive Board have been met or exceeded.

Table 31: **Development of the key performance indicators**[1]

In EUR million / as indicated	Forecast for financial year 2017	2017	Change over previous year in %	Forecast for financial year 2018
Financial performance indicator				
Revenue	moderate increase	3,507.3	4.3	stable[1]
EBITDA exclusive of Sunrise	slightly above 410	408.0	1.4	410-430
Free cash flow exclusive of Sunrise	around 310	308.4	-1.0	290-310
Postpaid-ARPU (in EUR)	stable	21.4	0.0	stable
freenet TV-ARPU	around 4.5	4.3	n/a	around 4.5
Non-financial performance indicator				
Customer Ownership (in million)	slight increase	9.59	0.6	stable
freenet TV subscribers (in million)	> 0.80	0.98	n/a	> 1.20
waipu.tv registered customers (in million)	> 0.50	0.46[2]	> 100.0	significant increase
waipu.tv subscribers (in million)	> 0.10	0.10	> 100.0	> 0.25

In order to measure the short-, medium- and long-term success of our strategic alignment and its operational implementation, the freenet Group currently uses financial as well as non-financial performance indicators: The financial performance indicator free cash flow is not used for management purposes at the segment level; it is used exclusively at the group level. Postpaid ARPU is used as a performance indicator only the Mobile Communications segment, and freenet TV is used as a performance indicator only in the TV and Media segment.

In 2017, revenue increased to 3,507.3 million euros – which means that the company has clearly met its objective of reporting slightly higher revenue. For 2018, the freenet Group expects fundamentally stable revenues. As a result of the accounting standard IFRS 15 which has to be applied for the first time starting 1 January, the figure reported for revenue will in future be much lower, essentially as a result of network operator commissions which are received being reported as a reduction in cost of materials, instead of, as has been previously the case, being shown in revenue. Please refer to note 1.1., Business activity and accounting standards, of the notes to the consolidated financial statements. The change-over to IFRS 15 is based on a steady business structure and is expected to result in revenue declining by approximately 700 million euros in 2018.

The EBITDA exclusive Sunrise which has been achieved in 2017 is stated as 408.0 million euros – the company was thus also able to approximately meet this objective (slightly more than 410.0 million euros). On the basis of these positive results and the expected sector developments, the company's aim for the financial year 2018 is to achieve stable revenue as well as slightly higher EBITDA excl. Sunrise of 410 to 430 million euros.

At the segment level, the executive board is predicting for 2018 stable revenue and stable EBITDA in Mobile Communications compared with the previous year. Only the changeover to IFRS 15 is expected to result in a decline in revenues of around EUR 700 million based on a steady business structure. The targets for the development of the performance indicators postpaid ARPU and customer ownership in the next year are stated as follows: The company continues to expect that postpaid ARPU will stabilise at the level of the previous year and also stable figures for customer ownership compared with the financial year 2017. However, this is expected to increase the particularly valuable Postpaid-customers. The freenet Group meets the challenges in the mobile communications market by means of greater marketing of data tariffs and current devices such as smartphones and tablets.

For the TV and Media segment, the company expects to report stable revenue and significant higher EBITDA next year compared with the previous year. With regard to the DVB-T2 product freenet TV, the company expects to be able to report more than 1.2 million subscribers at the end of 2018. In the opinion of the Executive Board, freenet TV ARPU will be approximately 4.5 euros in the financial year 2018, roughly in line with the corresponding previous-year figure. With regard to the IPTV offering waipu.tv, the company is predicting an increase in the number of customers in 2018: Management expects to see more than 250,000 subscribers and an significant increase in registered customers.

In the reporting period, the free cash flow exclusive Sunrise, one of the main performance indicators relevant for management purposes in the Group, amounted to 308.4 million euros, and was thus in line with the forecast figure of approximately 310.0 million euros. For the financial year 2018, the company aims to achieve group-wide free cash flow of 290 to 310 million euros.

1 Excluding the effects of the first-time application of IFRS 15 in 2018
2 Exclusive of about 76,000 pre-registered users.

Overall guidance of the Group's expected development

With the support of the continuation of the positive domestic economy in Germany, the freenet Group has made an optimistic start to the first quarter of 2018. The Group is confident that it will be able in 2018 to continue the positive overall development seen in recent years. In this connection, the Executive Board aims to continue to focus on maintaining and expanding Customer Ownership over the next year, i.e. the profitable valuable customer relations in the postpaid and no-frills sectors. With this continuing focus, it is considered to be extremely realistic that the company will be able to defend its long-standing market share of approximately 12 per cent this year.

Considerable opportunities in future have also been identified in the company's role as a digital lifestyle provider. For instance, the intelligent networking of things via the Internet provides numerous application and growth possibilities. The freenet Group will continue to utilise for itself this existing growth potential also in the future by way of marketing innovative digital lifestyle products and services. In the TV and Media segment, the freenet Group has started the year 2018 with more than 1 million paying subscribers, and expects that it will be able to establish this customer base as relevant core business in addition to mobile communications. As a result of breaking into the new TV segment, the freenet Group has thus laid the foundation for a comprehensive and innovative TV experience and prepares at the same time the way for TV of the next generation.

And finally, the assurance and expansion of sustainable profitability and cash flow strength form the basis of the strategic business focus of the freenet Group. The company will continue in future to focus on expanding the product portfolio and developing new segments by organic and external means subject to strict profitability and investment requirements.

Büdelsdorf, 5 March 2018
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 2017

In EUR `000s/as indicated	Note	1.1.2017 - 31.12.2017	1.1.2016 - 31.12.2016
Revenue	4	3,507,263	3,362,407
Other operating income	5	54,897	60,544
Other own work capitalised	6	18,525	18,731
Cost of material	7	-2,557,501	-2,463,670
Personnel expenses	8	-225,661	-220,437
Depreciation and impairment write-downs	9	-148,234	-124,324
Other operating expenses	10	-388,458	-355,448
Operating result		**260,831**	**277,803**
Share of results of associates accounted for using the equity method	17	112,161	21,019
Thereof profit share		132,130	36,697
Thereof subsequent recognition from purchase price allocation		-19,969	-15,678
Interest receivable and similar income	11	830	809
Interest payable and similar expenses	12	-51,132	-55,675
Result before taxes on income		**322,690**	**243,956**
Taxes on income	13	-47,116	-27,536
Group result		**275,574**	**216,420**
Group result attributable to shareholders of freenet AG	23	286,669	228,422
Group result attributable to non-controlling interest	23	-11,095	-12,002
Earnings per share in EUR (undiluted)	14.1	**2.24**	**1.78**
Earnings per share in EUR (diluted)	14.2	**2.24**	**1.78**
Weighted average of shares outstanding in thousand (undiluted)	23	128,011	128,011
Weighted average of shares outstanding in thousand (diluted)	23	128,011	128,011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2017

In EUR `000s	Note	1.1.2017 - 31.12.2017	1.1.2016 - 31.12.2016
Group result		**275,574**	**216,420**
Change in fair value of available-for-sale financial assets		-35	-37
Reclassification adjustments from the change in fair value of available-for-sale financial assets		0	35
Currency difference		-360	94
Currency difference from subsequent accounting of associates accounted for using the equity method	17.1	-15,813	3,673
Income tax recognised in other comprehensive income		250	102
Other comprehensive income/to be reclassified to the income statement in the following periods		**-15,958**	**3,867**
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. IAS 19 (2011)	28	3,216	-10,281
Profit shares of associates accounted for using the equity method	17.1	3,653	8,689
Income tax recognised in other comprehensive income		-1,033	2,954
Other comprehensive income/not to be reclassified to the income statement in the following periods		**5,836**	**1,362**
Other comprehensive income		**-10,122**	**5,229**
Consolidated comprehensive income		**265,452**	**221,649**
Consolidated comprehensive income attributable to shareholders of freenet AG		276,547	233,651
Consolidated comprehensive income attributable to non-controlling interest		-11,095	-12,002

CONSOLIDATED BALANCE SHEET

as of 31 December 2017

Assets

In EUR '000s	Note	31.12.2017	31.12.2016 adjusted*
Non-current assets			
Intangible assets	15,16	563,507	526,234
Goodwill	15,16	1,379,919	1,379,919
Property, plant and equipment	15,16	435,818	493,132
Investments in associates accounted for using the equity method	17	810,984	745,066
Deferred income tax assets	18	153,508	174,172
Trade accounts receivable	20	79,081	81,132
Other receivables and other assets	20	9,500	0
Other financial assets	20	7,945	21,324
		3,440,262	**3,420,979**
Current assets			
Inventories	19	76,310	74,906
Current income tax assets	22	2,205	5,169
Trade accounts receivable	20	453,700	438,764
Other receivables and other assets	20	4,572	10,103
Other financial assets	20	14,258	16,455
Cash and cash equivalents	21	322,816	318,186
Assets classified as held for sale		0	197
		873,861	**863,780**
		4,314,123	**4,284,759**

* *The previous year figures have been adjusted in line with the new disclosure structure. Please refer to note 2.17, Comparative figures, in the notes to the consolidated financial statements.*

Shareholders' equity and liabilities

In EUR `000s	Note	31.12.2017	31.12.2016 adjusted*
Shareholders' equity			
Share capital	23.1	128,061	128,061
Capital reserve	23.2	737,536	737,536
Cumulative other comprehensive income	23.3	-20,256	-10,134
Retained earnings	23.4	586,433	504,582
Capital and reserves attributable to shareholders of freenet AG		**1,431,774**	**1,360,045**
Capital and reserves attributable to non-controlling interest	23.5	31,127	42,222
		1,462,901	**1,402,267**
Non-current liabilities			
Other financial trade accounts	25	332,218	294,608
Borrowings	27	1,666,001	1,673,871
Pension provisions	28	87,909	92,638
Other provisions	29	26,794	58,559
		2,112,922	**2,119,676**
Current liabilities			
Trade accounts payable	25	517,276	515,696
Other payables	25	81,842	61,430
Other financial trade accounts	25	49,121	48,993
Current income tax liabilities	26	33,806	46,847
Borrowings	27	7,145	60,302
Other provisions	29	49,110	29,548
		738,300	**762,816**
		4,314,123	**4,284,759**

** The previous year figures have been adjusted in line with the new disclosure structure. Please refer to note 2.17, Comparative figures, in the notes to the consolidated financial statements.*

SCHEDULE OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2017

In EUR `000s	Share capital	Capital reserve	Cumulative other comprehensive income					Retained earnings	Capital and reserves attributable to share-holders of freenet AG	Capital and reserves attributable to non-controlling interest	Sharehold-ers' equity
			Revaluation reserve	Currency difference	Currency difference from subsequent accounting of associates accounted for using the equity method	Valuation reserve in accordance with IAS 19	Profit share of associates accounted for using the equity method				
As of 1.1.2016	**128,061**	**737,536**	**-139**	**364**	**0**	**-15,588**	**0**	**474,577**	**1,324,811**	**54,224**	**1,379,035**
Dividend payment	0	0	0	0	0	0	0	-198,417	-198,417	0	-198,417
Group result	0	0	0	0	0	0	0	228,422	228,422	-12,002	216,420
Profit share of associates accounted for using the equity method[1]	0	0	0	0	0	0	8,559	0	8,559	0	8,559
Recognition of actuarial gains and losses acc. IAS 19 (2011)[1]	0	0	0	0	0	-7,198	0	0	-7,198	0	-7,198
Change in fair value of availa-ble-for-sale finan-cial instruments[1]	0	0	-1	0	0	0	0	0	-1	0	-1
Foreign currency translation[1]	0	0	0	251	0	0	0	0	251	0	251
Foreign currency translation from subsequent accounting of asso-ciates accounted for using the equity method[1]	0	0	0	0	3,618	0	0	0	3,618	0	3,618
Sub-total: Consoli-dated comprehen-sive income	0	0	-1	251	3,618	-7,198	8,559	228,422	233,651	-12,002	221,649
As of 31.12.2016	**128,061**	**737,536**	**-140**	**615**	**3,618**	**-22,786**	**8,559**	**504,582**	**1,360,045**	**42,222**	**1,402,267**

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

In EUR `000s	Share capital	Capital reserve	Cumulative other comprehensive income: Revaluation reserve	Cumulative other comprehensive income: Currency difference	Cumulative other comprehensive income: Currency difference from subsequent accounting of associates accounted for using the equity method	Cumulative other comprehensive income: Valuation reserve in accordance with IAS 19	Cumulative other comprehensive income: Profit share of associates accounted for using the equity method	Retained earnings	Capital and reserves attributable to share-holders of freenet AG	Capital and reserves attributable to non-con-trolling interest	Sharehold-ers' equity
As of 1.1.2017	**128,061**	**737,536**	**-140**	**615**	**3,618**	**-22,786**	**8,559**	**504,582**	**1,360,045**	**42,222**	**1,402,267**
Dividend payment	0	0	0	0	0	0	0	-204,818	-204,818	0	-204,818
Group result	0	0	0	0	0	0	0	286,669	286,669	-11,095	275,574
Profit share of associates accounted for using the equity method[1]	0	0	0	0	0	0	3,598	0	3,598	0	3,598
Recognition of actuarial gains and losses acc. IAS 19 (2011)[1]	0	0	0	0	0	2,238	0	0	2,238	0	2,238
Change in fair value of availa-ble-for-sale finan-cial instruments[1]	0	0	-24	0	0	0		0	-24	0	-24
Foreign currency translation[1]	0	0	0	-360	0	0	0		-360	0	-360
Foreign currency translation from subsequent accounting of asso-ciates accounted for using the equity method[1]	0	0	0	0	-15,574	0	0	0	-15,574	0	-15,574
Sub-total: Consoli-dated comprehen-sive income	0	0	-24	-360	-15,574	2,238	3,598	286,669	276,547	-11,095	265,452
As of 31.12.2017	**128,061**	**737,536**	**-164**	**255**	**-11,956**	**-20,548**	**12,157**	**586,433**	**1,431,774**	**31,127**	**1,462,901**

For further details, please refer to our explanations in note 23, Shareholders' equity.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the period from 1 January to 31 December 2017

In EUR `000s	Note	1.1.2017 - 31.12.2017	1.1.2016 - 31.12.2016
Result before interest and taxes (EBIT)		**372,992**	**298,822**
Adjustments			
Depreciation and impairment on items of fixed assets	9	148,234	124,324
Share of results of associates accounted for using the equity method	17	-112,161	-21,019
Dividends received from associates accounted for using the equity method	17	34,409	30,124
Gains on the sale of subsidiaries		0	-285
Gains/Losses on the disposal of fixed assets		-2,447	1,419
Increase in net working capital not attributable to investing or financing activities	19, 20, 25, 28, 29, 31.1	-25,598	-3,750
Tax payments	13, 18	-30,073	-39,986
Cash flow from operating activities	31.1	**385,356**	**389,649**
Investments in property, plant and equipment and intangible assets		-61,118	-62,792
Proceeds from the disposal of property, plant and equipment and intangible assets		18,597	14,681
Payments for the acquisition of subsidiaries		0	-76,618
Proceeds from the sale of subsidiaries		200	440
Proceeds from the sale of available-for-sale financial assets		0	45
Payments for the acquisition of associates, accounted for using the equity method	17	0	-738,938
Payments in shareholders' equity, accounted for using the equity method	17	-325	0
Payments for investment in shares		-271	0
Interest received		811	753
Cash flow from investing activities	31.2	**-42,106**	**-862,429**
Dividend payments to company owners and minority shareholders		-204,818	-198,417
Proceeds from new borrowings	27	0	1,853,580
Cash repayments of borrowings	27	-64,612	-1,047,268
Cash repayments of borrowings from finance lease	25	-24,380	-18,565
Cash repayments of financial costs due to the prolongation of financial debt		-1,927	0
Interest paid		-42,883	-68,125
Cash flow from financing activities	31.3	**-338,620**	**521,205**
Cash-effective change in cash and cash equivalents		**4,630**	**48,425**
Cash and cash equivalents at the beginning of the period		**318,186**	**269,761**
Cash and cash equivalents at the end of the period		**322,816**	**318,186**

Composition of cash and cash equivalents[1] In EUR '000s	31.12.2017	31.12.2016
Cash and cash equivalents	322,816	318,186
	322,816	**318,186**

Composition of free cash flow[1] EUR '000s	31.12.2017	31.12.2016
Cash flow from operating activities	385,356	389,649
Investments in property, plant and equipment and intangible assets	-61,118	-62,792
Proceeds from the disposal of property, plant and equipment and intangible assets	18,597	14,681
Free cash flow (FCF)	**342,835**	**341,538**

1 Free cash flow is a non-GAAP parameter. In this context please refer to section „Definition of alternative performance measures“ in the group management report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF FREENET AG FOR THE FINANCIAL YEAR 2017

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, radio and multimedia services in Germany and focuses mainly on mobile communications/mobile internet and digital lifestyle.

The consolidated financial statements for the financial year 2017 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 2017. The provisions of German commercial law to be applied in accordance with section 315e 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 Federal Gazette.

The following table shows the new or modified standards (IAS/IFRS) and interpretations (IFRIC) whose application is mandatory from 1 January 2017 and their respective impact on the Group:

Standard/interpretation		Mandatory application	Adoption by EU Commission	Effects
IAS 7	Amendment to IAS 7: Disclosure initiative	1.1.2017	6.11.2017	No material effects
IAS 12	Amendment to IAS 12: Recognition of deferred tax assets on unrealised losses	1.1.2017	6.11.2017	No material effects

The Group applied all of the accounting standards which have been mandatory since 1 January 2017. Their application had no material impact on these consolidated financial statements.

The following table shows the new or modified standards (IAS/IFRS) and interpretations whose application was not yet mandatory in the 2017 financial year and their respective impact on the Group.

