INTERIM REPORT
AS OF 30 JUNE 2017

Q2
2017

freenet GROUP

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

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OVERVIEW KEY FINANCIALS[1]

GROUP

Result

In EUR million/as indicated	1st half 2017	1st half 2016 adjusted²	Q2/2017	Q1/2017	Q2/2016 adjusted²
Revenue	1,677.2	1,556.9	839.2	838.0	807.7
Gross profit	458.6	411.7	231.6	227.0	219.4
EBITDA	209.3	193.5	108.4	100.9	104.3
EBIT	129.0	130.5	68.3	60.7	63.3
EBT	104.4	103.0	56.0	48.4	47.8
Group result	91.9	104.1	50.2	41.7	53.0
Earnings per share in EUR (diluted and undiluted)	0.76	0.84	0.41	0.35	0.43

Balance Sheet

In EUR million/as indicated	30.6.2017	30.6.2016 adjusted²	30.6.2017	31.3.2017	30.6.2016 adjusted²
Balance sheet total	4,143.2	4,141.8	4,143.2	4,262.0	4,141.8
Shareholders` equity	1,288.9	1,277.0	1,288.9	1,445.6	1,277.0
Equity ratio in %	31.1	30.8	31.1	33.9	30.8

Finances and investments

In EUR million	1st half 2017	1st half 2016 adjusted²	Q2/2017	Q1/2017	Q2/2016 adjusted²
Free cash flow	181.1	191.5	124.7	56.4	125.1
Depreciation and amortisation	69.9	57.5	34.9	35.0	35.7
Net investments (CAPEX)	30.4	24.7	8.5	21.9	17.7
Net debt	714.2	898.0	714.2	596.9	898.0
Pro forma net debt	1,475.0	1,526.9	1,475.0	1,377.0	1,526.9

Share

	30.6.2017	30.6.2016	30.6.2017	31.3.2017	30.6.2016
Closing price Xetra in EUR	27.93	23.08	27.93	30.49	23.08
Number of issued shares in ‘000s	128,061	128,061	128,061	128,061	128,061
Market capitalisation in EUR ‘000s	3,576.1	2,955.0	3,576.1	3,904.6	2,955.0

Employees

	30.6.2017	30.6.2016	30.6.2017	31.3.2017	30.6.2016
Employees	4,156	4,879	4,156	4,249	4,879

OVERVIEW KEY FINANCIALS[1]

MOBILE COMMUNICATIONS SEGMENT

Customer development

In million	1st half 2017	1st half 2016	Q2/2017	Q1/2017	Q2/2016
Mobile Communications customers/cards[3]	11.99	12.09	11.99	12.00	12.09
Thereof Customer Ownership	9.59	9.42	9.59	9.56	9.42
Thereof Postpaid	6.56	6.39	6.56	6.54	6.39
Thereof No-frills	3.03	3.02	3.03	3.02	3.02
Thereof Prepaid	2.39	2.67	2.39	2.44	2.67
Gross new customers/cards	1.35	1.31	0.70	0.66	0.67
Net change	-0.07	-0.14	-0.02	-0.06	-0.06

Result

In EUR million	1st half 2017	1st half 2016	Q2/2017	Q1/2017	Q2/2016
Revenue	1,519.8	1,465.2	756.9	762.8	737.8
Gross profit	354.1	353.6	176.0	178.1	176.9
EBITDA	200.0	189.4	99.9	100.1	98.6

Monthly average revenue per user (ARPU)

In EUR	1st half 2017	1st half 2016	Q2/2017	Q1/2017	Q2/2016
Postpaid	21.3	21.4	21.4	21.1	21.4
No-frills	2.6	2.4	2.7	2.5	2.4
Prepaid	3.0	3.0	3.1	3.0	3.1

TV AND MEDIA SEGMENT

Result

In EUR million	1st half 2017	1st half 2016 adjusted[2]	Q2/2017	Q1/2017	Q2/2016 adjusted[2]
Revenue	149.4	78.0	74.7	74.7	67.6
Gross profit	83.8	36.9	45.4	38.4	32.0
EBITDA	13.8	10.0	10.5	3.3	9.0

1 Unless otherwise identified, definitions of these terms are included in the glossary.
2 Retrospective adjustment due to finalised purchase price allocation of Media Broadcast Group.
3 At the end of the period.

TO OUR SHAREHOLDERS

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

LETTER TO SHAREHOLDERS

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

In February, Kantar Emnid published results of a survey concerning the preferences of German TV audiences. According to these results, almost half of the approximately 1,000 persons covered by the survey specified that high reception quality is the most important aspect, followed by a wide range of channels (25 per cent) and low costs (24 per cent). And 23 per cent of the persons covered by the survey were willing to bear additional charges for HD programmes of the major private stations. With approximately 40 million households in Germany, this represents a potential number of users of more than 9 million alone for home TV consumption in best HD quality.

These figures have again confirmed our strategic decisions and investments which we carried out at the end of 2015 and the beginning of 2016 – with the acquisition of the Media Broadcast Group and the equity participation in EXARING AG.

- Media Broadcast is the sole commercial provider of the innovative TV standard DVB-T2 HD, in which, since 29 March of this year, up to 18 public-sector TV stations broadcast their programmes in full-HD quality via terrestrial means, as well as approximately 20 high-range private channels such as RTL, Sat.1, ProSieben and VOX. The latter have been broadcasting in encrypted form for a monthly fee of 5.75 euros since the beginning of July – under our new brand freenet TV and for a much lower cost than for instance cable TV. These programmes will in the medium term cover at least 96 per cent of the audience market, and by no later than 2019, DVB-T2 HD will provide terrestrial coverage for more than 80 per cent of the German population. In addition, there is also access to on-demand services such as the respective catch-up TV services of the stations. The analogue VHF infrastructure of Media Broadcast (in addition to DAB+ also included in the package acquired at that time) is now undergoing an open, transparent and non-discriminatory sales process: In future, we intend to restrict ourselves to service activities in the field of VHF and otherwise, in the field of radio, we intend to focus entirely on DAB+ which as modern technology provides the benefits of higher sound quality, greater range and more extensive frequencies. Accordingly, Media Broadcast (as the syndicate “Antenne Deutschland” in co-operation with “Absolut Radio”) at the beginning of June was awarded the contract for the second nation-wide multiplex in the digital standard DAB+. With this “Bundesmux” (nation-wide DAB+-multiplex) the range of nationally broadcast digital radio stations has increased from the previous number of 13 by up to a further 18 channels. According to the media authorities, the main factor in determining the award of the contract was the experience of the syndicate as a network operator and programme supplier – which guarantees a rapid expansion of the service. With the presentation of the modern distribution network “ARD Disnet”, the company had shortly before provided an impressive demonstration of its professional work: on behalf of five public-sector stations, the freenet subsidiary created this high-speed, scalable and high-definition data highway for the broadcast sector in the record time of one year, thus meeting the requirements of the ARD authorities in line with extremely cost-effective conditions.

- EXARING in turn has its own 12,000 kilometre fibre-optic network which reaches approximately 23 million German households with a broadband connection of at least 16 Mbps. Our participation with an option to gradually acquire a majority interest has assured us the distribution rights for the closed IP platform: This is accompanied by the mobile app-driven use of streaming services and up to 100 TV channels on the smartphone or TV at home; in addition, this infrastructure will permit the implementation of future moving-image innovations such as virtual reality or holography/3D.
- Since the fourth quarter of 2016, we have also been operating in this growth market with a new brand - waipu.tv. It is currently available in two options: as a comfort version with ten hours of storage for 4.99 euros per month and as a perfect version with 50 hours of storage for 14.99 euros per month.