Standard/interpretation		Mandatory application	Adoption by EU Commission	Effects
IFRS 15	Clarification to IFRS 15 (Revenue from contracts with customers)	1.1.2018	31.10.2017	Material effects
IFRS 4	Amendments to IFRS 4 (insurance contracts) by application of IFRS 9 (financial instruments)	1.1.2018	3.11.2017	None
Diverse	Annual Improvements Project 2014 to 2016 – Improvements of IFRS (IFRS 1, IFRS12, IAS 28)	1.1.2018	Pending	No material effects
IAS 40	Amendments to IAS 40: Transfers of held property as financial investments	1.1.2018	Pending	None
IFRS 2	Amendments to IFRS 2: Classification and Valuation of transactions with share-based compensation	1.1.2018	Pending	No material effects
IFRIC 22	Transactions in foreign currency and refund paid in advance	1.1.2018	Pending	None
IFRS 16	Leases	1.1.2019	31.10.2017	Material effects
IFRIC 23	Risk positions from income tax	1.1.2019	Pending	None
IFRS 9	Financial instruments	1.1.2019	Pending	Material effects
IAS 28	Amendment to IAS 28: Longterm shares in associated companies and joint ventures	1.1.2019	Pending	No material effects
Diverse	Annual Improvements Project 2015 to 2017 – Improvements of IFRS 3, IAS 12, IAS 23	1.1.2019	Pending	No material effects
IFRS 17	Insurance contracts	1.1.2021	Pending	None

IFRS 16

In January 2016, the IASB published the standard IFRS 16 (Leases). 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.

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.

In the freenet Group, a group-wide project for implementing the new standard was set up in the previous year. A provisional assessment indicates that the freenet Group currently has leases covered by the scope of IFRS 16 which, according to the current accounting system, have a negative impact on EBITDA in an amount running between the medium and high double-digit millions; however, after 1 January 2019, these will have an impact on interest, depreciation and amortisation in the income statement below EBITDA. The freenet Group would accordingly have to recognise usage rights and leasing liabilities with the application of IFRS 16 unless the exceptions for short-term leases or minor-value assets are applicable. The application of IFRS 16 will accordingly have a material impact on the consolidated financial statements. A reliable estimate of quantitative effects on the net assets, financial position and results of operations will only be possible after the project has been concluded.

Within the framework of initial adoption, the freenet Group will choose the retrospectively modified approach, i.e. it will recognise the usage rights and leasing liabilities as of 1 January 2019. Cumulative effects resulting from the change-over will be recognised directly in equity.

IFRS 9

On 24 July 2014, the IASB finally published the standard IFRS 9 (Financial Instruments). It was adopted by the EU Commission on 22 November 2016. IFRS 9 governs the recognition of financial instruments, replacing IAS 39 in this respect. The first-time mandatory adoption of IFRS 9 is earmarked for financial years commencing on or after 1 January 2018. The freenet Group has been applying IFRS 9 since 1 January 2018.

IFRS 9 governs the classification and initial as well as subsequent measurement of debt instruments, equity instruments as well as derivatives. According to IFRS 9, all financial instruments are measured at fair value upon acquisition. Transaction costs increase or diminish the initial carrying amount if the financial asset or the financial liability is not measured at fair value with changes in value being recognised in the period result. With regard to subsequent measurement, all financial assets are broken down into two classification categories – those financial assets which are measured at amortised cost of purchase, and those financial assets which are measured at fair value. If financial assets are measured at fair value, income and expenses can be recognised either entirely in the period result or via equity in other comprehensive income. The classification is defined when the financial asset is first recognised, i.e. at the point at which the company becomes the counterparty of the contractual agreements of the instrument. In certain cases, however, subsequent reclassification of financial assets may be necessary.

In addition, IFRS 9 now specifies that, for all financial instruments covered by the scope of this standard, a new impairment model is introduced when an expected loss has to be recognised at the point at which the financial asset is recorded (expected credit loss model). Previously, under IAS 39, an impairment was recognised if there was an objective indication of such an impairment, for instance if a receivable was already past due (incurred loss model). Under IAS 39, the point at which impairments were recognised was thus later than the time at which impairments are recognised under the new standard. Under IFRS 9, and with the exception of financial assets which were already impaired at the time of acquisition, expected losses are recognised with the following amounts:

- The expected 12-month loss (present value of expected non-payments resulting from possible default events during the next 12 months following the closing date) or
- The entire loss expected over the remaining term of the instrument (present value of the expected non-payments as a result of all possible default events over the remaining term of the financial instrument)

Due to the initial application of IFRS 9 since 1 January 2018, the freenet Group has recorded a reduction of 25.6 million euros in trade accounts receivable as well as other financial assets. This represents a cumulative negative adjustment effect in equity as of 1 January 2018 (after approach deferred tax assets of 7.8 million euros) of 17.8 million euros.

IFRS 15

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 IASB published clarifications to IFRS 15 on 12 April 2016. It is a revision of proposals and examples of the areas of identifying performance obligations, principal versus agent consideration, license revenue as well as exemption regulations regarding initial adoption, and further examples were included. These clarifications did not result in any significant change to the specialist concept for our Group.

Initial adoption must be performed retrospectively, whereby Appendix C contains some simplifications for the transition to IFRS 15. freenet will apply the option for simplified initial adoption, i.e. the contracts which have not yet been completely fulfilled as of 1 January 2018 will be recognised as though they had been recognised in accordance with IFRS 15 right from the very beginning. The cumulative effect resulting from the change-over as of 1 January 2018 is recognised directly in equity. Comparison figures of the previous-year periods are not adjusted.

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 the contract acquisition costs (consisting of 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. Also provided is an explanation of the changes to items in the income statement of the current period resulting from the first-time adoption of IFRS 15.

The IT introduction project associated with the IFRS 15 was started in the freenet Group at the end of 2012, and had been completed at the point at which these consolidated financial statements were prepared. As a result of this introduction project, the IT system landscape of the freenet Group was 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 customer acquisition costs.

At present, the main impact of IFRS 15 on our consolidated balance sheet and consolidated income statement is attributable to the Mobile Communications segment, and primarily for our postpaid end customers. From the perspective of the time of the change-over on 1 January 2018, the corresponding impact of IFRS 15 for our TV and Media as well as Other/Holding segments is negligible. The following four paragraphs detail the main individual effects of IFRS 15 on the consolidated income statement:

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 is 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. Only the times of realisation are affected: For our postpaid operations, the described individual effect of the application of the new standard means that revenue and EBITDA will tend to be recognised earlier than is the case at present.

Under IFRS 15, the contract acquisition costs, which essentially consist of dealer commissions in the freenet Group, have to be capitalised, whereas at present they essentially have an impact on cost of materials directly at the point at which they are incurred. Under IFRS 15, the contract acquisition costs are mainly amortised over a period of 24 months, and reduce the cost of materials. This individual effect means that EBITDA will tend to be realised earlier than is currently the case.

A further change-over effect resulting from the application of IFRS 15 in the freenet Group is that commissions and bonuses which are received from the network operators will no longer (as is the case at present) be recognised in the income statement immediately at the point at which they are incurred (via revenues); instead, they will in future reduce the cost of materials: most of these costs will be spread over a period of 24 months, and a small amount of such costs will be recognised immediately at the point at which they are incurred. This individual effect means that revenue and cost of materials will tend to be considerably reduced, and that EBITDA will be realised much later than is currently the case.

A fourth change-over effect is described as follows: If freenet sells only the tariff to the end customer, whereas the dealer issues a device or other customer benefit to the end customer acting as a principal in indirect sales, freenet in certain cases pays to the dealer compensation which exceeds the equivalent value of the arrangement. In such cases, the tariff price which freenet charges for the mobile communications service may include an increasing element ("consideration payable to the customer"). Under IFRS 15, a reduction has to be recognised in the income statement: The tariff revenue is recognised after such elements, and the cost of materials is also reduced by dealer commissions. This individual effect means that the revenue and cost of materials which are recognised will tend to be lower than the figures which are currently recognised.

However, because all effects resulting from the process of changing over to the new accounting system are recognised directly in equity, any effects reflected in the income statement after the financial year 2018 can only result from changes in timing differences regarding the realisation of revenue and expenses. Assuming that operations remain unchanged, and in a mass market with a number of customer agreements which are concluded at different times, this means that:

- In the case of agreements which were still running at the time of the change-over on 1 January 2018, lower current service revenue, higher cost of materials resulting from the amortisation of contract acquisition costs as well as lower cost of materials from commissions and bonuses received from network operators are essentially compensated for by the
- higher revenue generated by hardware sales upon the conclusion of new contracts or contract extensions, the lower cost of materials resulting from the capitalisation of the contract acquisition costs as well as the lower revenue resulting from the fact that network operator commissions and bonuses under IFRS 15 are no longer realised at the point at which they occur.

Accordingly, for the year 2018, freenet does not anticipate that the process of changing over to the new IFRS 15 will have any significant impact on the earnings parameters gross profit, EBITDA, EBIT, EBT and group result. However, as a result of the changes described above regarding the way in which the commissions and bonuses received from network operators are recognised and also the consideration payable to the customer, there will be significant changes within gross profit. Accordingly, as a result of IFRS 15, freenet expects that the figures reported for revenue as well as cost of materials in 2018 will be approximately 700 million euros lower in each case.

As a result of the change-over as of 1 January 2018, IFRS 15 will have the following major impact on the consolidated balance sheet:

- On the assets side of the balance sheet
  - The deferred income tax receivables will increase by 11.0 million euros (deferred taxes relating to temporary differences regarding the change-over effect recognised in equity)
  - The sum of trade accounts receivable, other receivables and other assets as well as other financial assets will increase by 82.4 million euros. This is due mainly to contractual assets arising from the cross-subsidising of service and hardware revenue in direct sales and also from the recognition of the consideration payable to a customer in indirect sales
  - Contract acquisition costs, of 289.6 million euros, are recognised for the first time in a separate balance sheet item under non-current assets
- On the liabilities side of the balance sheet
  - Shareholders' equity is reduced by approximately 25.2 million euros as a result of the one-off change-over effect, after the creation of deferred taxes
  - Trade account payable, other payables as well as the other financial liabilities have increased by approximately 413.4 million euros, mainly as a result of the fact that most of the bonuses and commissions received from network operators will in future be recognised as deferred items over 24 months
  - The other provisions will be reduced by approximately 5.2 million euros as a result of lower provisions for potential losses in relation to negative-margin tariffs

The change-over to IFRS 15 as of 1 January 2018 has resulted in an increase of 383.0 million euros in the balance sheet total. In addition, as a result of the first-time adoption of IFRS 15 at Sunrise as of 1 January 2018, freenet expects to see an increase in the number of companies included in accordance with the equity method as well as shareholders' equity (cumulative other comprehensive income) in the amount of approximately 7 million euros.

With regard to the cash flow statement, IFRS 15 has not had any impact in the freenet Group on the amount of cash flow from operating activities, the amount of cash flow from investing activities, the amount of cash flow from financing activities as well as the amount of free cash flow.

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 315e HGB in note 34.

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: common activities 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, 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“), freenet Energy GmbH, freenet digital GmbH, iLove GmbH, Lorena Medienagentur GmbH, Quaid Media International GmbH, Motility GmbH, klarmobil GmbH, callmobile GmbH, Taunus Beteiligungs GmbH, Media Broadcast GmbH, Media Broadcast Services GmbH and Media Broadcast TV Services 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 2017.

In the financial year 2017, there was only one change in the consolidation group compared with the consolidated financial statements 2016: Since March 2017, the freenet Group has held a 50.01 per cent stake in the capital of EXARING AG (31 December 2016: 24.99 per cent).

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 as well as in other comprehensive income from the time when the associate is acquired. Dividend payments received reduce the figure recognised for the carrying amount of the participation in associates. 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, 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, please refer to 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 seqq. 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.

The revenue in the TV and Media segment is generated by the rendering of services to end customers in the IP TV and DVB-T2 fields and also by the operation and service of broadcast-related solutions for business users in the radio and media sector. Revenue is recognised at the point at which the service is rendered to the customer.

2.2. 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 breakdown, please refer to note 15, Intangible assets, property, plant and equipment and goodwill as well as 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 provided that 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 180 months. On the balance sheet date 31 December 2017, the remaining useful life of these trademarks was between 1 and 158 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 to four years for software and three 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 to seven years.

Customer relationships are amortised on a scheduled straight-line basis over a period of 36 to 262 months. On the balance sheet date 31 December 2017, the remaining useful life of the customer relationships recognised in the balance sheet was between 13 and 240 months.

Distribution rights are amortised on a scheduled straight-line basis over the expected duration of the underlying agreements (36 months). On the balance sheet date 31 December 2017, the remaining useful life of the distribution rights recognised in the balance sheet was 33 months.

2.3 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	10 to 33 years
Technical equipment and machinery	5 to 15 years
Motor vehicles	6 years
IT equipment	3 to 8 years
Telecommunications equipment and hardware	5 years
Leasehold improvements	3 to 10 years

2.4 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.

2.5 Leases

2.5.1 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 31 December 2017, a framework rental agreement has been classified as a finance lease with the part of the minimum rental obligation. Scheduled deprecioation to be recognised until 2027. Please refer to the comments in note 25, Trade accounts payable, other liabilities and accruals and other financial liabilities.

2.5.2 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 of 31 December 2017, as was the case in the previous year, there were no contracts in which the Group is classified as the lessor in finance leases.

2.6 Investments in associates and joint ventures

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

2.7 Financial instruments

2.7.1 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.

2.7.2 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.

2.7.3 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 three 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.

2.7.4 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.

2.7.5 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.

2.7.6 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.

2.7.7 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.

2.7.8 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.

2.7.9 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. For details, please refer to the comments in note 32.6, Transfer of financial assets.

2.7.10 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.

2.8 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.

2.9 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. Minor volumes of foreign currency transactions were carried out in the financial year 2017.

Sunrise Communications Group AG, Zurich, Switzerland (referred to in the following as “Sunrise”) has been included as an associated company in the consolidated financial statements of freenet AG. In this connection, the average exchange rate is used for currency translation in relation to the shares in the group net income of Sunrise as well as the subsequent write-down recognised in relation to the shadow purchase price allocation. The residual carrying amount established for the disclosed hidden reserves from the shadow purchase price allocation is translated using the rate applicable on the reference date. Currency translation differences resulting from the recognition of companies accounted for using the equity method are shown in the consolidated statement of comprehensive income under the item currency translation differences from the subsequent recognition of companies accounted for using the equity method. In the event of the loss of significant influence on Sunrise (for example, through the sale of shares), these currency translation differences are realized in the income statement.

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 other comprehensive income and disclosed as a cumulative figure in shareholders’ equity.

2.10 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.

2.11 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 rights 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 under other comprehensive income in the period in which they arise.

Differences between the theoretical and actual income from plan assets are recognised under other comprehensive income 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.

2.12 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.

According to IAS 16, the purchase costs of transmission installations and leasehold improvements include costs expected for obligations to remove these 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 carrying amount of the transmission installations and leasehold improvements (upper limit: recoverable amount; lower limit: zero).

Restructuring provisions basically comprise severance payments to employees. Provisions for potential losses mainly relate to tariffs with negative margins and vacancy costs.

There are semi-retirement obligations in accordance with the Altersteilzeitgesetz (AltTZG – Semi-Retirement Act) of 23 July 1996 in line with the block model. The semi-retirement phase cannot begin before the employee's 55th birthday. During the semi-retirement phase, the employee's monthly semi-retirement net salary is normally topped up to 85 per cent (or 83 per cent for agreements concluded after 1 October 2012) of the theoretical monthly full-time salary which has been reduced by the statutory deductions. A discount rate of 0.17 per cent and a salary increase of 2.25 per cent p.a. have been used as the basis for measuring the semi-retirement obligations. No consideration has been given to any potential in this respect. The obligations have been netted with the fair values of the corresponding plan assets. If the fair value of the plan assets is higher than the obligations, the surplus assets are shown under the receivables and other assets.

The provisions for obligations relating to long-time work accounts are measured using the same assumptions as those applicable for the provisions for pension obligations. Long-time work accounts are set up to ensure that time accounts are balanced in the long term. The obligations are reduced by granting leave of absence at full pay. The obligations have been netted with the fair values of the corresponding plan assets. If the fair value of the plan assets is higher than the obligations, the surplus assets are shown under the receivables and other assets.

2.13 Employee participation programmes

In 2017, there were two essential long-term incentive programmes ("LTIP programmes") as employee participation programmes in the Group.

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

On 26 February 2014, agreements concerning the contracts of employment that grant LTIPs (hereinafter referred to as "Programme 2") were concluded by freenet AG with the members of the Executive Board.

In January 2016, freenet AG and two other group companies granted LTIPs to senior executives below the Executive Board level (referred to in the following as "Programme 3").

In LTIP programmes, an LTIP account is maintained for each beneficiary; in each financial year, depending on the extent to which defined 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, 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 various factors, including 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 24 "Employee participation programmes".

2.14 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.

2.15 Judgements, forward-looking assumptions and estimated uncertainties

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 (carrying amount as of 31 December 2017: 1,379.9 million euros; previous year: 1,379.9 million euros) as well as impairments of intangible assets with an indefinite useful economic life (carrying amount as of 31 December 2017: 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 265 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 318 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 580 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 692 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 "TV" has established that the fair value less costs to sell would decline by approximately 88 million euros if the WACC were to be increased by 0.5 percentage points and would increase by 108 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 170 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 210 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 6 million euros if the WACC were to be increased by 0.5 percentage points and would increase by 7 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 14 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 16 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 0.9 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 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. 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.

In the previous year, and in connection with the acquisition of the Media Broadcast Group, a framework rental agreement was classified as a finance lease with the part of the minimum rental obligation. This is a framework rental agreement with an infrastructure provider relating to the use of radio infrastructures (such as towers and masts) and radio locations and other areas, due to run until 31 December 2027. The Media Broadcast Group has the right to demand that the agreement be extended by ten years until 31 December 2037. The probability of this extension option being exercised has been assumed to be less than 50 per cent.

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 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 2017, please refer to note 24, Employee participation programmes.

With regard to pension provisions and similar obligations, note 28 describes how forward-looking assumptions have been 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 14,416 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 18,668 thousand euros. With regard to further sensitivity analyses pertaining to the pension obligations, please refer to note 28, 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 extent of the capitalised deferred taxes on losses carried forward and also the extent of the losses carried forward in relation to which no deferred tax assets have been recognised, please refer to note 18, 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. 19.4 million euros if the trade income or corporation tax income were to increase by 10 per cent in the relevant planning period, and that they would decline by approx. 19.4 million euros if the trade income or the corporation tax income were to decline by 10 per cent in the relevant planning period.

2.16 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 rather 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.

2.17 Comparative figures

In order to improve the presentation in the consolidated financial statements 2017, the degree of detail regarding the disclosure of "other receivables and other assets" as well as the "other liabilities, deferrals and accruals" has been increased.

On the assets side of the balance sheet, the "other financial assets" are shown separately – this item will in future comprise the "other financial investments".

On the liabilities side of the balance sheet, the "other financial liabilities" will be shown separately in future. The previous year figures have been adjusted accordingly.

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 2017:

- Mobile Communications:
  - Activities as a mobile communications service provider – marketing of mobile communications services (voice and data services) from the mobile communications network operators Deutsche Telekom, 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
  - Sale/distribution of mobile communications devices as well as additional services for mobile data communications and digital lifestyle
  - Rendering of sales services
  - Activity of Sunrise (areas of activity of Sunrise: mobile communications, landline, Internet as well as digital TV)
- TV and Media:
  - Rendering of services to end users in the field of DVB-T2
  - Planning, project management, installation, operation, service and marketing of broadcast-related solutions for business clients in the radio and media sectors
  - Rendering of services, mainly to end users, in the field of IP-TV
- Other/Holding:
  - Rendering of portal services such as e-commerce/advertising services (these essentially comprise the offer of online shopping and the marketing of advertising space on websites), of payment services for end customers as well as various digital products and entertainment formats for downloading and displaying and use on mobile devices
  - Development of communication solutions, IT solutions and other services for corporate customers
  - Range of narrowband voice services (call-by-call, preselection) and data services
  - Rendering of sales services

The "Other/Holding" segment includes other business activities in addition to operating activities. This mainly comprises the holding activities of freenet AG (with the rendering of services within the Group in central areas, such as legal, human resources and finance) as well as entries which cannot be clearly allocated to operating segments. The segment revenue of 75.1 million euros (previous year: 76.9 million euros) reported for 2017 for the "Other/Holding" segment in 2017 is attributable to operating activities (76.1 million euros; previous year: 75.4 million euros) and other business activities (-1.0 million euros; previous year: 1.5 million euros). Of the figure of 48.1 million euros (previous year: 51.0 million euros) reported for gross profit for 2017 for the "Other/Holding" segment, 49.7 million euros (previous year: 52.4 million euros) is attributable to the operating activities and -1.6 million euros (previous year: -1.4 million euros) is attributable to the other business activities. The EBITDA of -12.6 million euros (previous year: -9.6 million euros) reported for the "Other/Holding" segment for 2017 was accounted for by operating activities to the extent of 14.7 million euros (previous year: 14.8 million euros) and by other business activities (-27.3 million euros; previous year: -24.4 million euros).

The segments provide, or used to provide, services to the other segment. If there are equivalent external market prices for internally offered services, these market prices are used as internal transfer prices. The costs which are incurred (plus an overhead mark-up) are used as the basis for the transfer prices for services which cannot be valued on an arm's-length basis.

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 2017

In EUR'000s	Mobile Communications	TV and Media	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**3,153,216**	**292,342**	**61,705**	**0**	**3,507,263**
Intersegment revenue	45,688	2,415	13,429	-61,532	0
Total revenue	3,198,904	294,757	75,134	-61,532	3,507,263
Cost of materials, third party	**-2,441,037**	**-94,786**	**-21,678**	**0**	**-2,557,501**
Intersegment cost of materials	-13,422	-33,600	-5,362	52,384	0
Total cost of materials	-2,454,459	-128,386	-27,040	52,384	-2,557,501
Segment gross profit	**744,445**	**166,371**	**48,094**	**-9,148**	**949,762**
Other operating income	50,226	4,502	5,603	-5,434	54,897
Other own work capitalised	8,244	7,879	2,402	0	18,525
Personnel expenses	-125,209	-65,015	-35,437	0	-225,661
Other operating expenses	-297,303	-73,526	-32,211	14,582	-388,458
Profit share of results of associates accounted for using the equity method	133,167	0	-1,037	0	132,130
Segment EBITDA	**513,570**	**40,211**	**-12,586**	**0**	**541,195**
Depreciation and impairment write-downs					-148,234
Subsequent accounting for associates accounted for using the equity method					-19,969
EBIT					**372,992**
Group financial result					-50,302
Taxes on income					-47,116
Group result					**275,574**
Group result attributable to shareholders of freenet AG					286,669
Group result attributable to non-controlling interest					-11,095
Cash-effective net investments	**17,724**	**20,885**	**3,912**	**0**	**42,521**

Segment report for the period from 1 January to 31 December 2016

In EUR'000s	Mobile Communications	TV and Media	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**3,084,091**	**218,869**	**59,447**	**0**	**3,362,407**
Intersegment revenue	41,879	6	17,419	-59,304	0
Total revenue	3,125,970	218,875	76,866	-59,304	3,362,407
Cost of materials, third party	**-2,370,400**	**-73,432**	**-19,838**	**0**	**-2,463,670**
Intersegment cost of materials	-11,435	-34,600	-6,069	52,104	0
Total cost of materials	-2,381,835	-108,032	-25,907	52,104	-2,463,670
Segment gross profit	**744,135**	**110,843**	**50,959**	**-7,200**	**898,737**
Other operating income	54,993	3,313	6,782	-4,544	60,544
Other own work capitalised	10,305	6,361	2,065	0	18,731
Personnel expenses	-139,042	-48,190	-33,205	0	-220,437
Other operating expenses	-286,505	-44,312	-36,375	11,744	-355,448
Profit share of results of associates accounted for using the equity method	36,493	0	204	0	36,697
Segment EBITDA	**420,379**	**28,015**	**-9,570**	**0**	**438,824**
Depreciation and impairment write-downs					-124,324
Subsequent accounting for associates accounted for using the equity method					-15,678
EBIT					**298,822**
Group financial result					-54,866
Taxes on income					-27,536
Group result					**216,420**
Group result attributable to shareholders of freenet AG					228,422
Group result attributable to non-controlling interest					-12,002
Cash-effective net investments	**18,692**	**25,777**	**3,642**	**0**	**48,111**

4. Revenue

A breakdown of revenue of 3,507 million euros (previous year: 3,362 million euros) over the segments is set out under note 3, Segment reporting.

Of the external revenue generated in the Mobile Communications segment, 1,749 million euros (previous year: 1,753 million euros) was related to service revenue and fees, 619 million euros (previous year: 609 million euros) fees for premiums and commissions and 746 million euros (previous year: 682 million euros) 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

The other own work capitalised mainly relates to the development of mobile communications software, due almost exclusively to strategic projects as well as the company's own assembly services in connection with the process of establishing radio infrastructure.

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	2017	2016
Costs of purchased goods	724,738	668,512
Costs of purchased services	1,832,763	1,795,158
Total	**2,557,501**	**2,463,670**

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	2017	2016
Wages and salaries	188,735	185,311
Social contributions and expenses for retirement pensions	36,926	35,126
Total	**225,661**	**220,437**

An average of 4,167 persons were employed in the Group in the financial year 2017 (previous year: 4,921). At the end of the financial year, the Group employed 4,113 persons (previous year: 4,886). Of this figure, 31 (previous year: 48) were senior executives and 322 (previous year: 354) were apprentices or students of the vocational academy as of 31 December 2017.

The Group's employee participation programmes resulted in personnel expenses as per IFRS 2 amounting to 3,199 thousand euros (previous year: 2,880 thousand euros).

With regard to an explanation of the employee participation programme, please refer to our comments to notes 2.13 and 24, Employee participation programmes.

Personnel expenses also comprise an expense of 2,272 thousand euros for defined benefit plans (previous year: 1,749 thousand euros), see also note 28, Pension provisions and similar obligations.

Personnel expenses include a figure of 14,330 thousand euros as the employer's social insurance contribution as costs of defined contribution benefit plans (previous year: 14,405 thousand euros).

9. Depreciation and amortisation

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

In EUR `000s	2017	2016
Amortisation on intangible assets	60,262	64,238
Impairment write-downs on intangible assets	211	14
Depreciation on property, plant and equipment	87,761	60,072
Total	**148,234**	**124,324**

The increase in the depreciation on property, plant and equipment is primarily attributable to depreciation recognised in relation to technical equipment, plant and machinery within the Media Broadcast Group which was acquired in 2016. Apart from the reduction in service lives within the framework of the sale of VHF infrastructure, depreciation and amortisation in the previous year was only included since the reference date of initial consolidation on 17 March 2016.

The impairments of intangible assets concern internally generated software that is no longer used. The previous year amount relates to an impairment for a license that is no longer used.

10. Other operating expenses

Other operating expenses consist mainly of marketing costs (135,231 thousand euros in 2017 compared with 120,507 thousand euros in 2016), 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 50,790 thousand euros (previous year: 57,163 thousand euros) were incurred. These expenses were attributable almost exclusively to trade accounts receivable.

A total of 32,553 thousand euros was recognised in the income statement in connection with rental agreements and leases (previous year: 37,204 thousand euros).

11. Interest and similar income

Interest and similar income consists of the following items:

In EUR `000s	2017	2016
Interest receivable from banks, debt collection and similar income	653	731
Interest of tax fund	177	78
Total	**830**	**809**

12. Interest and similar expenses

Interest and similar expenses are broken down as follows:

In EUR `000s	2017	2016
Interest payable and similar costs	33,079	40,436
Interest from finance lease	12,620	10,665
Interest on pension obligations	1,635	1,639
Compounding of liabilities	1,355	937
Interest expense of additional tax payments and similar expenses	154	111
Other	2,289	1,887
Total	**51,132**	**55,675**

As was the case in the previous year, the interest expense for 2017 relating to the compounding of liabilities (1,355 thousand euros compared with 937 thousand euros in 2016) is mainly attributable to the compounding of other financial liabilities and current income tax liabilities.

This item includes interest relating to the effective interest method (IAS 39 valuation category: Amortised costs of purchase) in the interest to credit institutions and similar expenses of 4,148 thousand euros (previous year: 6,801 thousand euros), in the interest from finance leasing of 12,620 thousand euros (previous year: 10,665 thousand euros) and in the interest expense relating to the compounding of liabilities in the amount of 1,355 thousand euros (previous year: 937 thousand).

13. Taxes on income

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

In EUR `000s	2017	2016
Current tax expenses for the financial year	-28,762	-33,495
Tax income for previous years	1,517	1,009
Deferred tax expense (previous year: tax income) due to the depreciation (previous year: write-up) of deferred tax assets	-10,321	5,438
Deferred tax expense (previous year: tax income) due to temporary differences	-12,166	959
Deferred tax income (previous year: tax expense) attributable to rate changes	2,616	-1,447
Total	**-47,116**	**-27,536**

For further details concerning deferred taxes, please refer to note 18, 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 98.1 million euros (previous year: 73.2 million euros). The difference between this amount and the actual tax expense of 47.1 million euros (previous year: 27.5 million euros) is shown in the following reconciliation:

In EUR '000s/as indicated	2017	2016
Earnings before taxes	322,690	243,956
Expected tax expenses applying a tax rate of 30.40% (previous year: 30.00%)	-98,098	-73,187
Change in the allowance for deferred tax assets and non-recognised deferred tax assets in relation to losses carried forward	26,929	49,708
Tax effect on non-deductible expenses due to trade tax additions	-7,695	-7,129
Tax effect on non-deductible expenses	-4,484	-1,553
Tax effect on tax-free income	32,099	5,062
Effects due to changes in tax rate	2,616	-1,446
Tax income for previous years	1,517	1,009
Actual tax expense	**-47,116**	**-27,536**
Effective tax rate in %	14.60	11.29

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 2017 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 415.48 per cent (previous year: 404.10 per cent) were also used. The deferred taxes in the financial year 2017 were calculated using an average rate of 30.40 per cent (previous year: 30.00 per cent). This increase of 0.40 percentage points in the average trade 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 information purposes, please refer to our comments under note 23.7, Conditional capital.

	2017	2016
Group result attributable to shareholders of freenet AG in EUR '000s	286,669	228,422
Weighted average of shares outstanding	128,011,016	128,011,016
Earnings per share in EUR (undiluted)	**2.24**	**1.78**

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 2017, there are neither actual nor potential dilution effects.

	2017	2016
Group result attributable to shareholders of freenet AG in '000s	286,669	228,422
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)	**2.24**	**1.78**

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

Movements in intangible assets and property, plant and equipment are shown under note 36.

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	31.12.2017	31.12.2016
Trademarks	302,227	304,520
Customer relations	94,059	101,073
Rights of use	57,796	65,046
Software	1,903	3,729
Total	**455,985**	**474,368**

In addition to the intangible assets resulting from the various purchase price allocations, further intangible assets of 107.5 million euros are shown as of 31 December 2017 (31 December 2016: 51.8 million euros) including distribution rights of 69.9 million euros (previous year: 14.5 million euros).

The prolongation carried out in 2017 of the exclusive distribution right with Media Saturn Deutschland GmbH had resulted in a carrying amount of 68.8 million euros as at 31 December 2017 (previous year: 14.5 million euros). The increase is due to the fact that this distribution right was prolonged in 2017 until at least 30 September 2020.

No impaired intangible assets were in existence as at 31 December 2017.

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

In EUR '000s	31.12.2017	31.12.2016
Mobile Communications	1,119,396	1,119,396
Online	29,750	29,750
TV	226,621	226,621
Other	4,152	4,152
Total	**1,379,919**	**1,379,919**

The purchase price allocation on the occasion of the acquisition of the Media Broadcast Group resulted in goodwill of 225,934 thousand euros, which is shown under the CGU "TV".

Since 2016, the CGU "TV" has been attributed to the "TV and Media" segment, and the CGU "Other" has been attributed to the "Other/Holding" segment.

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 in the amount of 293,204 thousand euros (previous year: 293,204 thousand euros) as an intangible asset with an undefined useful economic life.

The fair value less costs to sell has been used as the recoverable amount of the CGU “Mobile Communications”. Planning that covers the period up to and including 2021 and was approved by management was used to calculate the fair value. The detailed planning phase was extrapolated in the perpetual yield. 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 CGU “Mobile Communications” 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 planning period, the freenet Group is expecting to see stable customer acquisition costs as well as stable customerretention costs. In addition, the Group is expecting to see a stable customer ownership base (postpaid and no-frills) and stable postpaid ARPU in 2018. In the planning period, the freenet Group expects that, within the CGU “Mobile Communications”, customer ownership will continue to report stabilization, with a stable performance in revenue, postpaid ARPU and EBITDA. freenet expects that, within the CGU “Mobile Telecommunications”, 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 CGU “Mobile Communications” on the basis of market data and used in the course of determining the fair value is 5.83 per cent (previous year: 6.02 per cent). With regard to the capitalisation rate in the subsequent phase (as from 2022), a discount of 0.25 per cent has been assumed as a result of growth assumptions (previous year: 0.5 per cent); this is also the growth rate which has been used for extrapolating the cash flow forecasts.

The impairment test carried out in 2017 in relation to the CGU “Mobile Communications” confirmed that no impairment has to be recognised in relation to the goodwill allocated or to the trademark right with an undefined useful life.

As of 31 December 2017, goodwill of 226,621 thousand euros was allocated to the new CGU “TV” which was defined in the previous year and which is identical to the “TV” segment. The fair value less costs to sell has been used as the recoverable amount of the CGU “TV”. Planning that covers the period up to and including 2021 and was approved by management was used to calculate the fair value. The detailed planning phase was extrapolated in the perpetual yield. This is equivalent to level 3 of the fair value hierarchy in accordance with IFRS 13.

Planning for the CGU “TV” 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 CGU “TV” will generate slightly 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 CGU “TV” on the basis of market data and used in the course of determining the fair value is 5.89 per cent (previous year: 7.37 per cent). With regard to the capitalisation rate in the subsequent phase (as from 2022), a discount of 1.0 per cent has been assumed as a result of growth assumptions (previous year: 1.0 per cent); this is also the growth rate which has been used for extrapolating the cash flow forecasts.

The impairment test carried out in 2017 in relation to the CGU “TV” confirmed that no impairment is required for the goodwill allocated.

Goodwill of 29,750 thousand euros has been attributed to the CGU “Online” (previous year: 29,750 thousand euros). The CGU “Online” is part of the “Other/Holding” segment. The fair value less costs to sell has been used as the recoverable amount of the CGU “Online”. Planning that covers the period up to and including 2021 and was approved by management was used to calculate the fair value. The detailed planning phase was extrapolated in the perpetual yield. This is equivalent to level 3 of the fair value hierarchy in accordance with IFRS 13.

Planning for the CGU “Online” 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 CGU “Online” will generate declining revenue, declining gross profits and constant contributions to EBITDA in the planning period.

The WACC after tax derived in relation to the specific risk structure of the CGU “Online” on the basis of market data and used in the course of determining the fair value is 6.78 per cent (previous year: 6.75 per cent). With regard to the capitalisation rate in the subsequent phase (as from 2022), a discount of 0.28 per cent has been assumed as a result of growth assumptions (previous year: no discount).