As a result of breaking into the field of TV and home entertainment, freenet AG is now addressing a third area of operation; it ideally complements the attractive growth market of digital lifestyle on which we have been operating for several years with innovative digital applications and products related to home automation and security, health, data security, entertainment and infotainment. At the same time, in our traditional field of Mobile Communications, we concentrate successfully on high quality and profitable contract relations with our main and discount brands as a result of our high market penetration.

It is certainly plausible and advisable from the business point of view that, in view of the commercial start of freenet TV at the end of March, we are currently particularly focussing on ensuring that this market is developed consistently and as quickly as possible. For this reason, in recent months, we have again stepped up the pace of our sales and marketing activities – focussing on the TV segment. For instance, by way of reader actions with major daily periodicals and via co-operations with Samsung as the producer of receivers which are in certain cases necessary for terrestrial reception of full-HD TV; overall, approximately 1.7 million freenet TV capable receivers of various manufacturers were installed in households at the end of the first half of the year (without DVB-T2 HD capable TV set).

The activities relating to our new full-HD and IPTV services were accompanied by two extensive PR campaigns in the first half of the year – with programme inserts and several flights of TV spots, with online advertising, social media, out-of-home as well as point-of-sale measures in our shops. Our familiar and successful advertising figure Costa advertised the TV services as well as the latest smartphones and mobile tariffs, various digital lifestyle and new bundle products. There was also our presence at the sector exhibition Anga Com in Cologne with appearances of management in three panels concerning developments, technology and strategy in the TV market.

In addition, in May and June, mobilcom-debitel presented the main products and current technology trends in an approachable manner for end users in “Digital Lifestyle Lounges” – mobile pop-up stores in several major German cities. In April, the company had completely revised the online shop for dealers and extended it to include various new functions, particularly with regard to product information and presentation, delivery details and improved order processing. Also in April, mobilcom-debitel started a co-operation with Sky Deutschland, thus rounding off its range of TV services in the shops to include corresponding Sky subscriptions.

In parallel with the above process, EXARING expanded the utilisation possibilities and contents of waipu.tv. Following a beta test phase lasting for several months on Fire TV, the Amazon Fire TV stick and the Fire TV box extended the existing possibility of using waipu.tv via Google Chromecast on a home TV. And this possibility is based on the highly efficient EXARING fibre-optic network with brilliant video and audio quality – easily downloaded onto the user's smartphone and, with simple swipes, offering the possibility of rapidly changing between stations and programmes on the TV.

This lightning-fast Fire TV switching facility resulted in EXARING being invited to attend the Amazon Appstore Summit 2017 in May, the well-known world-wide conference for app developers. In addition, at the end of the first quarter, waipu.tv extended its service to include the following:

- Free features such as serial recording and search function
- New special interest content, starting with the broadcasting of weekly highlights of the Bayernliga.

In the second quarter, EXARING then created the basis for storing and accessing enormous volumes of data by way of a co-operation with Rausch Netzwerktechnik: This Company's product "BigFoot Storage XXLarge" has a capacity of 576 Tbytes, which is equivalent to approximately 450,000 one-hour films. At the same time, waipu.tv extended its range of programmes to include "Rocket Beans TV", the first German community-driven web station.

In this way, EXARING creates digital links with the respective communities – this is one of the main reasons why this still young start-up company is establishing a correspondingly positive reputation: Accordingly, the company has achieved the Net Promoter Score of 37 which is excellent for start-ups; this uses a scale of plus 100 to minus 100 to measure the probability of a user recommending the respective brand to a friend or colleague. In addition, in video-magazin.de, waipu.tv assured itself first place among innovative TV providers – as the sole provider with the best mark for the technical features and also for value-for-money and also as a result of the "brilliant simplicity"!

The sum of all these activities in the new TV segment is reflected in positive user figures – we have made a neat and successful start: At the end of June, more than 500,000 paying users had decided to use freenet TV. And waipu.tv reported more than 250,000 free users at the same time, including more than 50,000 paying users. We have thus attained an initial milestone with regard to our targets for this segment at the end of 2017: a two-fold increase in the corresponding numbers at waipu.tv or approximately 800,000 paying users of freenet TV – with more than two million connected DVB-T2 HD receivers at that time.

Our daily work in other areas of operation has also been much acclaimed – in our core field of Mobile Communications and also in the organically expanding Digital Lifestyle segment. For instance, our various mobile communications brands occupied the two first places in the test of PC Welt at the beginning of the year, measured in terms of effective monthly costs: freenetmobile and callmobile in the category of low-volume users, and freenetmobile as well as mobilcom-debitel in the category of normal and high-volume users. In addition, our main brand occupied three further leading positions in the COMPUTER-BILD test of the best smartphone tariffs for high-speed Internet.

In addition, we repeatedly succeed in making our mark in a competitive environment with special products and services. For instance, we were one of the first providers in Germany for Amazon's cloud-based voice service "Alexa"; the audio devices of this service are integrated in home networks and operate virtually "on command" as a digital assistant for the SmartHome. In addition, we have also launched the new Nokia 150 (initially on an exclusive basis) – a traditional keypad mobile phone with excellent voice and battery capacities at the exceptionally low price of approximately 40 euros. This was followed at the end of the first half of the year by the new top smartphones of the recently revitalised traditional brand Nokia – with the models 3, 5 and 6 as well as the retro-cult device Nokia 3310.

The product launch of "Valedo" in the E-Health segment also encountered strong media attention: This smartphone-/tablet-based mobile back exercise course is the result of a pilot project which freenet carried out jointly with clinical back pain centres and the Techniker Krankenkasse (health insurance scheme) following various acceptance studies for instance with physiotherapists. This is a project which once again demonstrates our innovative ability in the digital lifestyle field: Valedo guides the user in various back exercises, uses sensors to monitor the individual exercises, performances and progress and, on the basis of the 50 therapeutic exercises which are integrated, strengthens the back muscles and coordination skills. As is the case with most products, we offer the back exercise programme within the framework of our familiar and low-cost subscriptions with a two-year contract; it is also optionally available as a one-off purchase.

In turn, our subsidiary GRAVIS extended its range in June to include the Surface products of Microsoft incl. the corresponding accessories. mobilcom-debitel simultaneously started its own accessories brand under the new label "freenet Basics"; it focusses on smaller articles such as covers, cases and charger cables, headsets and power banks, cooperating with the supplier Strax – with the aim of including new trends in the range of products as quickly as possible and also with the aim of providing the Sales function with optimum product availability and returns. freenet Energy also successfully introduced its own label at the end of the first half: The new electricity and gas offerings focus consistently on the aspects of ecology and sustainability as well as a change of provider which is as smooth as possible.

Several years ago, as part of our continuous effort to achieve rapid and efficient process procedures and services, we earned a top-ten place as one of the best-digitised companies in Germany. This leading position was again confirmed in March: with the "INTERNET WORLD Business Shop Award 2017", mobilcom-debitel came third in the category "Best multichannel dealer" – behind the first-placed Douglas and REWE as the best telecommunications provider in Germany. This award recognised our many years of intensive work designed to offer the customer an optimum commerce platform which is as flexible as possible and which integrates and coordinates a wide range of contact and distribution channels, taking account of suitably assembled shopping baskets and guaranteeing rapid and individual delivery service.