The impairment test carried out in 2017 in relation to the CGU “Online” confirmed that no impairment is required for the goodwill allocated.

The consolidated financial statements as at 31 December 2017 include other goodwill for various CGUs in the amount of 4,152 thousand euros (previous year: 4,152 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 2017 amounted to 0.2 million euro (previous year: 14 thousand euros). This relates to internally generated software which is no longer used (previous year: licenses which were no longer used).

In accordance with IAS 36 in conjunction with IAS 28.40 et seqq., a separate impairment test had to be carried out in relation to the total carrying amount of the shares in the associated company Sunrise as of 31 December 2017 in the amount of 809.7 million euros (previous year: 743.1 million euros). This is an ad-hoc impairment test as the market capitalisation of Sunrise was lower than the proportionate carrying amount recognised in the balance sheet. The recoverability was estimated on the basis of information available in the public domain. The main sources in this respect were analyst estimates and also the application of EBITDA multiples which are usual in the telecommunications sector. On the basis of this information, it was possible to confirm the recoverability of the share in the associated company Sunrise. There was no impairment requirement.

17. Companies included using the equity method

In EUR '000s	Note	31.12.2017	31.12.2016
Shares in associated companies	17.1.	809,732	743,102
Shares in Joint Ventures	17.2.	1,252	1,964
Total		**810,984**	**745,066**

17.1. Associated companies

Sunrise is included in the consolidated financial statements of freenet AG as an associated company. By way of two seats on the Administrative Board of Sunrise and with 24.56 per cent of voting rights, freenet AG is able to exert a significant influence.

Sunrise is the largest private telecommunications provider in Switzerland and accounts for more than 3 million customers in the fields of mobile communications, landline, internet and digital TV.

The most recent financial information published by Sunrise relates to the consolidated financial statements as of 31 December 2017. A brief overview is provided in the following.

Summarised Information as of 31 December 2017

Balance sheet[1] **In EUR '000s**	31.12.2017	31.12.2016
Non-current assets	2,621,891	3,074,402
Thereof intangible assets	1,891,183	2,195,282
Current assets	660,231	602,525
Thereof cash and cash equivalents	233,139	200,168
Total Assets	**3,282,122**	**3,676,880**
Non-current liabilities	1,476,209	2,120,936
Thereof non-current borrowings	1,189,246	1,708,754
Current liabilities	513,717	494,016
Thereof trade accounts payable and other payables	462,870	445,123
Total liabilities	**1,989,925**	**2,614,953**

Income statement[2] In EUR '000s	1.1.2017- 31.12.2017	1.1.2016- 31.12.2016
Revenue	1,670,241	1,740,956
Gross profit	1,074,318	1,094,778
EBITDA	533,574	549,536
Depreciation and Amortisation	-385,672	-421,837
Interest payable and similar expenses	-47,230	-53,888
Taxes on income	-25,062	2,970
Group result after taxes	**454,717**	**79,943**

Other comprehensive income In EUR '000s	1.1.2017- 31.12.2017	1.1.2016- 31.12.2016
Group result after taxes	**454,717**	**79,943**
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. IAS 19 (2011)	18,685	17,340
Taxes on income	-3,813	-4,125
Other comprehensive income / not to be reclassified to the income statement in the following periods	**14,872**	**13,215**
Other comprehensive income	**469,589**	**93,158**

1 Closing date as of 31.12.2017 amounted to 0.8556 CHF/EUR.
2 The average exchange rate for financial year 2017 amounted to 0.9008 CHF/EUR.

For the reconciliation to the carrying amount we give the following overview:

Reconciliation to carrying amount In EUR million	**2017**	**2016**
Total purchase price (24.56%)	**-**	**740.1**
Carrying amount as of 1 January	743.1	
Current profit share	133.2	36.5
Subsequent recognition from purchase price allocation	-20.0	-15.7
Other comprehensive income	-12.2	12.3
Dividend paid to freenet	-34.4	-30.1
Carrying amount as of 31 December	**809.7**	**743.1**

Reconciliation net asset of Sunrise In EUR million	**2017**	**2016**
Net asset of Sunrise as of 31 December	**1.292,2**	**1.061,9**
Net assets of Sunrise attributable to freenet as of 31 December	317.4	260.8
Elimination of PPA Effects at Sunrise	-342.9	-366.1
Fair value adjustments on net asset of Sunrise from PPA at freenet	829.3	849.3
Other effects of reconciliation	5.9	-0.9
Carrying amount as of 31 December	**809.7**	**743.1**

For the period 1 January to 31 December 2017, the income statement has disclosed a result of 113,198 thousand euros (previous year: 20,815 thousand euros) for the companies included using the equity method in relation to the shares in Sunrise; of this figure, 133,167 thousand euros relates to interests in the consolidated net income of Sunrise after tax (previous year: 36,493) and -19,969 thousand euros relates to the subsequent recognition from purchase price allocation (previous year: -15,678 thousand euros). The increase in the share of results of the equity participation in Sunrise is due to the considerable improvement in the group result of Sunrise after tax - mainly due to the one-off profit of Sunrise of 420 million Swiss francs attributable to the sale of Swiss Towers AG to a syndicate of buyers. In the run-up to this transaction, Sunrise had spun off the passive network infrastructure (antenna masts) to Swiss Towers AG.

With regard to the shares in the consolidated net income of Sunrise after tax, it has to be borne in mind that freenet initially adjusts the Group result after tax disclosed by Sunrise by the amount which Sunrise has included in this Group result as depreciation as well as deferred tax effects in relation to purchase price allocation. This ensures that this depreciation and these deferred tax effects are not recognised twice, freenet shows these effects in the "Results of associates accounted for using the equity method, thereof from subsequent recognition from purchase price allocation".

In relation to Sunrise, other comprehensive income of -15,813 thousand euros (previous year: 3,673 thousand euros) resulting from currency translation differences with regard to subsequent recognition as well as other comprehensive income of 3,653 thousand euros (previous year: 8,689 thousand euros) resulting from recognized taxes on income (-936 thousand euros) and actuarial gains arising from the accounting of pension plans (4,589 thousand euros) were shown as elements of other comprehensive income in the consolidated statement of comprehensive income.

On 19 April 2017, freenet AG received a dividend payment of 34,409 thousand euros (previous year: 30,124 thousand euros) as a result of the dividend payment of 3.33 CHF per share adopted in the annual general meeting of Sunrise on 11 April 2017. This inflow boosted the cash flow from operating activities.

As of 31 December 2017, the carrying amount of the Group's holding in Sunrise amounted to 809.7 million euros (31 December 2016: 743.1 million euros). At the balance sheet date the share price of Sunrise amounted to 76.04 euros (source: Bloomberg).

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

As has been the case in the past, only the result elements from the item "Results of companies accounted for using the equity method" have been used for calculating our key financial performance indicator EBITDA. The depreciation resulting from the subsequent recognition of the shadow purchase price allocation does not have a negative impact on Group EBITDA.

17.2 Joint Ventures

The consolidated financial statements for the period ending 31 December 2017 include Jestoro GmbH, Hamburg, (previously: "FunDorado") as an insignificant joint venture with a carrying amount of 1.3 million euros (31 December 2016: 2.0 million euros). In the financial year 2017, the net profit/loss of Jestoro GmbH amounted to -0.9 million euros (previous year: -0.5 million euros).

18. 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 30.40 per cent (previous year: 30.00 per cent).

The following amounts are shown in the consolidated balance sheet:

In EUR '000s	31.12.2017	31.12.2016
Deferred tax assets	153,508	174,172
Total	**153,508**	**174,172**

The overhang of deferred tax assets for the corporation tax and trade tax group of freenet AG which are recognised (153.5 million euros; previous year: 174.2 million euros) is classified as short-term (45.0 million euros; previous year: 43.6 million euros) and long-term (108.5 million euros; previous year: 130.7 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 2017 are shown in the following table:

In EUR '000s	1.1.2017	Shown directly in other result	Expenses and income from taxes on income	31.12.2017
Property, plant and equipment	1,815	0	223	2,038
Intangible assets	-158,775	0	-12,699	-171,474
Financial assets	429	0	529	958
Loss carry-forwards	294,423	0	-6,255	288,168
Pension provisions	11,244	-978	- 641	9,625
Other provisions	4,714	0	217	4,931
Other liabilities	-24	0	23	-1
Borrowings	967	0	-118	849
Other assets and liabilities	19,379	184	-1,149	18,414
Total	**174,172**	**-794**	**-19,870**	**153,508**

The expenses and income from income tax amounting to a net expense of 19,870 thousand euros (previous year: 4,950 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 2017 were attributable solely to continued operations.

The deferred tax assets and deferred tax liabilities developed as follows in the financial year 2016:

In EUR '000s	1.1.2016	Change in group of consolidated companies	Shown directly in other result	Expenses and income from taxes on income	31.12.2016
Property, plant and equipment	380	615	0	820	1.815
Intangible assets	-140,929	-17,067	0	-779	-158,775
Financial assets	-14	0	0	443	429
Loss carry-forwards	290,039	0	0	4,384	294,423
Pension provisions	7,710	2,502	3,085	-2,053	11,244
Other provisions	1,803	2,024	0	887	4,714
Other liabilities	-99	0	0	75	-24
Borrowings	413	0	0	554	967
Other assets and liabilities	18,028	761	-29	619	19,379
Total	**177,331**	**-11,165**	**3,056**	**4,950**	**174,172**

The summarised net development of deferred taxes is shown below:

In EUR '000s	2017	2016
As of 1. 1.	174,172	177,331
Change in group of consolidated companies	0	-11,165
Shown directly in other result	-794	3,056
Tax expense (previous year: tax income)	-19,870	4,950
As of 31. 12.	**153,508**	**174,172**

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 2017, deferred tax assets amounting to 288,168 thousand euros had been created in relation to loss carry-forwards (previous year: 294,423 thousand euros). Of this figure, 140,635 thousand euros (previous year: 145,093 thousand euros) is attributable to corporation tax loss carry-forwards and 147,533 thousand euros (previous year: 149,330 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, 1.0 billion euros relate to corporation tax and 0.3 billion euros relate to trade tax (previous year: 1.1 billion euros corporation tax and 0.4 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 2017, 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 14.1 million euros (previous year: approximately 7.5 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.

19. Inventories

The inventories are broken down as follows:

In EUR '000s	31.12.2017	31.12.2016
Mobile phones/accessories	38,774	43,550
Computers/IT products	19,518	17,604
SIM cards	6,825	6,748
Bundles and vouchers	59	109
Other	11,134	6,895
Total	**76,310**	**74,906**

Impairment of 3,666 thousand euros (previous year: 3,480 thousand euros) has been recognised in relation to the year-end inventories.

20. Receivables, other assets and other financial assets

Receivables and other assets are broken down as follows:

	31.12.2017		
In EUR '000s	Total	Non-current	current
Trade accounts receivable	532,781	79,081	453,700
Other non-derivative financial assets	18,671	4,413	14,258
	551,452	**83,494**	**467,958**
Available-for-sale financial assets	3,532	3,532	0
Financial assets	**554,984**	**87,026**	**467,958**
Other assets	9,500	9,500	0
Advance payments	4,572	0	4,572
Non-financial assets	**14,072**	**9,500**	**4,572**
Total trade accounts receivable , other assets and other financial assets	**569,056**	**96,526**	**472,530**

	31.12.2016 adjusted		
n EUR '000s	Total	Non-current	current
Trade accounts receivable	519,896	81,132	438,764
Other non-derivative financial assets	34,419	17,964	16,455
	554,315	**99,096**	**455,219**
Available-for-sale financial assets	3,360	3,360	0
Financial assets	**557,675**	**102,456**	**455,219**
Other assets	0	0	0
Advance payments	10,103	0	10,103
Non-financial assets	**10,103**	**0**	**10,103**
Total trade accounts receivable, other assets and other financial assets	**567,778**	**102,456**	**465,322**

The assets which previously had been recognised as other financial investments are now shown under the other financial assets, and are shown in the above tables as available-for-sale financial assets.

These are broken down as follows:

In EUR '000s	31.12.2017	31.12.2016
Dormant holding	500	500
Other holdings	293	3
Other	0	83
Total	**793**	**586**

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 551,452 thousand euros as at 31 December 2017 (previous year: 554,315 thousand euros). For more information, please refer to the statements in note 32, 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 17,604 thousand euros (previous year: 13,463 thousand euros) consist of available-for-sale financial assets and non-financial assets as at 31 December 2016.

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 2017, trade accounts receivable and other non-derivative financial assets in the amount of 465,037 thousand euros (previous year: 469,648 thousand euros) were neither impaired nor overdue.

Trade accounts receivable and other non-derivative financial assets in the amount of 18,341 thousand euros (previous year: 13,513 thousand euros) are overdue but not impaired. Essentially, these receivables are only few days overdue and have already been settled in early 2018.

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

The maximum default risk of the trade accounts receivable as at the balance sheet date amounts to 504.5 million euros due to existing commercial credit insurances.

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

In EUR '000s	Carrying amount 31.12.2017	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	532,781	447,517	14,357	1,472	1,650
Other non-derivative financial assets	18,671	17,520	645	36	181
Total	**551,452**	**465,037**	**15,002**	**1,508**	**1,831**

In EUR '000s	Carrying amount 31.12.2016	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	519,896	436,636	7,166	3,825	1,318
Other non-derivative financial assets	34,419	33,012	378	10	816
Total	**554,315**	**469,648**	**7,544**	**3,835**	**2,134**

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 2016	128,720
Allowances recorded as of 31 December 2017	134,686
Net reductions to impairments	**5,966**

In EUR '000s	
Allowances recorded as of 31 December 2015	109,416
Allowances recorded as of 31 December 2016	128,720
Net reductions to impairments	**19,304**

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

In EUR '000s	31.12.2017	31.12.2016
Collective individual allowances according to time buckets		
Thereof for receivables not past due	1,534	1,636
Thereof for receivables overdue for < 90 days	6,780	6,769
Thereof for receivables overdue between 90 and 180 days	7,972	8,593
Thereof for receivables overdue for > 180 days	114,184	105,183
	130,470	**122,181**
Individual allowances	**4,216**	**6,539**
Total allowances	**134,686**	**128,720**

As at the two reference dates, the collective 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	2017	2016
Development in individual allowances relating to trade accounts receivable		
As of 1. 1.	5,745	4,990
Additions, initial consolidation	0	1,621
Allocation	1,708	1,792
Utilisation	2,445	1,572
Reversal	1,407	1,086
As of 31. 12.	**3,601**	**5,745**
Development in individual allowances relating to other non-derivative assets		
As of 1. 1.	794	738
Allocation	72	794
Utilisation	0	738
Reversal	251	0
As of 31. 12.	**615**	**794**

21. Liquid funds

Liquid funds are broken down as follows:

In EUR '000s	31.12.2017	31.12.2016
Cash in hand and cash at banks	322,816	318,186
Total	**322,816**	**318,186**

22. Current income tax assets

The current income tax assets mainly relate to receivables due from former shareholders in connection with tax clauses from acquisitions.

23. Shareholders' equity

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

23.1 Share capital

The company's issued share capital is unchanged compared with the previous year and amounts to 128,061 thousand euros. The share capital consists of 128,061,016 registered no-par-value shares, each with a theoretical nominal value of 1.00 euro. The entire share capital is fully paid up. All shares have been issued with equal rights. As in the previous year 50,000 thousand of these shares are held by mobilcom-debitel Logistik GmbH, Schleswig, which in turn is wholly owned by the company, unchanged compared with the previous year year. As was the case in the previous year, 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 12 May 2016 to purchase treasury shares amounting to a total of 10 per cent of the share capital existing at the time of the resolution on 12 May 2016 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 11 May 2021. In the financial year 2017, the Executive Board made no use of this authorisation.

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.

23.2 Capital reserve

As was the case in the previous year, major components of the capital reserve reported as at 31 December 2017 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).

23.3 Retained earnings

The cumulative other comprehensive income essentially consists of actuarial profits and losses relating to the recognition of pension schemes in accordance with IAS 19 as well as currency translation differences relating to the subsequent recognition of companies included using the equity method.

23.4 Retained Earnings

The Group's retained earnings for the financial year 2017 comprise the cumulative Group results attributable to the freenet AG shareholders, less the dividend payments. In 2017, a dividend of 1.60 euros per no-par-value share, making a total of 204.8 million euros, was paid out for the financial year 2016.

23.5 Minority shares

The non-controlling interests in equity are mainly (27,592 thousand euros; 31 December 2016: 38,991 thousand euros) attributable to the 49.99 per cent (31 December 2016: 75.01 per cent) of shares which are held by non-controlling shareholders in EXARING. We have provided the following information regarding the assets and liabilities of EXARING as of 31 December 2017, before the consolidation of debt, income and expenses and also including the effects of the subsequent recognition of the purchase price allocation:

EXARING AG In EUR '000s	31.12.2017	31.12.2016
Non-current assets	70,655	74,770
Current assets	15,914	7,261
Total assets	**86,569**	**82,031**
Non-current liabilities	17,570	19,514
Current liabilities	4,014	2,253
Total liabilities	**21,584**	**21,767**
Net assets	**64,985**	**60,264**
Thereof: Non-controlling interests in equity	**27,592**	**38,991**

The net profit/loss of EXARING amounted to -15,019 thousand euros in the financial year 2017 (previous year: -9,727 thousand euros). The fact that the shares in the capital of EXARING have been increased from 24.99 per cent to 50.01 per cent in the financial year 2017 has not resulted in any change in minority interests, as this had already been recognised in the purchase price allocation.

23.6 Authorised Capital

Further non-controlling interests in shareholders' event account for 3,535 thousand euros (31 December 2016: 3,231 thousand euros).