However, despite all these activities, awards and innovations, the financial figures are in the final analysis the essential factors which document the success of a company. A glance at the second quarter 2017 once more confirms that our strategy and development are consistent:

- The growth in Customer Ownership is continuing – as has indeed been the case during the past five years. The number of postpaid and no-frills customers has increased by around 33,000 to the current figure of 9.59 million, and the number of particularly valuable customers with two-year contracts included in this figure has increased by 26,500 to 6.56 million.
- Postpaid-ARPU continues to be stable at the current figure of 21.4 euros – compared with 21.4 euros to the same quarter of the previous year.
- Group revenue has increased to 839.2 million euros compared with the corresponding quarter in 2016 and the previous quarter; this reflects the fact that our Mobile Communications business continues to be sound and also reflects the expanding valuable digital lifestyle revenue as well as the last years' acquisitions.
- The gross profit of 231.6 million euros is also higher than the figure in the comparative quarter 2016 and in the previous quarter, in conjunction with a gross profit margin of 27.6 per cent.
- Compared with the corresponding quarter 2016, EBITDA has increased by 4.0 million euros to 108.4 million euros.
- At 124.7 million euros, second quarter figure of free cash flow corresponds almost to the previous-year quarter; the overall free cash flow for the first half 2017 remains approximately on the level of first half 2016.

Accordingly, we have produced a successful performance in the first half of a financial year which is associated with considerable opportunities and also major challenges for our company. Our financial targets for 2017 have been clearly defined – with slightly higher overall revenue, EBITDA slightly in excess of 410 million euros and free cash flow of approximately 310 million euros – excluding the profit share and the dividend payment of Sunrise Communications Group AG holding which was received in April. We are thus, and will continue to be, the company which focusses on sustainable profitability – also and particularly in the interest of our shareholders. Accordingly, at the beginning of June, we were able to pay a dividend of 204.8 million euros for the financial year 2016; this is equivalent to 1.60 euros per eligible share, and represents the eighth increase in succession.

As announced at this point at the end of 2016, we are tackling the targets for the current financial year with a considerably streamlined team: As of 1 March 2017, the customer service of mobilcom-debitel was outsourced to Capita Customer Services. For the outsourcing service provider, optimum customer service is the sole business model and the company's core competence; the employment agreements of the approximately 650 employees will be retained subject to equivalent conditions and will in particular be secure.

We as the freenet Group in turn will be able to concentrate fully on the task in hand in the course of the next few months and years – namely the need to develop the new markets and areas of operation: Success will not be automatic, but we intend to succeed! This is our firm belief as well as experience gained in the approximately 25-year history of our company, which is also a story of successful acquisitions and mergers – in addition to skilful organic growth.

We are able to build on the excellent leadership and competence in the companies which we have acquired. On the occasion of the annual general meeting we have also been able to assure additional competence and experience for freenet AG: With Professor Dr Helmut Thoma, a dynamic TV person and media consultant who has been extremely successful over many decades has been elected as the new Chairman of the Supervisory Board; in addition, he has also been providing very intensive support to our Group for many years. And with Fränzi Kühne, a young and renowned digitalisation expert has enhanced our control body, and we are confident that she will provide us with new ideas and interesting thoughts.

On the other hand, the commitment of management and employees of freenet AG is unchanged: As has been the case in the past, we will devote our entire energy and competence to ensure that the history of success of freenet is continued – in the second half of 2017 and beyond.

Christoph Vilanek | Joachim Preisig | Stephan Esch

FREENET AG ON THE CAPITAL MARKETS

Capital market environment

Compared with the fourth quarter of 2016, which was affected by negative signals emanating from the Chinese economy, there was evidence of a positive development on the stock market in the initial weeks of the new year. Positive impetus was provided by good corporate figures, promising economic data of key industrial nations, a rate hike of 0.25 percentage points implemented by the US central bank (which was more moderate than originally anticipated) as well as the outcome of the parliamentary elections in the Netherlands. However, the increase in February was more moderate, as concern regarding anti-trade measures of the USA had a negative impact. The initial months of the current year were also affected by uncertainty with associated volatility on the markets with regard to the outcome of the elections in France as well as the prospects of imminent elections in other EU countries.

With the support of a slight improvement in consumer confidence as well as improvements in domestic demand, production activity and world-wide trade, the economic recovery picked up further pace in the course of the second quarter. The ECB also did not make any changes to its monetary policy following the March meeting. However, the political tensions between the USA and North Korea as well as the Syria conflict were causes of increasing uncertainty. The geopolitical risks had a negative impact across all indices at the end of the first half of 2017. The DAX barometer closed the first half of the year at 12,325 points, after peaking at 12,889 points on 19 June 2017 (11,481 points on 31 December 2016).

The other markets in which freenet is represented also benefitted from the global economy which was increasingly reviving. Accordingly, the DAX advanced by 7 per cent in the first six months of 2017, whereas the German technology index TecDAX reported an above-average increase of 21 per cent. In the same period, the MDAX and SDAX posted similarly strong gains, of 10 and 14 per cent respectively. However, the index of the European telecommunication stocks SXKP was not able to fully match the performance of the overall market (-1 per cent).

The freenet share

In the first quarter of 2017, the freenet share continued its advance from the previous quarter in a positive market climate. In the same period, starting from a closing price of 26.76 euros on 31 December 2016, the share increased by 14 per cent to 30.49 euros. The stock thus also posted its high for the quarter on 31 March 2017; the low of 26.97 euros was posted on 3 January 2017. The share also outperformed the DAX (+7 per cent) and TecDAX (+13 per cent). The average Xetra daily closing price in the first quarter was 28.31 euros.

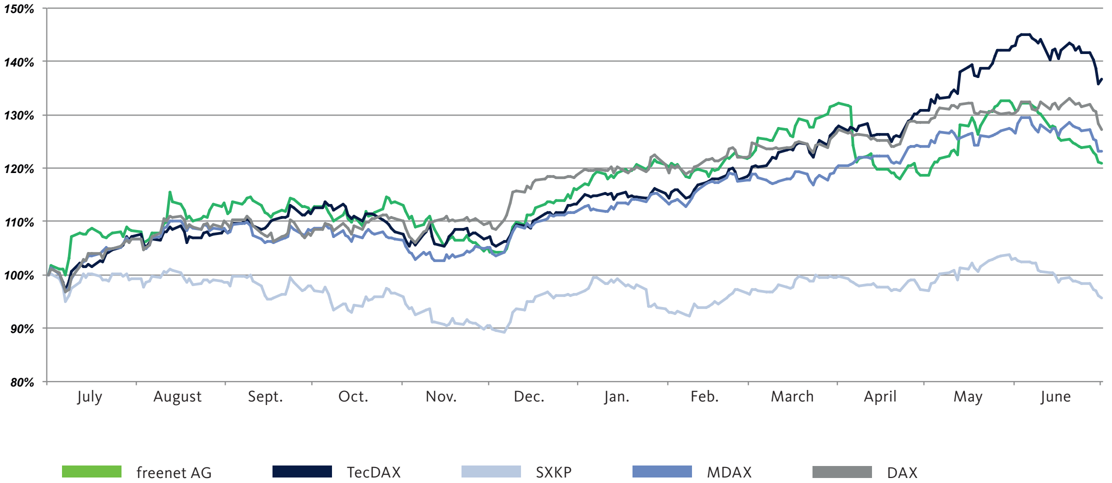
The market turnover of freenet shares declined from 33.7 million in the first quarter of 2016 to 25.8 million in the corresponding period in 2017. The average daily trading volume of freenet shares also declined appreciably compared with the previous year, by approximately 23 per cent from approximately 519 thousand shares to 397 thousand shares in the first quarter of 2017, but is still in line with the level of the previous two quarters. In the first quarter, the percentage of the overall volume traded via alternative trading platforms ("dark pools") increased to 39 per cent of the total trading volume (prior quarter 37 per cent).

At the end of the second quarter of 2017, the price of the freenet share was 4 per cent higher than the corresponding price at the end of 2016, and thus outperformed the index of the European telecommunication stocks (SXKP) (-1 per cent) and also performed in line with the DAX (+7 per cent). The share thus closed the first half of the financial year 2017 at a price of 27.93 euros. Since the quarterly low of 27.21 euros on 21 April 2017, the stock has been constantly appreciating, and traded at the current high of 30.61 euros directly before the annual general meeting on 1 June. The average Xetra daily closing price also increased slightly compared with the previous quarter to 28.87 euros.

In the period between 1 April 2017 and 30 June 2017, approximately 569 thousand freenet shares were traded on average on Xetra every trading day, compared with 593 thousand in the corresponding previous-year quarter. Overall, 37.0 million shares were traded in the above period. The percentage of the volume traded via dark pools increased to 43 per cent.

The market capitalisation of freenet amounted to approximately 3.6 billion euros on 30 June, compared with 3.4 billion euros at the end of 2016.

Figure 1: **12-month's performance of the freenet share**
(indexed; 100 = Xetra closing price on 30 June 2016)

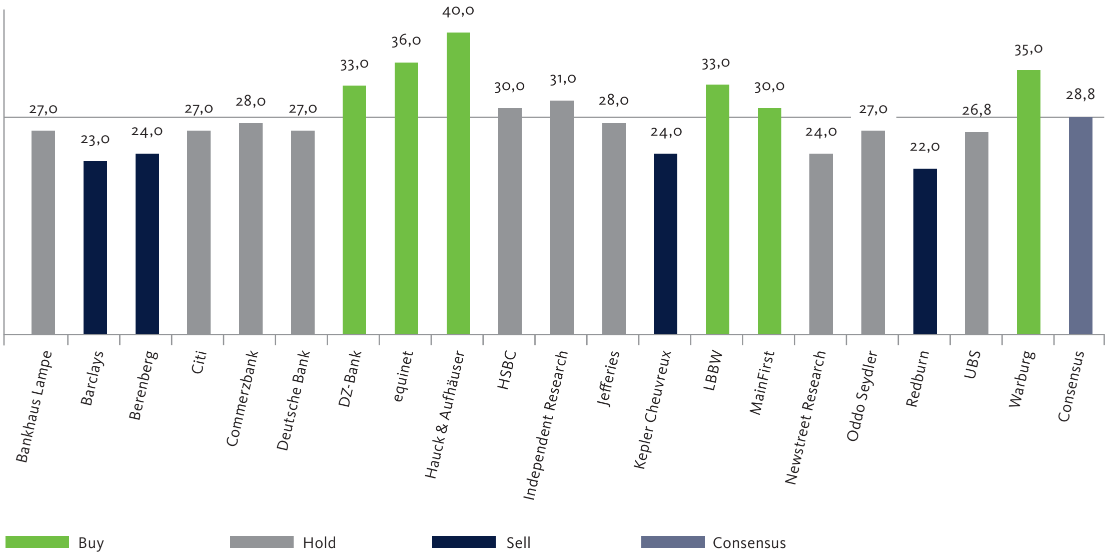


Analyst recommendations

In the first half of 2017, a total of 20 analyst houses rated the business performance of freenet AG. The average target for the freenet share was 28.79 euros.

With regard to the recent analysts' recommendations the following overview results as per 30 June 2017:

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



* As of 30 June 2017.

Dividend

The adopted dividend of 1.60 euros for each dividend-bearing share was paid out following the annual general meeting of 1 June 2017. This is equivalent to a distribution rate of 60 per cent of the free cash flow generated in the financial year 2016.

Shareholder structure

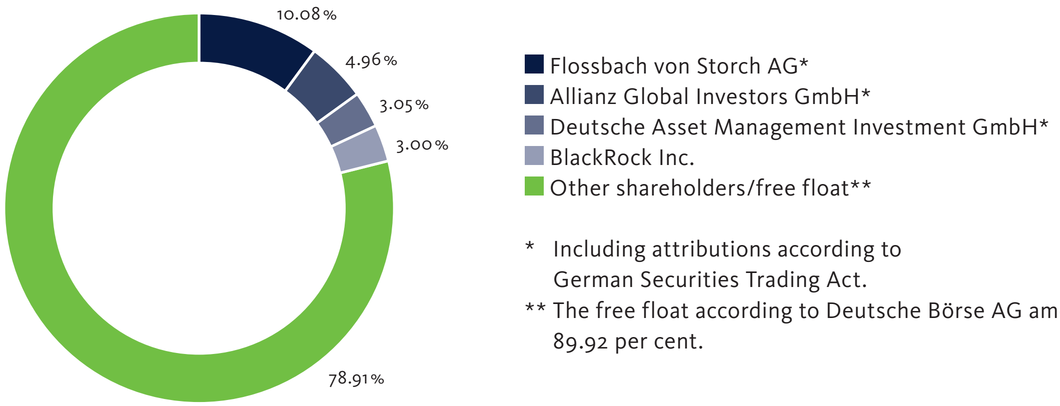
freenet AG's share capital totals 128,061,016 euros and is divided into 128,061,016 registered no-par value shares. Each share represents 1.00 euros of the share capital.

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

- In February, BlackRock Inc. (USA) notified us that its holding 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. (USA) 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 15 February amounted to 2.85 per cent (3,650,532 voting rights).
- In February, BlackRock Inc. (USA) notified us that its holding 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. (USA) 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 27 February amounted to 2.99 per cent (3,832,514 voting rights).
- In February, BlackRock Inc. (USA) notified us that its holding 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 (Luxembourg) informed 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, Capital Income Builder (USA) informed 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 5 May amounted to 2.84 per cent (3,634,288 voting rights).
- In May, Flossbach von Storch AG (Germany) informed us that it had 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, Allianz Global Investors GmbH (Germany) informed us that it had fallen below the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 26 May amounted to 4.96 per cent (6,357,538 voting rights).

As a result, the shareholder structure of freenet AG on 30 June 2017 was as follows:

Figure 3: **Current shareholder structure**



* Including attributions according to German Securities Trading Act.
** The free float according to Deutsche Börse AG amounts to 89.92 per cent.

Based on the voting rights disclosures received during the quarter under review, free float has fallen from 82.54 per cent by 3.63 percentage points to 78.91 per cent compared with 31 December 2016.

INTERIM GROUP MANAGEMENT REPORT

ECONOMIC REPORT

Business performance

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

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

In addition to these two areas of activity, freenet AG completed the process of breaking into the field of digital TV with two fundamental acquisitions at the end of 2015 and in the first quarter of 2016. Firstly, the company acquired all shares in Media Broadcast Group. This company, which is based in Cologne, is the sole commercial provider of the DVB-T2 HD standard in Germany which started at the end of May 2016 initially as a pilot operation: It permits the terrestrial broadcasting of a comprehensive package in full-HD quality, and addresses millions of German TV households which previously had been using DVB-T and which until the official changeover on 29 March 2017 used DVB-T which expired on that date. This will be possible in future on the TV at home and will also be available for mobile use, for instance in a train or car. This service of Media Broadcast will also comprise access to the catch-up services of the broadcasters. The acquired package also included the elements of radio (VHF and DAB+) as well as network services for TV productions.

freenet had also acquired an initial 24.99 per cent stake in EXARING AG, thus assuring the distribution rights for the closed IP platform for innovative entertainment and TV services, and extended this investment to a majority stake of 50.01 per cent in March 2017. The company is based in Munich, and operates its fibre-optic network, enabling (in technical terms) moving-image entertainment for 23 million German households; this means that the technology is also in a position to cope with future innovations such as virtual reality and holography/3D.