New authorised capital was created at the ordinary annual general meeting held on 23 May 2013 (authorised capital 2013). Accordingly, the Executive Board, with the approval of the Supervisory Board, is authorised to increase the share capital once or several times, by issuing new shares against contributions in cash or kind up to an overall maximum sum of 12.8 million euros until 6 June 2018. 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.

New authorised capital was created at the annual general meeting held on 12 May 2016 (authorised capital 2016). Accordingly, the Executive Board, with the approval of the Supervisory Board, is authorised to increase the share capital once or several times, by issuing new shares against contributions in cash or kind up to an overall maximum sum of 12.8 million euros until 1 June 2021. The full wording of the Executive Board's authorisation was published in the Federal Gazette under agenda item 7 of the invitation to the 2016 annual general meeting. In the financial year 2017, the Executive Board made no use of this authorisation.

23.7 Conditional Capital

In accordance with the resolution by the annual general meeting held on 12 May 2016, 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 2016). 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 12 May 2016 under agenda item 10, 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 is subject to regulations set out in section 4 (7) 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. In the financial year 2017, the Executive Board made no use of this authorisation.

24. Employee participation programmes

24.1 freenet AG LTIP programmes – Programme 1

The Programme 1, which had been granted to members of the Executive Board in 2011, was terminated in 2015 when paid out to the beneficiaries.

24.2 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, 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. In 2016, the Supervisory Board adopted a resolution (only for 2016) whereby the relevant share price is calculated on the basis of the average of Xetra closing prices of the 20 stock exchange trading days starting with 1 February 2016.

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 with the help of a recognised valuation model pursuant to IFRS 2 The main parameters in this valuation model are the share price of freenet AG as of the balance sheet date, the volatility of share prices in line with the remaining life of the LTIP programme, the estimate of target attainment for the respective financial year as well as 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 31.12.2016	Additions	Disposal of pay-out	Number of virtual shares 31. 12. 2017	Provisions 31.12.2017 in EUR '000s
Christoph Vilanek	81,625	37,250	0	118,875	5,008
Joachim Preisig	22,043	20,318	10,590	31,771	2,066
Stephan Esch	14,695	13,546	0	28,241	1,609
Total	**118,363**	**71,114**	**10,590**	**178,887**	**8,683**

The actual target attainment defined for 2016 is 120 per cent. This means that 200 per cent of the base amount would be used for payment into the virtual account for Mr Vilanek, Mr Preisig and Mr Esch. This is equivalent to 1,100 thousand euros for Mr Vilanek, 600 thousand euros for Mr Preisig and 400 thousand euros for Mr Esch. After the consolidated financial statements for 2016 had been approved, this amount was converted into virtual shares for the financial year 2016 based on an average share price of 29.53 euros, with the result that a total of 71,114 virtual shares was credited to the virtual accounts of the board members. Target attainment for the financial year ended 2017 will be 120 per cent.

In the financial year 2017, a figure of 2,448 thousand euros resulting from Programme 2 was added to the provision, increasing it from 6,235 thousand euros (as of 31 December 2016) to 8,683 thousand euros as of 31 December 2017, as result of personnel expenses of 2,777 thousand euros and the payment of 329 thousand euros in 2017. This payment is attributable to Mr Preisig – 10,590 virtual shares were multiplied with a relevant share price of 31.08 euros (29.53 euros average share price plus 1.55 euros dividend).

24.3 LTIP Programme for senior executives – Programme 3

In January 2016, freenet AG and two other group companies granted long-term variable salary elements to senior executives below the Executive Board level (referred to in the following as "Programme 3").

The Programme 3 is based on the Group EBITDA for the financial years 2016 to 2020.

An LTIP account is maintained for each vested employee. LTIP values totalling 2,700 thousand euros were defined. On 31 December 2015, the LTIP value was converted on one occasion to a number of LTIP shares by division by the relevant share price. The relevant share price was defined as the average Xetra closing price of all stock exchange trading days of December 2015, namely 30.69 euros. Overall, this resulted in an LTIP number of 87,976 virtual shares across all vested employees.

It is possible for payments to be made out of the non-interest-bearing LTIP accounts depending on the attainment of defined targets. The target for a specific financial year (2016 to 2020) is deemed to have been attained when the amount of Group EBITDA for the relevant financial year equals or exceeds the guidance. The guidance is the forecast for Group EBITDA communicated to the capital market by the Executive Board for the respective financial year. If this forecast fails to meet the target for a specific financial year, any surplus amount relating to the target applicable for a subsequent financial year can be used to retroactively compensate for this failure. However, the maximum target attainment is defined as 100 per cent in each case. The respective target attainment is determined immediately after approval of the audited consolidated financial statements by the Supervisory Board of freenet AG.

In each financial year, starting in 2017 for the financial year 2016, the vested employees are able to receive the payment from the LTIP account in a corridor of three months. If the target has been attained in the respective financial year, and if the beneficiary wishes to receive payment, the number of LTIP shares is multiplied with the payment element specified for the financial year and the payment factor. The payment elements have been defined as follows: 15 per cent for the financial year 2016, 15 per cent for the financial year 2017, 20 per cent for the financial year 2018 and 25 per cent for the financial years 2019 and 2020. The payment factor is the average Xetra closing price of the 20 stock exchange trading days starting with the first stock exchange trading day after the day on which the consolidated financial statements for the relevant financial year are published. Any dividend payments have to be taken into consideration for determining the payment factor and determining the number of virtual shares, and the standard dilution protection regulations are applicable.

If a vested employee does not request a payment in the annual three-month exercise corridor, this request can only be subsequently exercised in the same period of the respective following year. In the event of payment, the share price performance is only taken into consideration up to a share price of 50.00 euros (cap).

The obligation arising from Programme 3 was determined at fair value in accordance with the help of a recognised valuation model pursuant to IFRS 2. The main parameters in this valuation model are the share price of freenet AG as of the balance sheet date, the volatility of share prices in line with the remaining life of the LTIP programme, the estimate of target attainment for the respective financial year as well as the estimate of the discount rate. The graded vesting method is used; according to this method, personnel expenses for all vested employees come into being as from the time when the programme is granted, i.e. in this case as from January 2016.

The development of the holdings in the virtual accounts for Programme 3 is shown in the following table:

Programme 3	Number of virtual shares 1.1.2017	Disposal of exit	Disposal of payout	Number of virtual shares 31.12.2017	Provisions 31.12.2017 in EUR '000s
Various authorised persons	87,976	23,338	11,445	53,193	855

The target for the financial year 2016 was attained. The target for the financial year 2017 was also attained.

Payments of 355 thousand euros were made in 2017.

In the financial year 2017, a figure of 67 thousand euros resulting from Programme 3 was added to the provision, increasing it from 788 thousand euros (as of 31 December 2016) to 855 thousand euros as of 31 December 2017, as result of personnel expenses of 422 thousand euros and the payment of 355 thousand euros in 2017.

24.4 Other employee participation programmes

In the Group, there is a further employee participation programme of minor volume; this is been shown with a total provision of 896 thousand euros as of 31 December 2017. Under the terms of the programme, the employees were granted virtual shares which are earned in annual tranches up to 2020. When the programme is concluded in 2020, the virtual shares will be paid out in the amount of the pro rata enterprise value.

25. Trade accounts payable, other liabilities and accruals and other financial trade accounts

Trade accounts payable as well as other liabilities and accruals are broken down as follows:

	31.12.2017		
In EUR '000s	Total	non-current	current
Trade accounts payable	517,276	0	517,276
Other non-derivative financial liabilities	381,339	332,218	49,121
Financial liabilities	**898,615**	**332,218**	**566,397**
Other liabilities and accruals	6,266	0	6,266
Advance payments received	75,576	0	75,576
Non-financial liabilities	**81,842**	**0**	**81,842**
Total trade accounts payable, other liabilities and accruals and other financial trade accounts	**980,457**	**332,218**	**648,239**

	31.12.2016		
In EUR '000s	Total	non-current	current
Trade accounts payable	515,696	0	515,696
Other non-derivative financial liabilities	343,601	294,608	48,993
Financial liabilities	**859,297**	**294,608**	**564,689**
Other liabilities and accruals	5,923	0	5,923
Advance payments received	55,507	0	55,507
Non-financial liabilities	**61,430**	**0**	**61,430**
Total trade accounts payable, other liabilities and accruals and other financial trade accounts	**920,727**	**294,608**	**626,119**

As was the case in the previous year, as at 31 December 2017, there are no liabilities vis-a-vis related parties; please refer to note 33, Transactions with related parties.

Of the figure shown for liabilities, 648,239 thousand euros (previous year: 626,119 thousand euros) are due within the next twelve months. Liabilities amounting to 159,819 thousand euros (previous year: 94,903 thousand euros) have a maturity of between one year and five years; liabilities of 172,399 thousand euros (previous year: 199,705 thousand euros) are due in more than five years.

Of the figure shown for the liabilities, which is combined under the financial liabilities, 566,397 thousand euros (previous year: 564,689 thousand euros) fall due within one year, 159,819 thousand euros (previous year: 94,903 thousand euros) fall due between one and five years and 172,399 thousand euros (previous year: 199,705 thousand euros) fall due after more than five years after the balance sheet date.

The finance lease liabilities shown as of the balance sheet date are a framework rental agreement with an infrastructure provider regarding the use of radio infrastructures (such as towers and masts) at radio locations and other areas, due to run until 31 December 2027. The Media Broadcast Group has the right to demand that the agreement be extended by ten years until 31 December 2037. The probability of this extension option being exercised has been assumed to be less than 50 per cent.

The carrying amounts of the finance lease assets were stated as 275,628 thousand euros (previous year: 303,191 thousand euros) for technical equipment, plant and machinery as of 31 December 2017.

In EUR `000s	31.12.2017	31.12.2016
Within one year	33,370	37,000
Within one and five years	137,254	135,737
Greater than five years	180,348	215,234
Total	**350,972**	**387,971**
Interest share of future leasing rates		
Within one year	-11,616	-12,620
Within one and five years	-36,965	-40,874
Greater than five years	-20,436	-28,142
Present value of total liabilities from finance lease	**281,955**	**306,335**

The maturities of the overall finance lease liabilities are shown below:

In EUR `000s	31.12.2017	31.12.2016
Within one year	21,754	24,380
Within one and five years	100,289	94,863
Greater than five years	159,912	187,092
Total	**281,955**	**306,335**

The figure disclosed in the balance sheet corresponds to the present value of the contractual minimum leasing payments. The interest rate used as the basis for recognising the resultant financing liabilities is 4.12 per cent.

26. Current income tax liabilities

Current income tax liabilities consist mainly of anticipated additional corporation tax and trade tax payments for previous financial years.

27. Financial debt

Financial debt is structured as follows:

In EUR '000s	31.12.2017	31.12.2016
Non-Current		
Liabilities from promissory notes	1,060,637	1,069,318
Liabilities due to banks	605,364	604,553
Total	**1,666,001**	**1,673,871**
Current		
Liabilities from corporate bonds	6,378	60,146
Liabilities from promissory notes	767	156
Total	**7,145**	**60,302**

In the financial year 2017, freenet AG replaced the bridge financing arrangement which was raised in the previous year – consisting of a tranche of 610.0 million euros and a revolving credit facility for 100.0 million euros – by means of a syndicated five-year bank loan with a total volume of 710.0 million euros. The first tranche of the syndicated bank loan consists of an amortising loan of 610.0 million euros due upon final maturity, and is subject to variable interest with an initial margin of 1.6 per cent. The second tranche has a volume of 100.0 million euros; interest is also applied at a variable rate, with an initial margin of 1.4 per cent. It is designed as a revolving credit facility. Accordingly, the funds can be drawn down and repaid at any time during the five-year maturity. As of the end of 2017, this tranche was completely unused.

The amortising loan which is due upon final maturity with a nominal amount of 610.0 million euros is shown, less charges, in an amount of 606.1 million euros under the liabilities due to banks (thereof non-current: 605.4 million euros, thereof current: 0.7 million euros).

The borrower's note loans from the years 2012, 2015 and 2016 with a total nominal amount of 1,064.5 million euros (31 December 2016: 1,129.0 million euros) are shown, after charges, with an amount of 1,067.0 million euros in the liabilities of borrower's note loans (thereof non-current: 1,060.6 million euros, thereof current: 6.4 million euros). In December 2017, a total amount of 64.5 million euros was repaid as scheduled in relation to the borrower's note loan 2012.

Net debt increased to 510.0 million euros as of 31 December 2017 (previous year: 725.8 million euros). For this parameter, the financial debt (31 December 2017: 1,673.1 million euros, previous year: 1,734.2 million euros) is reduced by the liquid assets (31 December 2017: 322.8 million euros, previous year: 318.2 million euros) and the interest in the market value of Sunrise as of 31 December 2017 (11,051,578 shares multiplied by the closing price of 76.04 euros (source: Bloomberg).

28. Pension provisions and similar obligations

The pension obligations are based on defined benefit and contribution plans. 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 Executive Board commitments are fully funded. They are secured by a reinsured benefit as well as pledged reinsurance with a fair value totalling 11,426 thousand euros (previous year: 7,929 thousand euros).

The provision in the consolidated balance sheet is calculated as follows:

In EUR '000s	31.12.2017	31.12.2016
Present value of funded obligations	21,266	21,026
Present value of unfunded obligations	78,069	79,541
Sub-total present value of obligation	**99,335**	**100,567**
Fair value of plan assets	-11,426	-7,929
Provision shown in balance sheet	**87,909**	**92,638**

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	2017	2016
As of 1.1.	**100,567**	**57,766**
Change in group of consolidated companies as of 18 March 2016 (Media Broadcast Group)	0	30,349
Current service costs	2,272	1,858
Past service costs	0	-109
Interest expense	1,799	1,843
Employees' contributions	22	29
Actuarial losses (+)/gains (-)	-155	0
Thereof due to experience adjustments	-320	45
Thereof due to changes in financial assumptions	-2,963	10,124
Sub-total actuarial gains/losses	**-3,283**	**10,169**
Benefit payments	-1,887	-1,338
As of 31.12.	**99,335**	**100,567**

The weighted average remaining term of the obligations as of 31 December 2017 amounted to 25.9 years for the freenet programme (previous year: 27.2 years), 17.6 years for the debitel programmes (previous year: 18.2 years) and 9.5 years for the programmes of the Media Broadcast Group (previous year: 10.0 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	2017	2016	2015	2014	2013
Present value of funded obligations	21,266	21,026	16,162	17,461	9,920
Present value of unfunded obligations	78,069	79,541	41,604	47,529	38,751
Fair value of plan assets	-11,426	-7,929	-6,575	-5,644	-4,302
Net deficit of defined benefit plans	**87,909**	**92,638**	**51,191**	**59,346**	**44,369**
Experience-based adjustments of the liabilities of the plan	-320	45	284	45	95
Experience-based adjustments of the assets of the plan	-67	-112	-226	512	-383

The plan assets consist of several reinsurance policies concluded by the benefit fund set up for this purpose with an aggregate fair value of 11,426 thousand euros (previous year: 7,929 thousand euros). The reinsurance policies put the plan assets in equity funds or shares, which are quoted in an active market. There is no active market for the reinsurance policies. The development of fair value is set out in the table below:

In EUR '000s	2017	2016
As of 1.1.	**7,929**	**6,575**
Expected income from plan assets (with actuarial interest rate)	162	183
Difference between calculated and actual income from plan assets (recognised in other comprehensive income)	-67	-112
Employer's contribution to plan assets	3,402	1,283
As of 31.12.	**11,426**	**7,929**

The actual income from the plan assets amounts to 96 thousand euros (previous year: 71 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 2018, freenet is expecting payments of 1,449 thousand euros into the plan assets and payments of 2,240 thousand euros out of the plan assets for pensions. In the previous year 2016, freenet had expected for the financial year 2017 payments of 1,282 thousand euros into the plan assets and payments of 2,182 thousand euros out of the plan assets for pensions.

The amounts recognised as provisions in the balance sheet developed as follows:

In EUR '000s	2017	2016
As of 1.1.	**92,638**	**51,191**
Consolidation-related changes as of 18 March 2016 (Media Broadcast Group)	0	30,349
Current service costs	2,272	1,858
Past service costs	0	-109
Interest expense	1,636	1,659
Profits from settlement of pension obligations	-52	0
Sub-total consolidated comprehensive expense	**3,856**	**3,408**
Remeasurements		
Experience-based profits (-)/losses (+)	-320	45
Profits(-)/losses(-) due to changes in financial parameters	-2,963	10,124
Income(-)/Expense(+) from plan assets not contained in interest result	67	112
Sub-total remeasurements recognised in other comprehensive income	**-3,216**	**10,281**
Benefit payments	-1,989	-1,338
Employer's contribution to plan assets	-3,402	-1,282
Employees' contributions	22	29
As of 31.12.	**87,909**	**92,638**

The main actuarial assumptions were as follows:

In %	31.12.2017	31.12.2016
Discount rate (programme freenet, debitel)	2.13	1.90
Discount rate (programme Media Broadcast Group)	1.58	1.41
Future salary increases (programme debitel)	1.75	1.50
Future salary increases (programme Media Broadcast Group)	2.25	2.25
Future pension increases (programme debitel)	1.75	1.25
Future pension increases (programme freenet)	1.75	1.75
Future pension increases (programme Media Broadcast Group)	1.70	1.70

The RT 2005G mortality tables devised by Dr Klaus Heubeck have been used as the biometric basis (as in the previous year).

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.