In view of the start of DVB-T2 HD at the end of March 2017 under the new brand "freenet TV", the company further boosted its activities in the first half of 2017 within the framework of the corresponding product launch; at the same time, freenet operated extensive advertising with regard to the IPTV/entertainment product of EXARING ("waipu.tv") which was launched in the fourth quarter of 2016. A further focal point of the operating activities of freenet was the continuous expansion of offerings in the segments of Digital Lifestyle and Mobile Communications as well as Mobile Internet.

Very successful market launches in the TV and Media segment

Following the almost one-year pilot operation of the new TV broadcasting standard DVB-T2 HD in several German metropolitan areas, the commercial marketing for freenet TV as a new brand commenced on 29 March 2017: Since that time, it has only been possible for TV images to be received in full-HD quality from up to 20 private stations via antenna in encrypted form 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. Up to the end of June 2017, all viewers were able to use this full-HD offering of the private stations free-of-charge; since 1 July 2017, successively a monthly payment of 5.75 euros is charged. The official start was preceded by intensive technological preparations in the months of the "soft launch"; they were accompanied by a wide range of sales and marketing activities such as TV spots and inserts, online advertising on the company's own websites as well as installations in several hundred mobilcom-debitel shops.

In the course of the first half of 2017, freenet again stepped up these sales and marketing activities. For instance, in March, the company carried out a targeted reader action with SPORT BILD: For the 4.5 million readers of this periodical, the sales price of a high-quality Samsung DVB-T2 HD receiver halved to approximately 50 euros. At the same time, the three-month free phase was extended to four months.

freenet started a further action at the beginning of February with the Korean manufacturer Samsung: Anybody who purchased a selected Samsung SUHD or UHD TV from the series 5 to 9 in the action period up to mid-April received a free freenet-TV module required for these latest HD-generation devices. In addition, the free phase of freenet TV for these purchasers was extended by three to six months.

The success of the various activities and the attractiveness of freenet TV are demonstrated by the corresponding figures: For instance, at the end of the first half of 2017, 1.7 million devices for DVB-T2 reception had already been installed, and more than 500,000 customers had decided to take out a pay subscription for freenet-TV.

The fourth quarter of 2016 saw the sales start of digital moving image entertainment of EXARING as a product. Since that time, waipu.tv has been available in two options: as a comfort version with 10 hours of storage for 4.99 euros per month and as a perfect version with 50 hours of storage for 14.99 euros per month – both come with a monthly termination option and a free test month. The waipu.tv app has been available free-of-charge in the Google Play Store and in the Apple App Store since 30 September 2016; in this connection and on the basis of the latest EXARING fibre-optic infrastructure, brilliant video and audio quality can be easily transferred to the user's smartphone and from there to the user's TVs at home – with a lightning-fast facility for changing over stations and programmes by means of a swipe on the smartphone.

Towards the end of the first quarter of 2017, EXARING further expanded the use and content of waipu.tv: Whereas previously it could be used via Google Chromecast on home TVs, further options were added in mid-March in the form of the Amazon Fire TV stick and the Fire TV box; this was also available in the multi-user and multi-room mode for several users and on several TVs. This had been preceded by a beta test phase lasting several months for Fire TV with valuable feedback from the testers.

In addition, waipu.tv was provided with a free serial recording function with which corresponding formats can easily be recorded with only one click and can subsequently be viewed whenever the user has time. waipu.tv also extended its service relating to the voice control feature Amazon Alexa and its range of programmes to include broadcasting of the weekly highlights of the Bayernliga. This service is provided in view of the fact that 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 (German National Football Association) – and close links with the respective communities can be established by way of such special interest content.

At the beginning of May, the programme portfolio of waipu.tv was extended to include "Rocket Beans TV". The first German community-driven web station and pioneer of digital entertainment is accordingly now available for the first time on a TV platform. In addition to the broadcasting of programmes, the partnership between EXARING AG and Rocket Beans TV also comprises TV advertising marketing. In June, waipu.tv then became part of the StreamOn catalogue of Deutsche Telekom. 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.

As a result of the expanding attractive range of offerings, waipu.tv has been able to continuously expand the number of its users since the product start: At the end of June, the number of registered users was more than 250,000, including more than 50,000 paying customers.

The digital lifestyle portfolio is growing and flourishing

Last financial year, and with e-health, freenet introduced a further area in its Digital Lifestyle segment via its main brand mobilcom-debitel and the subsidiary GRAVIS: "SmartCare" now complements the innovative solutions which have been established for a long time in relation to energy, entertainment and security with the emphasis on SmartHome.

At the beginning of 2017, GRAVIS offered the specific digital-lifestyle experience for testing in four selected German cities: For a period of two months, the company opened digital lifestyle lounges of approximately 50 m² in large shopping malls in Brunswick, Frankfurt/Main, Kempten and Neuss; in these lounges, the company presented complex sound environments with powerful installations and headsets, gadgets such as app-driven robots and 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 its shops, GRAVIS started a further product offensive in the first half of the year. For instance, anybody buying the popular Apple Watch Series 2 received a free sport bracelet in the colour of their choice (worth 59 euros). For aesthetically minded persons and nature lovers at the desk, the company offered two versions of the high-quality Bluetooth keyboards of the French manufacturer Orée for a price of approximately 130 euros: These unique products are made from a single piece of walnut or maple wood and weigh 400 grams. The grained surface is provided with an invisible coating as protection against stains. And for users of the new iPhone 7, GRAVIS offered several headset innovations: The in-ear earphone Jaybird X3 with a patented "secure-fit" sport ear piece offers powerful sound with full wearing comfort also for a price of approximately 130 euros – including a charging clip for four hours power supply, three silicon ear adapters and three secure-fit ear pieces. The range of products now includes the Libratone Q Adapt as an on-ear and in-ear version from the Danish sound design house Libratone. With the CityMix noise suppression feature, the app-driven on-ear headset enables the user to hear or block out surrounding noise, and costs approximately 250 euros. The JBL Reflect Aware also features a noise suppression facility for a price of 105 euros, and is thus approximately 30 per cent cheaper than at other dealers. Equipped with a lightning connector and ANC, the user can actively adapt the noise suppression feature to his own individual requirements via an app.

At the beginning of June, GRAVIS focussed on the subject of health within the framework of a Withings health weekend. In the course of this action, the freenet subsidiary discounted numerous Withings products by more than 40 per cent in certain cases – including smartwatches and fitness trackers, body composition monitors and sleep monitoring systems.

In mid-June, GRAVIS then extended its range of products in selected stores to include the Surface products of Microsoft including the corresponding accessories. At the same time, the company started a co-operation with Microsoft as an exclusive launch partner of Microsoft's new products Surface Studio, Surface Laptop and Surface Pro in Germany. In addition, the range of products in the stores in Berlin-Charlottenburg, Cologne-Altstadt, Munich-Schwabing, Münster and Rostock also includes the Surface Book Performance Base.