As of 31.12.2017 In EUR '000s	**Change in present value**	
	Increase	**Decrease**
Increase of 1.0 percentage points in discount rate		14,417
Reduction of 1.0 percentage points in discount rate	18,667	
Increase of 0.5 percentage points in future salary increases	511	
Reduction of 0.5 percentage points in future salary increases		22
Increase of 0.25 percentage points in future pension increases	1,520	
Reduction of 0.25 percentage points in future pension increases		1,442
Life expectancy: Age shift +2 years	4,230	

As of 31.12.2016 In EUR '000s	**Change in present value**	
	Increase	**Decrease**
Increase of 1.0 percentage points in discount rate		15,218
Reduction of 1.0 percentage points in discount rate	19,870	
Increase of 0.5 percentage points in future salary increases	543	
Reduction of 0.5 percentage points in future salary increases		22
Increase of 0.25 percentage points in future pension increases	1,514	
Reduction of 0.25 percentage points in future pension increases		1,433
Life expectancy: Age shift +2 years	4,406	

The sensitivities were calculated on the basis of the same holdings and using the same valuation method as that used for determining the extent of the obligation as of 31 December 2017. For this purpose, one parameter was varied and the other parameters were left unchanged. Any interdependencies between individual parameters which occur in practise are disregarded.

29. Other provisions

The following overview gives a breakdown of the development of the provisions` carrying amounts:

In EUR '000s	**1.1.2017**	**Consumption**	**Reversal**	**Compounding/ Discounting**	**Allocation**	**Reclassification**	**31.12.2017**
Contingent losses	6,652	349	407	0	461	0	6,357
Litigation risks	10,107	6,278	859	0	314	0	3,284
Dismantling obligations	49,286	164	6,733	-195	882	0	43,076
Employee incentive programmes	7,024	684	60	0	3,752	402	10,434
Service anniversaries	1,228	187	315	0	163	0	889
Restructuring	3,450	2,211	5	0	1,278	0	2,512
Warranty/guarantee	597	0	134	0	0	0	463
Storage costs	539	0	86	1	0	0	454
License costs	4,235	131	0	0	218	0	4,322
Other	4,989	1,675	1,582	1	2,782	-402	4,113
Total	**88,107**	**11,679**	**10,181**	**-193**	**9,850**	**0**	**75,904**
thereof non-current	58,559						26,794
thereof current	29,548						49,110

As a result of the acquisition of the Media Broadcast Group, the company also acquired obligations for semi-retirement and long-time work accounts. These obligations are netted with the fair values of the corresponding plan assets as of every balance sheet date. As of 31 December 2017, the provisions before netting for long-time work accounts amounted to 6,068 thousand euros, and the corresponding provisions for semi-retirement amounted to 3,285 thousand euros.

In EUR `000s	2017
Partial retirement	
Obligation at the time of initial consolidation	6,259
Personnel expense	-772
Interest expense	520
Obligation as of 31.12. before netting	61
	6,068
Fair value of plan assets at the time of initial consolidation	
Proceeds from plan assets	6,569
Income from plan assets	166
Plan assets as of 31.12.	**6,735**

In EUR `000s	2017
Long-term work accounts	
Obligation at the time of initial consolidation	4,450
Proceeds from long-term accounts	-1,535
Personnel expense	365
Interest expense	5
Obligation as of 31.12. before netting	**3,285**
Fair value of plan assets at the time of initial consolidation	
Proceeds from plan assets	3,274
Income from plan assets	-10
Plan assets as of 31.12.	**3,264**

The remaining provision of 851 thousand euros has been shown in the schedule of provisions under “Other”.

Further details concerning the creation of provisions for employee participation programmes are documented under note 24, Employee participation programmes.

The provisions for restructuring mainly comprise personnel expenses for severance payments. The outflow of assets for these provisions is expected to be 2,380 thousand euros for 2018 and 132 thousand euros for the years 2019 to 2020.

The provisions for contingent losses relate to pending services in connection with the Group’s landline activities amounting to 143 thousand euros, with the outflow of assets being expected to take place in 2018 in full.

Provisions for contingent losses have also been created for vacancy costs incurred with rented shops and office buildings (1,011 thousand euros); the outflow of assets is expected to be 869 thousand euros in 2018 and 142 thousand euros in 2019. Finally, the provisions for contingent losses include a sum of 5,203 thousand euros for losses expected from negative-margin tariffs, for which the likely outflow of assets is expected in 2018.

The provision for reinstatement obligations resulting from the acquisition of the Media Broadcast Group mainly comprises obligations for the reinstatement of radio infrastructure at numerous locations. Following the probable expiry of the underlying rental agreements, the outflow of funds is expected to be 26,429 thousand euros in 2018 and 13,608 thousand euros in the years from 2020 to 2030. There are further obligations for the reinstatement of tenant fittings at various technology and administration locations of the Group. Following the probable expiry of the underlying rental agreements, the outflow of funds is expected to be 789 thousand euros in 2018 and 2,250 thousand euros in the years from 2019 to 2028.

Provisions for service anniversaries have been formed; the outflow of assets for 2018 is expected to be 137 thousand euros and the outflow of assets for the years 2019 to 2037 is expected to be 752 thousand euros. A discount rate of 1.21 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.

As of 31 December 2017, the provisions for litigation included a figure of 1,500 thousand euros for a risk relating to legal action in connection with the initial consolidation of the Media Broadcast Group within the framework of the purchase price allocation. Further amounts continue to relate to the probable costs of various legal actions against group companies as well as other as yet unresolved 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 is anticipating an asset outflow of 1,784 thousand euros in 2018 as well as 1,500 thousand euros in 2019 or later. To avoid disclosing prematurely, and therefore endangering, the legal and negotiation position, we shall refrain from giving further information at this juncture.

30. 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	31.12.2017	31.12.2016
Rent and leasing obligations		
Due within one year	46,346	59,909
Due within one and five years	88,982	85,678
Due term greater than five years	34,323	11,386
	169,651	156,973
Thereof already recognised as provision for contingent losses	604	729
	169,047	**156,244**
Maintenance, support and other obligations		
Due within one year	48,988	9,967
Due within one and five years	109,252	769
Due term greater than five years	31,274	0
	189,514	**10,736**
Order commitments		
Regarding intangible assets	565	0
Regarding property, plant and equipment	6,685	11,457
Regarding inventories, expenses and services	159,509	148,986
	166,759	**160,443**
Total	**525,320**	**327,423**

The obligations from rental and lease agreements are derived mainly from the rental of office buildings, shops and hardware leasing as well as rental obligations resulting from the shared use of locations with public-sector broadcasting stations. On the other hand, the revenue expected from subletting arrangements amounts to 4,869 thousand euros (previous year: 5,928 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.

In the financial year 2017, and within the framework of a sale-and-leaseback agreement, broadcasting technology of the Media Broadcast Group was sold and leased back for a period of five years without an extension option. The profit resulting from the transaction was received immediately. The above table contains the minimum lease payments for the operating lease resulting from the sale-and-leaseback agreement.

The increase in the obligations relating to maintenance, support and other agreements is essentially attributable to the outsourcing of business processes in customer service which was carried out in the financial year 2017. As was the case in the previous year, there are further agreements regarding the maintenance of IT hardware and databases, technical buildings services as well as network infrastructure.

The order commitments as at the end of the financial year amounted to 166,759 thousand euros (previous year: 160,443 thousand euros). Of this sum, 7,250 thousand euros (previous year: 11,457 thousand euros) is attributable to the procurement of fixed assets. There are other acceptance obligations amounting to 159,509 thousand euros (previous year: 148,986 thousand euros). These are mainly obligations relating to the sourcing of power for production at the various rental locations as well as broadband connections within the framework of media networks (audio and video broadcasts).

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 28,549 thousand euros (previous year: 23,257 thousand euros). It is not expected that any claims will be submitted under the terms of the letters of comfort and rent guarantees because it is expected that the corresponding invoices will be paid in line with the contractual agreements and that the corresponding rental agreements will be paid regularly.

The following contingent liability exists as at 31 December 2017: In a letter from the Federal Ministry of Finance dated 4 December 2014 and a simultaneous addendum to the VAT application decree, the fiscal authority issued the following rule: If the intermediary in a mobile communications contract supplies the customer in the intermediary's own name with a mobile communications device or some other electronic article, and if the mobile communications company grants the intermediary a commission dependent on the supply of the mobile communications device or other electronic articles on the basis of a contractual agreement, or part of a commission dependent on the above, such a commission or part of a commission shall not be regarded as remuneration for an intermediary brokering role vis-a-vis the mobile communications company, but rather as remuneration from a third party as defined by section 10 (1) sentence 3 of the German VAT Act (UStG) for the supply of the mobile communications device or the other electronic article. This applies irrespective of the amount of any additional payment to be made by the customer. The application of this rule as from 1 January 2015 will not involve any reportable risks for the company. As for the revenue 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.

31. Notes to the consolidated cash flow statement

In the consolidated cash flow statement, the figures are reported for the Group (continued and discontinued operations). In the financial year 2017, 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", "Other financial assets", "Inventories", "Trade accounts payable", "Sundry liabilities and accruals", "Other financial payables", "Other provisions", and the change in other assets and liabilities if not attributable to investing or financing activities.

31.1 Cash flow from operating activities

With respect to the comparison period, the cash flow from operating activities declined by 4.3 million euros to 385.4 million euros. Excluding the non-cash-effective earnings elements from the associated company Sunrise (133.2 million euros), EBITDA has increased by 5.7 million euros compared with the previous year. In the financial year 2017, freenet AG received a dividend payment of 34.4 million euros as a result of the dividend payment of 3.33 CHF per share adopted in the annual general meeting of Sunrise on 11 April 2017. Net working capital increased in 2017 by 25.6 million euros, compared with an increase of 3.8 million euros in the previous year. The increase of 25.6 million euros in net working capital can be attributed mainly to the cash-effective reduction in liabilities and accruals vis-à-vis distribution partners arising from distribution rights (25.0 million euros) as well as the increase in receivables due from network operators as well as dealers and distributors (28.6 million euros). This has been opposed mainly by the volume of factoring of mobile option receivables, which increased by 22.1 million euros compared with 31 December 2016 – please refer in this respect to note 32.6, Transfer of financial assets.

In addition, there were net cash outflows in the financial year 2017 amounting to 30.1 million euros (previous year: 40.0 million euros) that resulted from income tax payments and refunds.

31.2 Cash flow from investing activities

In 2017, the cash inflow from investing activities developed from -862.4 million euros in the previous year to -42.1 million euros. The change is mainly attributable to the previous-year payments for the acquisition of shares in Sunrise as well as the Media Broadcast Group.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets, fell in 2017 by 5.6 million euros compared with the previous year from 48.1 million euros to 42.5 million euros. The cash-effective investments were financed entirely out of the company's own resources, and mainly related to property, plant and equipment of the Media Broadcast Group. The increase in the inflows from the disposal of assets from 14.7 million euros in the previous year to 18.6 million euros in the reporting year is mainly attributable to the partial sale of VHF infrastructure of the Media Broadcast Group.

The interest in the capital of EXARING AG was increased to 50.01 per cent in the financial year 2017 (31 December 2016: 24.99 per cent); this did not result in any outflow of cash as the consideration for the acquisition of the additional shares had been paid into the already fully consolidated EXARING AG.

31.3 Cash flow from financing activities

Compared with the corresponding previous year period, cash flow from financing activities declined from 521.2 million euros to -338.6 million euros.

The change is mainly attributable to the repayment of the corporate bond in the previous year and the raising of financial debt as part of acquisition of the Media Broadcast Group as well as the shares in Sunrise.

Dividend payments had a negative impact on the cash flow from financing activities in the financial year ended in the amount of 204.8 million euros (previous year: 198.4 million euros).

The repayment of 64.6 million euros in relation to financial debt is mainly attributable to the partial repayment on time of the borrower's note loan from 2012 in the amount of 64.5 million euros (nominal). There were also repayments of 24.4 million euros relating to the framework rental agreement of the Media Broadcast Group classified as a finance lease. Please refer to note 25, Trade accounts payable, other liabilities and accruals.

In the reporting year, the interest payments declined from 68.1 million euros to 42.9 million euros mainly as a result of improved interest conditions.

31.4 Calculating the underlying figure for the consolidated cash flow statement

The underlying figure for the cash flow statement is the earnings generated by continued 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	1.1.2017-31.12.2017	1.1.2016-31.12.2016
Earnings before taxes	322,690	243,956
Interest payable and similar expenses	51,132	55,675
Interest receivable and similar income	-830	-809
Earnings before interest and taxes (EBIT)	**372,992**	**298,822**

31.5 Reconciliation of liabilities relating to the financing activity

The following reconciliation shows the liabilities relating to the financing activity for the period from 1 January 2017 to 31 December 2017.

In EUR '000s In adjusted[1]	1.1.2017	Cash-effective changes[1]	Changes in Fair Value[2]	Other changes[3]	31.12.2017
Non-current liabilities	1,673,871	-11,964	4,094	0	1,666,001
Current liabilities	54,518	-54,575	57	0	0
Current liabilities from interest accruals	5,784	0	0	1,361	7,145
Liabilities from finance lease	306,335	-24,380	0	0	281,955
Total of liabilities from financing activities	**2,040,508**	**-90,919**	**4,151**	**1,361**	**1,955,101**

1 The cash-effective changes within the financial liabilities comprise outflows relating to the repayment of financial liabilities (-64,612 thousand euros) as well as outflows of financing costs in connection with the prolongation of financial liabilities (-1,927 thousand euros).
2 This includes the non-cash-effective compounding in accordance with the effective interest method.
3 This includes non-cash-effective changes relating to interest accruals.

32. Additional information concerning financial instruments

32.1 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 2017 and 31 December 2016, 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 2017

			Value approach					
In EUR '000s	Valuation category according to IAS 39	Carrying amount balance sheet 31.12.2017	Amortised cost	Cost	Fair value recognised in profit or loss	Fair value recognised in equity	Non-financial assets/ liabilities	Fair value financial assets 31.12.2017
Assets								
Cash and cash equivalents	LR	322,816	322,816					-*
Trade accounts receivable	LR	532,781	532,781					-*
Other receivables and other assets		14,072					14,072	
Other financial assets		22,203						
Other non-derivative financial assets	LR	18,671	18,671					-*
Available-for-sale financial assets	AFS	2,739				2,739		2,739
Other financial assets measured at cost	AFS	793		793				-*
Liabilities								
Trade accounts payable	FLAC	517,276	517,276					
Trade accounts from finance lease	FLAC	21,754	21,754					32,861
Borrowings	FLAC	1,673,146	1,673,146					
Borrowings from promissory notes	FLAC	1,060,637	1,060,637					1,065,876
Other liabilities and deferrals		81,842					81,842	
Other financial trade accounts		381,339						
Trade accounts from finance lease	FLAC	260,201	260,201					289,503
Other non-derivative financial liabilities	FLAC	121,138	121,138					-*
Thereof aggregated by valuation categories acc. to IAS 39								
Available-for-sale financial instruments	AFS	3,532		793		2,739		2,739
Loans and receivables	LR	874,268	874,268					0*
Financial liabilities (measured at amortised cost)	FLAC	2,571,761	2,571,761					1,388,240*

* No fair value has been established for the positions; 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 2016 - adjusted

In EUR '000s	Valuation category according to IAS 39	Carrying amount balance sheet 31.12.2016	Value approach: Amortised cost	Value approach: Cost	Value approach: Fair value recognised in profit or loss	Value approach: Fair value recognised in equity	Non-finan-cial assets/ liabilities	Fair value financial assets 31.12.2016
Assets								
Cash and cash equivalents	LR	318,186	318,186					-*
Trade accounts receivable	LR	519,896	519,896					-*
Other receivables and other assets		10,103					10,103	
Other financial assets		37,779						
Other non-derivative financial assets	LR	34,419	34,419					-*
Available-for-sale financial assets	AFS	2,774				2,774		2,774
Other financial assets measured at cost		586		586				-*
Liabilities								
Trade accounts payable	FLAC	515,696	515,696					-*
Borrowings	FLAC	1,734,173	1,734,173					
Borrowings from promissory notes	FLAC	1,123,761	1,123,761					1,133,391
Other liabilities and deferrals		61,430					61,430	
Other financial trade accounts	FLAC	343,601						
Other non-derivative financial liabilities	FLAC	343,601	343,601					-*
Thereof aggregated by valuation categories acc. to IAS 39								
Available-for-sale financial instruments	AFS	3,360		586		2,774		2,774
Loans and receivables	LR	872,501	872,501					0*
Financial liabilities (measured at amortised cost)	FLAC	2,593,470	2,593,470					1,133,391*

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 carrying amount of the financial liability resulting from the put option in conjunction with the acquisition of MOTION TM corresponds to the fair value as of 31 December 2017.

The non-financial liabilities constitute 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 and other current financial liabilities is roughly equivalent to the carrying amount. This is due to the short remaining terms of these financial instruments.

* No fair value has been established for the positions; 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 fair values of the long-term trade accounts receivable 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. 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. These are securities for backing pension obligations.

As a result of the discounting carried out using the effective interest rate method and based on the current level of interest rates, there are only minor differences between the carrying amounts of the financial instruments and the corresponding fair values. 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 5,239 thousand euros as at 31 December 2017 (previous year: 9,630 thousand euros). This difference results from the valuation of the borrower's note loan 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.

A different fair value has been determined for the amount of the financial leasing liabilities within the trade accounts payable and within the other liabilities; this fair value has been determined on the basis of current assessments of the company's own credit risk and the level of interest rates at the valuation reference date.

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 2017.

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 (Deutsche Börse AG, Frankfurt stock exchange).
- 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). As was the case in 2016, there were no transfers between the individual levels in 2017.