At the end of January, mobilcom-debitel, as one of the original pioneers in the field of mobile communications, went back to its roots and revived the traditional brand Nokia exclusively for Germany via its chain of shops and affiliated dealers – initially in the form of the new Nokia 150. The traditional keypad mobile phone with a built-in FM radio, MP3 and video player has a battery capacity of 22 hours of speech and up to 31 days stand-by time, and costs only around 40 euros. Towards the end of the first half of the year, mobilcom-debitel also offered the new top smartphones of the Finnish brand – the Nokia 3, 5 and 6 as well as the retro-cult device Nokia 3310. The focus was on the Nokia 5 – a 5.2" smartphone with a single-piece aluminium housing, stylish design and convincing technical details; in combination with the Smart Surf tariff, the purchase price was approximately 20 euros.

In addition, mobilcom-debitel continued its "Sunday stunners" which were launched in November 2015. The company has offered a range of highlights under the terms of these weekly bargain actions enabling users to acquire devices for a low price:

- In mid-January, the HUAWAI P9 Lite Dual-SIM in the 3 GB RAM version for a 30 euro discounted price of 210 euros and, at the end of the month, the HTC One M9 in the 32 GB version for approximately 300 euros instead of the official 340 euros;
- At the beginning of February, the fitness bracelet Fitbit Charge HR for heart rate/activity tracking as well as sleep monitoring for a 20 per cent reduced price of 100 euros, followed one week later by the dual-SIM smartphone HUAWAI nova with a classy aluminium housing and 12-megapixel camera, also for a reduced price of 300 euros;
- At the beginning of March, the iPad Air 2 with 16 GB in the WiFi/cellular version for approximately 390 euros, followed in mid-March by the iPhone 6s with 32 GB memory without a SIM lock for 570 euros instead of the price of 649 euros charged by Apple;
- In April, the iPhone 6s in the 32 GB version for a price of 600 euros;
- In May, the smartphone Huawei Nova for 280 euros plus an accessory voucher for 50 euros; in addition, the iPad 2017 in the 32 GB and WLAN version for 359 euros as well as the iPhone SE 32 GB for 339.99 euros – compared with 399 euros and 479 euros respectively at Apple;
- This was followed in June by the iPhone 7 with 32 GB for approximately 600 euros instead of 760 euros in the Apple Store, the Samsung Galaxy A3 2017 for 199 euros with a discount of 100 euros as well as the Sony Xperia XA for half the price at 139 euros.

In the field of e-health, mobilcom-debitel first extended its range of products in its digital-lifestyle shops in Düsseldorf, Munich and Straubing at the end of February to include the mobile back exercise feature Valedo. The package contains two sensors for the back, which record the exercises of the user and send them to a linked smartphone or to a pre-configured tablet which is also supplied: The devices

- display various back exercises
- monitor the individual exercises, performances and progress, and
- strengthen the back muscles and coordination skills on the basis of the available 17 motion units with the integrated 50 therapeutic exercises.

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.

Also 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 a haptic audio interface relating to the networked SmartHome: In this way, smart technologies can be used at home via WiFi or Bluetooth by way of a voice command to “Alexa” – for instance to control light, heating or a sound system, to set a timer/alarm clock, to request concepts/definitions or to manage a calendar. 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 then started its own accessories brand: The portfolio of “freenet Basics” comprises articles for the smartphone and everyday digital life – focussing on smaller articles such as charging cables, covers and cases, power banks and headsets. mobilcom-debitel works together with the accessories supplier Strax for establishing the range of products; the aim is to integrate new product trends in the portfolio as quickly as possible and to provide sales partners with a wide range of services with regard to product availability and return management.

Restructured tariffs and special actions supporting customer growth in mobile communications

At the beginning of January 2017, freenet’s discount subsidiary klarmobil fundamentally revised its mobile communications portfolio: For this purpose, the company set up two new tariff worlds, each with three different D-Netz tariffs – the “Smartphone Flat Flex” and the “Allnet Flat Flex” flatrates; they now offer more flexibility in conjunction with a monthly termination option. At the same time, the prices of the existing old tariffs were also 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 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.

In February, klarmobil then restructured its data segment in the D-Netz 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. Texts cost 9 cent each in all three versions.

Also in February, klarmobil started with the new second brand “mobinio” as an additional sales platform. It succeeded 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.

For new customers in the free tariffs of Telefónica, freenet’s main brand mobilcom-debitel offered a discount in the first quarter of 10 euros per month in each case; this is equivalent to a saving of 240 euros over the 24-month minimum contract period compared with the original tariffs of the provider. The O2 Free S with Allnet voice and SMS flatrate and a 1 GB high-speed data volume is thus reduced to 14.99 euros per month, and the O2 Free M with 2 GB is reduced to 24.99 euros. In February, a further highlight among the special actions of mobilcom-debitel was the O2 Smart Surf 1 GB which was reduced by 8.99 euros to only 3 euros: This features 1 GB LTE data volume and also 50 inclusive voice minutes and text to all German networks in a 24-month contract.

At freenetmobile, the connection charges of 29.95 euros were cancelled in mid-March as part of a one-week price action for the FREE FLATS 1000, 2000 and 4000 in the D2 network; at the same time, the monthly charges were reduced by up to 12 euros and, in the case of number portability, new customers were given an additional bonus of 25 euros.

As a further discount brand of freenet, callmobile restructured its tariff portfolio at the beginning of June, reducing its choice of tariffs from four to three tariffs with simultaneous price reductions: For approximately 10 euros, the “cleverSMART 1000” offers 100 free minutes and text and a data flatrate with 1000 MB high-speed data volume and a download bandwidth of up to 21.6 Mbps. With the “cleverALLNET 2000” for approximately 15 euros, the high-speed data volume is increased to 2000 MB with a call flatrate and 100 free texts; in the case of the “cleverALLNET 4000”, the high-speed data volume of 4000 MB with a call and text flatrate is available for approximately 20 euros. In addition, in the case of number portability, new customers receive a bonus of 25 euros in the case of all three tariffs.

mobilcom-debitel in turn carried out several special actions with its tariffs in the course of the second quarter. Accordingly, on the occasion of Father’s Day, the “Telefónica Free S” with a call and text flatrate to all German networks as well as 1 GB data volume for a monthly price of approximately 15 euros was combined with a Jochen-Schweizer voucher for 100 euros. And there was a corresponding 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 action 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. And via the Modeo platform of the Group, klarmobil overall distributed seven reduced Allnet and Smart flatrates in the D1 and D2 network for prices of between approximately 3 and approximately 20 euros per month and data volumes of up to 4 GB; for the more expensive offerings, the discount subsidiary added a HolidayCheck voucher worth 100 euros.

PR campaigns stepping up advertising for the new TV and Media segment

In the fourth quarter of last year, freenet for the first time extended its marketing activities on the new TV offerings and segments of the company. In addition to freenet TV and waipu.tv, the focus was on TV hardware in the form of receivers, antennae and CI+ modules, as well as digital lifestyle products such as the Samsung Galaxy S5 mini, various accessories of Networx and Google Chromecast.

The beginning of 2017 saw the start of a further TV flight which continued the campaign idea of the previous quarter: “Welcome to the TV show”. The corresponding TV products of freenet relating to DVB-T2 HD as well as IPTV again constituted the key PR aspects. As the main above-the-line elements, the four-month campaign comprised more than 3,400 TV spots each with a length of 20 seconds, a wide range of online advertising on highly frequented websites and an out-of-home flight in 22 cities. Further advertising measures at the point of sale included posters, PoS 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 rounded off by high-attention social media activities.