Fair value hierarchy as of 31 December 2017

In EUR'000s	Total	Level 1	Level 2	Level 3
Assets				
Available-for-sale financial assets	2,739	2,739	0	0
Liabilities				
Trade accounts payable	32,861	0	0	32,861
Borrowings	1,065,876	0	0	1,065,876
Other financial trade accounts	289,503	0	0	289,503

Fair value hierarchy as of 31 December 2016

In EUR'000s	Total	Level 1	Level 2	Level 3
Assets				
Available-for-sale financial assets	2,774	2,774	0	0
Liabilities				
Borrowings	1,133,391	0	0	1,133,391

For the individual categories of financial instruments in accordance with IAS 39, the following net results were shown in the financial year 2017 and in the previous year:

Net result by valuation categories 2017

	From interest	From subsequent measurement		From disposals	Net result
In EUR '000s		At fair value through other comprehensive income	Impairment/ receivables losses		
Available-for-sale financial instruments (AFS)	0	-35	0	0	-35
Loans and receivables (LR)	-197	0	-50,370	-420	-50,987
Financial liabilities measured at amortised cost (FLAC)	-45,955	0	0	0	-45,955
Total	**-46,152**	**-35**	**-50,370**	**-420**	**-96,977**

Net result by valuation categories 2016

	From interest	From subsequent measurement		From disposals	Net result
In EUR '000s		At fair value through other comprehensive income	Impairment/ receivables losses		
Available-for-sale financial instruments (AFS)	0	-2	0	0	-2
Loans and receivables (LR)	58	0	-56,394	-769	-57,105
Financial liabilities measured at amortised cost (FLAC)	-51,101	0	0	0	-51,101
Total	**-51,043**	**-2**	**-56,394**	**-769**	**-108,208**

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 2017: 12,487 thousand euros; previous year: 12,614 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 2017

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	538,481	5,700	532,781		532,781
Other financial assets	30,705	8,502	22,203		22,203
Total	**569,186**	**14,202**	**554,984**	**0**	**554,984**
Financial liabilities					
Trade accounts payable	522,976	5,700	517,276	4,000	513,276
Other provisions	84,406	8,502	75,904		75,904
Total	**607,382**	**14,202**	**593,180**	**4,000**	**593,180**

Netting of financial assets and liabilities as of 31 December 2016 adjusted

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	526,196	6,300	519,896		519,896
Other financial assets	47,312	9,533	37,779		37,779
Total	**573,508**	**15,833**	**557,675**	**0**	**557,675**
Financial liabilities					
Trade accounts payable	521,996	6,300	515,696	4,000	511,696
Other provisions	97,640	9,533	88,107		88,107
Total	**619,636**	**15,833**	**603,803**	**4,000**	**599,803**

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. In addition to the netting amount of 5,700 thousand euros, there is also a long-term collateral payment of 4,000 thousand euros.

As a result of the acquisition of the Media Broadcast Group in 2016, the company has also taken on obligations for semi-retirement and long-time work accounts. These obligations are netted with the fair values of the corresponding plan assets as of every balance sheet date. As of the balance sheet date, the netted provisions for long-time work accounts amounted to 0 thousand euros (31 December 2016: 0), and the corresponding provisions for semi-retirement amounted to 851 thousand euros (31 December 2016: 1,176 thousand euros). Please refer to our statements in note 29, Other provisions.

32.2 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 minimising risk; 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 equity ratio (33.9 per cent – previous year: 32.7 per cent) of the Group as well as the debt ratio. The equity ratio is defined as the ratio between shareholders' equity and the balance sheet total, and was below the target of 50 per cent as of 31 December 2017. The debt ratio (0.9 – previous year: 1.7) indicates the relationship between net debt (1,673.1 million euros) less liquid assets (322.8 million euros), less the Sunrise share of market value as of 31 December 2017 (11,051,578 shares multiplied by the closing price of 76.04 euros - source: Bloomberg) and the EBITDA generated within the past 12 months.

All covenants are fulfilled as at the balance sheet date. All other agreed undertakings and covenants in the loan agreement were also met as of the balance sheet date.

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.

32.3 Market risk

Our Group's activities are primarily exposed to financial risks resulting from changes in interest rates and currency exchange rates.

32.3.1 Interest rate risk

The liabilities shown under the financial debt relate to four borrower's note loans (disclosed as a total net amount of 1,067.0 million euros as of 31 December 2017 (previous year: 1,129.5 million euros) – including 438.1 million euros in relation to the variable-interest tranches) and a bank loan which is due upon final maturity and which features a variable interest rate (shown as a total net amount of 606.1 million euros as of 31 December 2017) (previous year: 604.6 million euros). The Group also has a revolving credit line amounting to 100.0 million euros (previous year: 100.0 million euros) which has a term of five years and had again not been drawn on by the end of the year.

As at 31 December 2017, the Group reported variable-interest financial liabilities amounting to 1,044.3 million euros (previous year: 1,061.7 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 1,673.1 million euros are shown under short-term and long-term financial debt as at 31 December 2017 (previous year: 1,734.2 million euros), 1,044.3 million euros (previous year: 1,061.7 million euros) of which have variable interest rates. The variable-interest liabilities to banks as at the closing date were charged interest of 1.4 per cent. Of the aggregate amount shown for financial debt as at 31 December 2017, 7.1 million euros are shown as current debt. The total amount is accrued for expected payments of cumulative interest; on the other hand, there is no provision for mandatory repayment of financial liabilities in 2018. As of 31 December 2017, interest was applied to the variable part of the loans in a corridor of 1.2 to 2.0 per cent. On the basis of market estimates, we are predicting a corridor of between 1.2 and 2.0 per cent for the variable part in 2018. This means that the cash outflows for the entire financial debt in 2018 would amount to 23.1 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 -2.8 million euros on the result before tax (previous year: -2.6 million euros), while a downward shift of 50 basis points in the interest rate curve would have an impact of 0.2 million euros on the result before tax (previous year: 1.8 million 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 137 thousand euros (previous year: 139 thousand euros) on shareholders' equity, while a downward shift of 5 per cent would have an impact of –137 thousand euros (previous year: -139 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.

32.3.2 Foreign currency risk

Commercial transactions in foreign currencies are conducted to a limited extent 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.

32.3.3 Exchange rate risk

With regard to the exchange rate risks, it must be borne in mind that the company holds an interest of 24.56 per cent in the share capital of Sunrise. Sunrise uses the Swiss franc (CHF) as the reporting currency for preparing its consolidated financial statements. The exchange rate risk between the euro and Swiss franc has an impact on determining both elements of the position of our consolidated income statement "Result of companies accounted for using the equity method", namely the interest in the current result of Sunrise and also the amortisation resulting from the shadow purchase price allocation regarding Sunrise. Accordingly, this exchange rate also has an influence on the results of operations of the freenet Group; however, this is considered to be minor at present.

32.4 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 100.0 million euros (previous year: 100.0 million euros) which had been provided. There are stringent restrictions on the company raising loans outside of these credit agreements for maturities of more than five years, 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 2017 and 2016:

Financial liabilities

	Carrying	Cash flows 2018			Cash flows 2019			Cash flows 2020 and later		
In EUR '000s	amount 31.12.2017	Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment
Trade accounts payable	517,276			517,276						
Debt (liabilities due to banks)	1,673,146	9,363	15,103	7,145	11,193	15,103	54,463	29,248	33,462	1,611,538
Other non-derivative financial liabilities	381,339	11,616		49,121	10,719		52,805	46,682		279,413

Financial liabilities

	Carrying	Cash flows 2017			Cash flows 2018			Cash flows 2019 and later		
In EUR '000s	amount 31.12.2016	Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment
Trade accounts payable	515,696			515,696						
Debt (liabilities due to banks)	1,734,173	9,802	17,507	60,302	8,344	17,377	35	29,674	13,892	1,673,836
Other non-derivative financial liabilities	343,601	12,620		48,993	11,616		21,794	57,400		272,814

32.5 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 contractual partners are 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 further information, please refer to our comments under note 20, Receivables, other assets and other financial 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 dealers 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 default risks vis-a-vis major customers (dealers and distributors in Mobile Communications). 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.

32.6 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 capital tied up in assets 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.

In 2014, 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").

In the course of the financial year, costs of 420 thousand euros were incurred from the sale of receivables (previous year: costs of 769 thousand euros). All major opportunities and risks associated with ownership of these receivables were transferred to the purchaser.

Of the sales carried out on a quarterly basis in the reporting year (nominal volume 150.0 million euros, previous year: 142.3 million euros), a total of 2.8 million euros (previous year: 2.9 million euros) was posted to expenses. 1.8 million euros (previous year: 2.2 million euros) of this sum concerns the credit default risk taken on from the bank (del credere deduction and charges) and 1.0 million euros (previous year: 0.8 million euros) are accounted for by interest expenses from the late payment risk. As at the balance sheet date, receivables amounting to 103.4 million euros (previous year: 81.3 million euros) have been sold and derecognised but not yet paid for. The expenses of 15 thousand euros (previous year: 10 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 1.0 million euros (previous year: 0.8 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.

33. Related-party transactions

33.1 Overview

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

In EUR '000s	2017	2016
Sales and income attributable to services		
Joint ventures		
Jestoro GmbH, Hamburg (formerly: FunDorado GmbH)	351	358
Total	**351**	**358**

The following major receivables due from and liabilities due to related parties existed as at 31 December 2017:

In EUR '000s	31.12.2017	31.12.2016
Receivables from regular transactions		
Joint ventures		
Jestoro GmbH, Hamburg (formerly: FunDorado GmbH)	50	50
Total	**50**	**50**

Total emoluments of 365 thousand euros (previous year: 402 thousand euros) were granted to the employees' representatives of the Supervisory Board in the financial year 2017.

All transactions were at market rates. There are no securities.

33.2 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 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. With regard to the compensation with long-term incentive effect, please refer to the statements made in relation to the LTIP programmes in notes 24.1 and 24.2 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 2017

In EUR '000s	Fixed compensation	Variable compensation	Sub-total cash compensation	Variable compensation with long-term incentive effect[1]	Total compensation[2]
Christoph Vilanek	765	703	1,468	1,571	3,039
Joachim Preisig	544	562	1,106	716	1,822
Stephan Esch	493	301	794	490	1,284
Total	**1,802**	**1,566**	**3,368**	**2,777**	**6,145**

Executive Board compensation 2016

In EUR '000s	Fixed compensation	Variable compensation	Sub-total cash compensation	Variable compensation with long-term incentive effect[1]	Total compensation[2]
Christoph Vilanek	765	613	1,378	949	2,327
Joachim Preisig	544	491	1,035	686	1,721
Stephan Esch	492	245	737	457	1,194
Total	**1,801**	**1,349**	**3,150**	**2,092**	**5,242**

The composition of the variable compensation with long-term incentive effect was as follows:

Variable compensation with long-term incentive effect 2017

In EUR '000s	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	1,571	0	1,571
Joachim Preisig	387	329	716
Stephan Esch	490	0	490
Total	**2,448**	**329**	**2,777**

Variable compensation with long-term incentive effect 2016

In EUR '000s	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	949	0	949
Joachim Preisig	686	0	686
Stephan Esch	457	0	457
Total	**2,092**	**0**	**2,092**

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.
2 The total amount of compensation in the above table does not include the benefit costs of 903 thousand euros (previous year: 1,020 thousand euros). Please refer to the following explanations.

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. For this LTIP programme which is also designated as “Programme 2”, please refer to note 24.2 of these notes to the financial statements.

The members of the Executive Board were granted an LTIP programme for the first time in 2011; this programme was designated “Programme 1”. The programme had been terminated as of 31 December 2015 as a result of complete payment.

In the financial year 2017, there were cash payments of 329 thousand euros out of the current LTIP programme (Programme 2); these related to Mr Preisig. In the previous year, no payments were made out of the LTIP programmes. As of the balance sheet date 31 December 2017, all three members of the Executive Board were included in Programme 2 – with the target attainment years 2014 to 2018 for Mr Vilanek and 2015 to 2019 for Mr Preisig and Mr Esch.

As of 31 December 2017, the value of the provision for the LTIP programme for Mr Vilanek was 5,008 thousand euros (previous year: 3,437 thousand euros); the value for Mr Preisig was 2,066 thousand euros (previous year: 1,679 thousand euros), and the value for Mr Esch was 1,609 thousand euros (previous year: 1,119 thousand euros).

All in all, the Executive Board compensation in 2017 as defined by section 314 (1) no. 6a HGB/German Accounting Standard No. 17 (DRS 17) amounted to 3,368 thousand euros (previous year: 3,150 thousand euros). As was the case in 2016, the total for 2017 contains no compensation with long-term incentive effect; as such components had already been disclosed in the financial years in which the compensation instruments under HGB had been granted.

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 of 1 May 2009. freenet AG had taken on the pension commitment granted to Mr Preisig from the former debitel AG as of 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 compensation report within the group management report.

As at 31 December 2017, the defined benefit obligation (DBO) for Mr Vilanek amounted to 4,108 thousand euros (previous year: 3,804 thousand euros), with Mr Preisig receiving 3,953 thousand euros (previous year: 4,129 thousand euros) and Mr Esch receiving 3,722 thousand euros (previous year: 3,610 thousand euros). The DBOs for Messrs Spoerr, Krieger and Berger, as former Executive Board members, totalled 9,482 thousand euros as at 31 December 2017 (previous year: 9,483 thousand euros).

Current service time expenses of 1,101 thousand euros (previous year: 903 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, 482 thousand euros for 2017 (previous year: 391 thousand euros) were accounted for by Mr Vilanek, 338 thousand euros (previous year: 285 thousand euros) by Mr Preisig and 281 thousand euros (previous year: 227 thousand euros) by Mr Esch.

As was the case in the previous year, in 2017, the personnel expenses for the members of the Executive Board related to the pension commitments did not include any past service costs.

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

33.3 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 2017, the members of the company's Supervisory Board received fixed compensation of 405 thousand euros plus attendance fees amounting to 73 thousand euros. In addition, profit-linked compensation of 405 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 2017. The aggregate compensation paid for Supervisory Board activities thereby amounted to 883 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 2017

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Prof Dr Helmut Thoma	47.4	6.0	47.6	101.0
Knut Mackeprang[1]	45.0	4.0	45.0	94.0
Claudia Anderleit[1]	30.0	5.0	30.0	65.0
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	8.0	30.0	68.0
Gesine Thomas[1]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	7.0	30.0	67.0
Robert Weidinger	30.0	11.0	30.0	71.0
Sabine Christiansen	30.0	4.0	30.0	64.0
Thomas Reimann[1]	22.5	3.0	22.6	48.1
Fränzi Kühne	17.5	3.0	17.6	38.1
	372.4	68.0	372.8	813.2
Former members				
Dr Hartmut Schenk	25.2	3.0	25.0	53.2
Birgit Geffke[1]	7.5	2.0	7.4	16.9
	32.7	5.0	32.4	70.1
Total	**405.1**	**73.0**	**405.2**	**883.3**

Compensation for the financial year 2016

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr Hartmut Schenk	60.0	7.0	60.0	127.0
Knut Mackeprang[1]	45.0	3.0	45.0	93.0
Claudia Anderleit[1]	30.0	3.0	30.0	63.0
Birgit Geffke[1]	30.0	2.0	30.0	62.0
Thorsten Kraemer	30.0	4.0	30.0	64.0
Ronny Minak[1]	30.0	7.0	30.0	67.0
Michael Stephan[1]	30.0	7.0	30.0	67.0
Prof Dr Helmut Thoma	30.0	3.0	30.0	63.0
Gesine Thomas[1]	30.0	2.0	30.0	62.0
Marc Tüngler	30.0	8.0	30.0	68.0
Robert Weidinger	30.0	11.0	30.0	71.0
Sabine Christiansen	30.0	3.0	30.0	63.0
Total	**405.0**	**60.0**	**405.0**	**870.0**

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

34. Declaration in accordance with section 315e HGB

The average number of employees in the Group (section 314 (1) no. 4 HGB) has been shown in note 8, Personnel expenses, in these notes.

With regard to the disclosures concerning compensation of the executive bodies of the Company (section 314 (1) 1 no. 6 HGB), please refer to note 33, 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 on 8 December 2016. It has been made permanently available to shareholders in the Internet at the following address:

www.freenet-group.de/investor-relations/corporate-governance/entsprechenserklaerung

A total of 1,078 thousand euros in fees was paid to the auditor in accordance with section 314 (1) no. 9 HGB during the financial year 2017. Of this figure, 953 thousand euros is attributable to auditing services (thereof 887 thousand euros for the current audit for 2017 as well as 66 thousand euros for project-related audits within the framework of the introduction of IFRS 15 Introduction), 29 thousand euros is attributable to other certification services (e.g. assessment of the plausibility of quarterly reporting), 5 thousand euros is attributable to tax consultancy services as well as 91 thousand euros for other services accompanying the introduction of IFRS 16.

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, Hamburg	100.00%
freenet.de GmbH, Hamburg	100.00%
01019 Telefondienste GmbH, Hamburg	100.00%
01024 Telefondienste GmbH, Hamburg	100.00%
01050.com GmbH, Hamburg	100.00%
freenet Datenkommunikations 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%
freenet Energy 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%
Lorena Medienagentur 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 (Brasil)	100.00%
Motility GmbH, Berlin	100.00%
freenet digital Holdings Inc., Wilmington (USA)	100.00%
freenet digital Entertainment Inc., Los Angeles (USA)	100.00%
freenet digital LLC, Wilmington (USA)	100.00%
freenet digital North America Inc., Wilmington (USA)	100.00%
Seedline Studios, LLC, Wilmington (USA)	100.00%
Aldine Productions LLC, Wilmington (USA)	100.00%
Seedling Productions LLC, Los Angeles (USA)	100.00%
freenet digital Group US Holdings Inc., Wilmington (USA)	100.00%
RS Games, LLC, Los Angeles (USA)	100.00%
Motility Ads LLC, Los Angeles (USA)	100.00%
Quaid Media, LLC, Los Angeles (USA)	100.00%
EXARING AG, Munich	50.01%
Synergy Networks GmbH, Leipzig	50.01%
Taunus Beteiligungs GmbH, Cologne	100.00%
MEDIA BROADCAST GmbH, Cologne	100.00%
MEDIA BROADCAST Services GmbH, Cologne	100.00%
Media Broadcast TV Services GmbH, Cologne	100.00%
At Equity valued companies	
Jestoro GmbH, Hamburg (previously FunDorado GmbH)	50.00%
Sunrise Communications Group AG, Zurich (Switzerland)	24.56%

35. Major events after the balance sheet date

There were no further significant events after the reference date.