Mid-March also saw the start of an extensive out-of-home campaign of EXARING AG on more than 1,000 posters and Mega-Light Selects, concentrating on the urban regions of Berlin, Bonn, Dortmund, Düsseldorf, Essen, Hamburg, Hanover, Cologne and Potsdam. In three series, it underlined the benefits of waipu.tv, starting in each case with the uniform message “I can see what you can’t see” and the three extensions:
- “Whenever, however and wherever I want”
- “Recording even without a receiver”

A further summer campaign was again entitled “Welcome to the TV show” – again presented by the advertising figure “Costa”, which had already driven the successful campaigns of previous years. It initially started at the beginning of May with the familiar activities at the point of sale, and, until the end of August, will advertise the innovative TV offerings of the freenet Group and in particular the corresponding hardware products such as receivers, antennae and the freenet TV USB stick, as well as the latest smartphones, attractive mobile tariffs as well as bundle offerings such as the Amazon Fire TV stick or Google Chromecast.

The first of a total of four flights went “on air” in mid-May. The TV spots each covered a period of three weeks with an interval of one week, accompanied by video ads, display banners, performance activities and a strong out-of-home flight. 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.

To support this process, mobilcom-debitel presented its product portfolio in selected major German cities by means of mobile pop-up stores in May and June: The “Digital Lifestyle Lounge” – reduced to three chests and suitable for a wide range of surfaces – was set up in various locations, including Hamburg on the occasion of the company’s annual general meeting in June, as well as in Berlin, Dresden, Hamburg and Leipzig, providing an approachable presentation of the latest technology trends. For instance, visitors were able to use goggles of various manufacturers to enter virtual worlds, test the voice interface “Alexa” in Amazon Echo and also try out other services and smartphones of providers.

freenet subsidiaries setting new impetus for the sales structures

The increasing customer needs are also being accompanied by increasingly stringent requirements in the B2B field between companies and shops and trade partners. At the end of April, the main brand mobilcom-debitel started its completely overhauled online shop for dealers. The new sales platform with a fresh layout impresses with a range of enhanced functions, simplified intuitive user guidance and improved clarity. 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.

Also in April, the company started 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.

The freenet subsidiary Motion TM commissioned its new logistics centre at the location in Troisdorf in time for Christmas business in 2016; 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 now offers more space for products and also for 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 several orders to be processed simultaneously.

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 keep 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, April saw the start of a co-operation 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 dealer has developed a sector-wide multi-channel solution (“MultiCommerce”) for the high-street dealer, who benefits in this way from high-value online traffic and draws customers from the Internet into his shop. 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.

freenet Energy has started further co-operations and has launched its own eco products

With more than 30 nation-wide and regional energy utilities as well as well-known eco providers, freenet Energy is one of the top-performing energy distributors among specialist retailers and at the point of sale in Germany. In the second half of 2016, the freenet subsidiary had expanded its portfolio to include strong regional brands – for instance Maingau Energy, MONTANA Group, Stadtwerke Flensburg and erdgas schwaben. The various products are now distributed via the Group’s own shops, via co-operations with several thousand 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 February 2017, freenet Energy gained a further co-operation partner with Badenova. The energy and environmental service provider is one of the strongest providers in the southwest of Germany – mainly in the administrative region 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 approximately 100 municipalities around the Black Forest. Badenova supplies private and commercial customers with nuclear-power-free electricity, natural gas, water and heat supplies.

In the second half of March, the company acquired a new distribution partner with energis GmbH, a provider with an equally strong regional presence and networks. The company belongs to the VSE Group, and is thus part of a large sustainable employer in the Saarland with more than 100 years of tradition and experience in energy supply. The energis portfolio comprises electricity, natural gas, water and communication.

At the beginning of April, freenet Energy then launched its own range of products and services for the first time. The products which are developed exclusively in co-operation with SAVERO Energie focus on the issues of ecology and sustainability: "freenet Energy green Austrian power" is derived as an electricity product from renewable hydroelectric power in Austria; "freenet Energy blue power" in turn is based on green gas, in which emissions caused by the consumption of natural gas are offset by means of meaningful climate protection measures. In addition, the new offerings are impressive as a result of the feature for changing provider quickly and easily: It is no longer necessary for the customer to provide the electricity meter number (which would otherwise be necessary and which constitutes a significant sales obstacle) when a contract is signed in the respective shop.

Key drivers of the business development

Customer base development in the Mobile Communications segment

Table 1: **Customer development in the Mobile Communications Segment**

In million	30.6.2017	31.3.2017	31.12.2016	30.9.2016	30.6.2016
Customer Ownership	9.59	9.56	9.53	9.47	9.42
Thereof Postpaid	6.56	6.54	6.51	6.43	6.39
Thereof No-frills	3.03	3.02	3.02	3.04	3.02
Prepaid	2.39	2.44	2.53	2.59	2.67
Mobile Communications customers/cards	11.99	12.00	12.06	12.06	12.09

In the current reporting quarter, our core business of mobile communications has again demonstrated that we have the prospect of achieving long-term success as a result of our strategy of signing up new customers, of focusing on valuable customer relations in existing customer management and also further expanding our digital lifestyle activities. Accordingly, the non-financial performance indicator customer ownership increased further in the second quarter of 2017 to the current figure of 9.59 million participants. Compared with 30 June 2016, this represents an increase of approximately 175,000 participants or 1.9 per cent. Compared with 31 March 2017, the increase is approximately 33,000 participants (0.3 per cent).

This increase is essentially attributable to the increase in the number of particularly valuable postpaid users, which comprises all mobile 24-month contracts which are marketed within the Group. This group of users is significant for the company's strategy, and has increased by 2.6 per cent compared with the corresponding previous year figure, namely by 169,000 participants to 6.56 million. Compared with 31 March 2017, the increase is approximately 26,500 participants (0.4 per cent).

In the No-frills sector, which comprises all mobile tariffs distributed via discount brands of the Group, the number of users increased by 6,000 (0.2 per cent) compared with the previous year. Compared with 31 March 2017, the number of users has also increased by approximately 6,000 to 3.03 million.

The number of prepaid SIM cards in circulation that are distributed via the main brand mobilcom-debitel declined further to a final total of 2.39 million cards during the quarter under review. The decline is again attributable to network operators deactivating unused SIM cards (technical churn).

Monthly average revenue per user in the Mobile Communications segment (ARPU)

Table 2: **Monthly average revenue per user (ARPU)**

In EUR	Q2/2017	Q1/2017	Q4/2016	Q3/2016	Q2/2016
Postpaid	21,4	21,1	21,2	21,6	21,4
No-frills	2,7	2,5	2,5	2,5	2,4
Prepaid	3,1	3,0	3,1	3,2	3,1

Postpaid ARPU has continued to stabilise in the current reporting quarter. In the second quarter of 2017, the average monthly revenue per user for postpaid users was 21.4 euros; this figure is roughly in line with the corresponding previous year quarter and 0.3 euros above the figure for Q1 2017. The development in ARPU in recent quarters clearly shows the stabilisation at this level and confirms the strategy of focusing on valuable customers in mobile communications business.

The average monthly revenue per customer of 2.7 euros generated in the no-frills customer segment is higher than the level of previous quarters. No-frills ARPU is reported at 0.3 euros higher than in the second quarter of 2016.

In the second quarter of 2017, prepaid-ARPU increased by 0.1 euros compared with the previous quarter to 3.1 euros; this corresponds to the level reported for the previous year quarter.

Management system

Financial and non-financial performance indicators

The Executive Board of freenet AG focuses on the interests of all stakeholders with regard to the strategic alignment of the group. A uniform management system, which is based on financial and also on non-financial performance indicators, is used for implementation at the group level and also in the individual subsidiaries. It must be borne in mind that the following performance indicators, except the key figure revenue, are no substitute for the IFRS parameters and should therefore not be considered as such. For an extensive definition of the financial and non-financial performance indicators, please refer to the section "Corporate profile of the Group" in the annual report 2016.