36. Development of intangible assets and property, plant and equipment as at 31 December 2017

Development of intangible assets and property, plant and equipment as at 31 December 2017

	Cost of purchase or production				
In EUR '000s	1.1.2017	Additions	Transfers	Disposals	31.12.2017
Intangible assets					
Internally-generated software	93,603	14,284	0	1,451	106,436
Software, licenses and rights of use	219,345	103,733	621	151,882	171,817
Trademarks	346,352	0	0	0	346,352
Customer relationships	113,520	0	0	0	113,520
Goodwill	1,379,919	0	0	0	1,379,919
	2,152,739	**118,017**	**621**	**153,333**	**2,118,044**
Property, plant and equipment					
Land, facilities on land and buildings	38,656	26	0	699	37,983
Switches and networks	929	0	0	0	929
Technical equipment and machinery	492,145	29,028	4,682	12,260	513,595
Other office equipment	118,258	12,658	1,117	41,539	90,494
Payments on account and assets under construction	6,474	1,097	-6,420	8	1,143
	656,462	**42,809**	**-621**	**54,506**	**644,144**
Total	**2,809,201**	**160,826**	**0**	**207,839**	**2,762,188**

Development of intangible assets and property, plant and equipment as at 31 December 2016

	Cost of purchase or production					
In EUR '000s	1.1.2016	Change in companies included in consolidation	Additions	Transfers	Disposals	31.12.2016
Intangible assets						
Internally-generated software	95,527	-287	17,218	0	18,855	93,603
Software, licenses and rights of use	225,710	1,137	3,357	267	11,126	219,345
Trademarks	336,352	10,000	0	0	0	346,352
Customer relationships	21,347	99,700	0	0	7,527	113,520
Goodwill	1,153,985	225,934	0	0	0	1,379,919
	1,832,921	**336,484**	**20,575**	**267**	**37,508**	**2,152,739**
Property, plant and equipment						
Land, facilities on land and buildings	16,042	25,636	5	3,166	6,193	38,656
Switches and networks	4,465	0	0	0	3,536	929
Technical equipment and machinery	22,509	451,390	28,487	4,717	14,958	492,145
Other office equipment	108,377	9,159	11,687	327	11,292	118,258
Payments on account and assets under construction	41	11,486	3,431	-8,477	7	6,474
	151,434	**497,671**	**43,610**	**-267**	**35,986**	**656,462**
Total	**1,984,355**	**834,155**	**64,185**	**0**	**73,494**	**2,809,201**

Depreciation and impairment write-downs						Net book amounts	
1.1.2017	Additions	Impairment write-downs	Transfers	Disposals	31.12.2017	31.12.2017	1.1.2017
62,482	11,963	211	0	1,415	73,241	33,195	31,121
129,825	38,993	0	0	131,026	37,792	134,025	89,520
41,832	2,292	0	0	0	44,124	302,228	304,520
12,447	7,014	0	0	0	19,461	94,059	101,073
0	0	0	0	0	0	1,379,919	1,379,919
246,586	**60,262**	**211**	**0**	**132,441**	**174,618**	**1,943,426**	**1,906,153**
11,149	1,205	0	0	332	12,022	25,961	27,507
854	52	0	0	0	906	23	75
64,068	74,070	0	3	1,964	136,177	377,418	428,077
87,259	12,434	0	-3	40,469	59,221	31,273	30,999
0	0	0	0	0	0	1,143	6,474
163,330	**87,761**	**0**	**0**	**42,765**	**208,326**	**435,818**	**493,132**
409,916	**148,023**	**211**	**0**	**175,206**	**382,944**	**2,379,244**	**2,399,285**

Net book amounts							Net book amounts	
1.1.2016	Change in companies included in consolidation	Additions	Impairment write-downs	Transfers	Disposals	31.12.2016	31.12.2016	1.1.2016
71,138	-282	10,441	0	0	18,815	62,482	31,121	24,389
96,910	-754	44,723	14	0	11,068	129,825	89,520	128,800
39,672	-67	2,227	0	0	0	41,832	304,520	296,680
13,127	0	6,847	0	0	7,527	12,447	101,073	8,220
0	0	0	0	0	0	0	1,379,919	1,153,985
220,847	**-1,103**	**64,238**	**14**	**0**	**37,410**	**246,586**	**1,906,153**	**1,612,074**
9,411	0	1,749	0	0	11	11,149	27,507	6,631
4,338	0	52	0	0	3,536	854	75	127
18,243	0	47,147	0	0	1,322	64,068	428,077	4,266
86,900	0	11,124	0	0	10,765	87,259	30,999	21,477
0	0	0	0	0	0	0	6,474	41
118,892	**0**	**60,072**	**0**	**0**	**15,634**	**163,330**	**493,132**	**32,542**
339,739	**-1,103**	**124,310**	**14**	**0**	**53,044**	**409,916**	**2,399,285**	**1,644,616**

Christoph Vilanek　　Joachim Preisig　　Stephan Esch

Büdelsdorf, 5 March 2018
freenet AG
The Executive Board

INDEPENDENT AUDITOR'S REPORT

To freenet AG, Büdelsdorf

Report on the Audit of the consolidated financial statements and of the group management report

Audit Opinions

We have audited the consolidated financial statements of freenet AG, Büdelsdorf, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, schedule of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of freenet AG, for the financial year from 1 January to 31 December 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided nonaudit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1 Revenue recognition and appropriateness of the disclosure regarding the expected impact of the first time application of IFRS 15
2 Recoverability of goodwill and intangible assets
3 Recoverability of deferred tax assets on loss carryforwards

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

1 Revenue recognition and appropiateness of the disclosure regarding the expected impact of the first time application of IFRS 15

① In the consolidated financial statements of freenet AG revenue of 3,5 billion euros is reported. Revenue is recognized once services have been rendered in full, provided that its amount can be reliably determined and it is sufficiently probable that a future economic benefit will flow to the Company. This significant item is subject to considerable risk due to the complexity of the systems necessary for properly recording and identifying revenue and the impact of everchanging business, price and tariff models (including tariff structures, customer discounts, incentives). Against this background, the proper application of the accounting standards is considered to be particularly complex and is based to a certain extent on estimates and assumptions made by the executive directors. For this reason and due to the considerable uncertainties involved, this matter was of particular significance for our audit.

In addition, from financial year 2018 onward the initial application of the new standard on revenue recognition, "International Financial Reporting Standard 15 – Revenue from Contracts with Customers" (IFRS 15), will have a significant impact which already has to be presented in the notes to the consolidated financial statements for financial year 2017. freenet AG will exercise the option to use a practical expedient on initial application and recognize the cumulative effect of the transition directly in equity as of 1 January 2018 in accordance with the transitional provisions. As a result, the Company expects an effect from the allocation of revenue from commissions of network operators decreasing retained earnings and equity without being compensated by the opposite effect from the initial recognition of contractual assets and costs of obtaining contracts. In addition, freenet AG anticipates a reduction in revenues from rendering services and sales of trading goods due to the implementation of IFRS 15. In view of the expected material impact and the complexity of the Groupwide implementation of the new standard, the presentation of the expected impact was of particular significance for our audit.

② Under consideration of the knowledge that the complexity and the estimates and assumptions that have to be made give rise to an increased risk of accounting misstatements, our audit included assessing the Group's processes and controls for recognizing revenue. Furthermore, in order to mitigate the inherent audit risk in this audit area, we ensured that audit procedures were consistently carried out throughout the Group by issuing the relevant instructions to the component auditors. Our audit approach included testing of the controls and substantive audit procedures, in particular:

- Evaluating the IT system environment related to invoicing and measurement as well as other relevant systems supporting the accounting of revenue, including the implemented controls of system changes.
- Assessing the invoicing and measurement systems up to entries in the general ledger.
- Examining customer invoices and receipts of payment on a test basis.

Furthermore, we assessed the expected impact from the accounting effects of new business and price models. We were able to satisfy ourselves as of the appropriateness of the systems, processes, and controls in place and that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that revenue is appropriately reported.

With regard to the expected impact from the initial application of IFRS 15 from financial year 2018 onward, we evaluated the impact which has been assessed in a group-wide project for implementing of the new standard. In order ro adress the complexity of implementing the new standard, we ensured that audit procedures were consistently carried out throughout the Group by issuing the relevant instructions to the component auditors. Our audit approach included among other procedures:

- Evaluating the impact analysis and the estimates made for accounting purposes for the various business models of the Group companies.
- Evaluating design of the processes set up to map the transactions in accordance with the new stand-ard as well as the IT tools developed to support the implementation of the required new logic.
- Assessing the appropriateness of the method used to determine the expected impact of the initial application of IFRS 15.

We were able to satisfy ourselves that the systems and processes set up by the executive directors and the estimates and assumptions made are sufficiently documented and substantiated to ensure that the expected impact of initial application is appropriately presented.

③ The Company's disclosures on revenue are contained in note 4 to the consolidated financial statements of freenet AG.

2 Recoverability of goodwill and intangible assets

① In the consolidated financial statements of the Company, an amount of EUR 1,380 million (32% of consolidated total assets and 94% of Group equity) is reported under the "Goodwill" balance sheet item. Assets amounting to EUR 564 million (13% of consolidated total assets and 39% of Group equity) are reported under "Intangible assets". The Company allocates goodwill to the cash generating units within the freenet AG Group. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually or if there are indications of impairment. Intangible assets with finite useful lives are tested for impairment if there are indications of impairment. The impairment tests are carried out by comparing the carrying amounts of the cash generating units or intangible assets with their respective recoverable amounts. The recoverable amount is calculated on the basis of fair value less costs to sell. This is based on the present value of future cash flows since market values are not generally available for the individual cash generating units. The discounted cash flow models are based on planning approved by the executive directors for the period up to 2021, which is extrapolated on the basis of assumptions about longterm growth rates. The discount rate used is the weighted average cost of capital for the relevant cash generating units. The result of this measurement depends to a large extent on the executive directors' assessment of future cash inflows of the respective cash generating unit and the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the measurement models, this matter was of particular significance for our audit.

② As part of our audit, we assessed the methodology employed for the purposes of performing the impairment tests, among other things. We evaluated the appropriateness of the future cash inflows used in the measurement, among other things by comparing this data with the current budgets in the planning approved by the executive directors, and reconciling it against general and sectorspecific market expectations. With the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amounts calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. Furthermore, we assessed the additional sensitivity analysis for the cash generating units and, taking into account the information available, determined that the respective goodwill and intangible assets were adequately covered by the discounted future cash flows. Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures on goodwill and intangible assets are contained in notes 15 and 16 to the consolidated financial statements.

3 Recoverability of deferred tax assets on loss carryforwards

① The Company's consolidated financial statements include deferred tax assets on loss carryforwards amounting to EUR 288.2 million, which the Company's executive directors believes can likely be utilized in the future. The projected results in accordance with IFRSs, which serve as a starting point for tax planning, stem from the multi-year projections for 2018 to 2021. From our point of view, this matter is of particular significance, as the multi-year projections serving as the basis for the recoverability of deferred taxes on loss carryforwards are highly dependent on the estimates and assumptions of the executive directors and are subject to a high level of uncertainty.

② In our audit of the recoverability of deferred tax assets, we included specialists from our Tax department in our audit team. With their support, we assessed, among other things, the methodological process to carry out recoverability testing on tax assets recognized in relation to loss carryforwards. In addition, we assessed the recoverability of the deferred tax assets on loss carryforwards, as described above, on the basis of the projections prepared by the executive directors with respect freenet AG's future taxable income and that of its consolidated income tax group subsidiaries, and we assessed the appropriateness of the planning premises used. Our assessment also covered the correctness of the reconciliation of the projected results to the tax result, compliance of the method used to calculate deferred taxes with IAS 12 and the mathematical accuracy of the calculations. We were able to satisfy ourselves as of the assumptions made by the executive directors and the method applied.

③ The Company's disclosures pertaining to deferred tax assets on loss carryforwards are contained in notes 2.14 and 18 to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:
- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section „Corporate Governance“ of the group management report
- the non-financial group statement pursuant to § 315b Abs. 1 HGB included in section „Non-financial statement freenet Group“ of the group management report.

The other information comprises further the remaining parts of the annual report– excluding cross references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information
- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor on 1 June 2017. We were engaged by the supervisory board on 7 November 2017. We have been the group auditor of the freenet AG, Büdelsdorf, without interruption since the financial year 2014.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (longform audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Claus Brandt.

Hamburg, 12 March 2018
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

sgd. Claus Brandt
Wirtschaftsprüfer
(German Public Auditor)

sgd. ppa. Benjamin Röhe
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, 5 March 2018
freenet AG
The Executive Board

Christoph Vilanek   Joachim Preisig   Stephan Esch

FURTHER INFORMATION

FINANCIAL CALENDAR

9 January 2018	20TH German Investment Seminar, Commerzbank, New York, USA
15 January 2018	17TH German Corporate Conference, UniCredit / Kepler, Frankfurt, Germany
1 March 2018	Publication of the preliminary figures for financial year 2017
22 March 2018*	Publication of the consolidated financial statements / Annual Report 2017
4 May 2018*	Quarterly Statement as of 31 March 2018 – First quarter 2018
17 May 2018*	Annual General Meeting of freenet AG (New location: Halle A4, Messeplatz 1), Hamburg, Germany
9 August 2018*	Interim Report as of 30 June 2018 – Second quarter 2018
8 November 2018*	Quarterly Statement as of 30 September 2018 – Third quarter 2018

* 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.

B2B Business with business customers

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.

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 Existing customers of the freenet Group in the Mobile Communications segment who have concluded one of freenet's own tariffs or a tariff of the network operators in the form of a postpaid or no-frills agreement at the freenet Group. For its own existing customers, the freenet Group handles all major services of the network operators; i.e. particularly own account billing as well as customer service.

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 defence costs in the event they are sued for wrongful acts while they were with that company.

DBO Defined Benefit Obligation.

Debt ratio Ratio between net debt (see "Net debt") and EBITDA achieved in the last 12 months (see "EBITDA").

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.

Downstream In a telecommunications network or computer network, downstream refers to data sent from a network service provider to a customer.

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, incl. the earnings elements of the companies accounted for using the equity method

EBITDA Earnings before interest, taxes, depreciation and amortisation, incl. the earnings elements of the companies accounted for using the equity method (EBIT), excl. depreciation, amortisation and deferred taxes arising from the subsequent recognition of companies accounted for using the equity method, plus depreciation and amortisation.

EBITDA exclusive Sunrise See EBITDA without the profit share of the Sunrise holding included using the equity method.

EBT Earnings before taxes.

Equity ratio Ratio between equity and balance sheet total.

Federal Network Agency Federal Network Agency for Electricity, Gas, Telecommunication, Posts and Railways (German: Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen).

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 from operating activities minus the investments in property, plant and equipment and intangible assets, plus the inflows from disposals of intangible assets and property, plant and equipment.

Free cash flow exclusive Sunrise See free cash flow without the dividend from the Sunrise holding.

freenet TV subscribers Customers who have purchased freenet TV access in the form of a prepaid card or via a direct debit arrangement (postpaid).

Gross profit Revenue less cost of materials.

Gross profit margin Ratio between gross profit (see "Gross profit") and revenue.

HGB German: Handelsgesetzbuch; English: German Commercial Code.

Home Automatio 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) 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.

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.

Mbps stands for millions of bits per second or megabits per second and is a measure of bandwidth (the total information flow over a given time) on a telecommunications medium.

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.

Narrowband Analogue or digital data transmission with a speed of up to 128 kbps.

Net debt Long-term and short-term financial debt shown in the balance sheet, less liquid assets, less the interest of the freenet Group in the market value of Sunrise as of the reference date. The market value of Sunrise is calculated by multiplying the closing price of the Sunrise share on the Swiss stock exchange by the number of shares held by the freenet Group (11,051,578) as of the relevant reference date. Swiss francs are converted into euros using an officially defined reference date rate based on data of Bloomberg.

Net interest income "Interest receivables and similar income" less "Interest payable and similar expenses".

Net investments Investments in property, plant and equipment and intangible assets, less the inflows from disposals of property, plant and equipment and intangible assets.

No-frills Traditionally, no-frills describes the distribution of Mobile Communications agreements by direct means (e.g. online) and not via specialist outlets. The tariffs deliberately feature a simple structure, and in general do not comprise a subsidised device.

Onboarding Onboarding, also known as organizational socialization, refers to the mechanism through which new employees acquire the necessary knowledge, skills, and behaviours to become effective organizational members and insiders.

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.

Pro-forma financial debt Non-current and current financial debt in the balance sheet, less liquid assets.

Pro-forma debt ratio Ratio between pro-forma financial debt (see "Pro-forma financial debt") and EBITDA achieved in the last 12 months (see "EBITDA")

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).

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 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.).

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).

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.

waipu.tv registered customers Customers who use the service of waipu.tv free-of-charge or in conjunction with one of the offered pay tariffs (e.g. Comfort or Perfect).

waipu.tv subscribers Customers who use the service of waipu.tv in conjunction with one of the offered pay tariffs (e.g. Comfort or Perfect).

Whistleblower A whistleblower (also known as a whistle-blower or whistle blower) is a person who exposes any kind of information or activity that is deemed illegal, unethical, or not correct within an organization that is either private or public.

WpHG German: Wertpapierhandelsgesetz; English: German Securities Trading Act.

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