The following are financial performance indicators relevant for management purposes:

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

The financial performance indicator free cash flow is not used for management purposes in relation to specific segments; instead, it is used exclusively in relation to the Group. Postpaid ARPU is used as a management parameter only in the Mobile Communications segment.

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

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

- Customer ownership

Taking account of the ongoing expansion of our digital lifestyle activities and in view of the planned development of a new area of TV operations in connection with the acquisition of the Media Broadcast Group and our equity participation in EXARING AG, we constantly monitor the composition of all internal control parameters. If a corresponding need for adjustment is identified, we may adjust our internal control parameters. In the second quarter of 2017, no adjustments were made compared with the previous quarter.

Other control parameters

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

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

As of 30 June 2017, the number of employees slightly declined from 4,249 as of 31 March 2017 to 4,156. At the end of 30 June 2016 4,879 people were employed at the freenet Group.

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 (APMs) which do not form part of the IRFS. 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 parameters, and therefore should not be viewed in isolation and should therefore be considered to be additional information. Despite the fact that management and investors commonly use alternative performance measures 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, despite the fact that they might use similar or even identical designations, the listed APMs 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
- EBIT
- Gross profit (incl. gross profit margin)
- Net financial debt, pro-forma net financial debt and related debt ratios
- Interest cover
- Free cash flow
- Equity ratio.

Special factors which are used for establishing some alternative performance measures result from the process of integrating and subsequently recognising business which has been acquired.

Definition and calculation of EBITDA

EBITDA is defined as EBIT (see definition below) plus depreciation and impairment write-downs and depreciation and deferred taxes resulting from the subsequent accounting of associates accounted for using the equity method.

Since the acquisition of Sunrise, EBITDA has been concretised as follows: As has been the case in the past, only the percentages of results under the item "Results of companies accounted for using the equity method" have been used for the calculation. The amortisations resulting from the subsequent recognition of the shadow purchase price allocation do not affect EBITDA.

Table 3: **Calculation of EBITDA**

In EUR `000s	Q2/2017	Q2/2016
EBIT	68,285	63,283
Depreciation and impairment write-downs	34,905	35,705
Recognition from purchase price allocation	5,182	5,348
EBITDA	**108,372**	**104,336**

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

Because the company is not able to influence the element of Sunrise results, the Executive Board manages EBITDA without including the share of results of Sunrise. Accordingly, the budget-actual comparisons as well as the forecast of the financial performance indicator do not take account of the Sunrise share of results. If it is referenced to the managed key performance indicator, it will be clearly highlighted (see Forecast).

Definition and calculation of EBIT

EBIT is defined as the result before interest and taxes on income, including the share of results of associates accounted for using the equity method.

Table 4: **Calculation of EBIT**

In EUR `000s	Q2/2017	Q2/2016
Operating result	63,770	62,718
Share of results of associates accounted for using the equity method	4,515	565
EBIT	**68,285**	**63,283**

Definition and calculation of gross profit (incl. 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 5: **Calculation of gross profit**

In EUR `000s / as indicated	Q2/2017	Q2/2016
Revenue	839,240	807,673
Cost of material	-607,614	-588,310
Gross profit	**231,626**	**219,363**
Gross profit margin (in per cent)	**27.6**	**27.2**

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

Net financial debt is defined as long-term and short-term financial debt, less liquid assets, less the interest of the freenet Group in the market value of Sunrise Communications Group AG as of the reference date. The market value is calculated by multiplying the closing price of the on the Swiss stock exchange by the number of shares held by the freenet Group (11,051,578) as of the relevant reference date. The amount is converted from Swiss francs into euros on the basis of Bloomberg data using an official exchange rate at the balance sheet date. The Sunrise acquisition was financed entirely by way of raising new financial 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.

Table 6: **Calculation of net debt**

In EUR `000s	30.6.2017	31.3.2017
Non-current borrowings	1,675,729	1,674,768
Current borrowings	59,765	58,623
Liquid funds	-260,509	-356,398
Market value of Sunrise Communications Group AG	-760,791	-780,131
Net debt	**714,194**	**596,862**

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

Table 7: **Calculation of pro-forma net debt**

In EUR `000s	30.6.2017	31.3.2017
Non-current borrowings	1,675,729	1,674,768
Current borrowings	59,765	58,623
Liquid funds	-260,509	-356,398
Pro forma net debt	**1,474,985**	**1,376,993**

In general, net debt is a non-GAAP parameter 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 financial debt is used as the basis for calculating the ratio. The developments of the two parameters 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 interest result in the last 12 months. Interest result is defined as the balance between “interest and similar income” and “interest and similar expenses” in the consolidated income statement.

Table 8: **Calculation of interest result**

In EUR `000s	Q2/2017	Q2/2016
Interest payable and similar expenses	12,399	15,845
Interest receivable and similar income	-163	-350
Interest result	**12,236**	**15,495**
Interest Cover	**8.8**	**7.4**

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

Definition and calculation of free cash flow

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

Table 9: **Calculation of free cash flow**

In EUR `000s	Q2/2017	Q2/2016
Cash flow from operating activities	133,210	142,848
Investments in property, plant and equipment and intangible assets	-12,895	-17,820
Proceeds from the disposal of property, plant and equipment and intangible assets	4,407	107
Free cash flow	**124,722**	**125,135**

Free cash flow is a financial performance indicator of the freenet Group. In addition to the presentation of EBITDA, this parameter is used as an indicator for showing the ability of the Group to generate cash in the long term.

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. Accordingly, the budget-actual comparisons as well as the forecast of the financial performance indicator do not take account of the Sunrise dividend recognized in cash flow of operation activities. If it is referenced to the managed key performance indicator, it will be clearly highlighted (see Forecast).

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 10: **Calculation of the equity ratio**

In EUR `000s / as indicated	30.06.2017	31.03.2017
Shareholders` equity	1,288,925	1,445,630
Balance sheet total	4,143,234	4,262,032
Equity ratio (in per cent)	**31.1**	**33.9**

Assets, earnings and financial position

Revenue and earnings position

Table 11: **The Group's key performance indicators**

In EUR `000s	Q2/2017	Q2/2016 adjusted	Q2/2016 as reported	Change
Revenue	839,240	807,673	807,673	31,567
Gross profit	231,626	219,363	219,864	12,263
Overhead costs	-123,254	-115,027	-115,027	-8,227
EBITDA	108,372	104,336	104,837	4,036
EBITDA exclusive Sunrise	98,630	98,445	98,946	185
EBIT	68,285	63,283	64,353	5,002
EBT	56,049	47,788	43,027	8,261
Group result	**50,208**	**52,975**	**49,648**	**-2,767**

In the financial year 2016, the figures for the second quarter of 2016 were adjusted retrospectively as a result of the final purchase price allocation of the Media Broadcast Group. In connection with the final purchase price allocation, one framework rental agreement was classified as a finance lease. Overall, the effects of this retrospective adjustment is of minor significance for the net assets, financial position and results of operations.

Compared with the same period last year, **GROUP REVENUE** increased by 3.9 per cent in the second quarter of 2017 from 807.7 million euros to 839.2 million euros. Compared with the second quarter 2016, revenue in the TV and Media segment increased by 7.1 million euros to 74.7 million euros in the reporting quarter. This development was also attributable to higher customer ownership numbers in the Mobile Communications segment (9.59 million customers at the end of June 2017 compared with 9.42 million customers at the end of June 2016) in conjunction with stable postpaid ARPU (21.4 euros in Q2/2017 compared with 21.4 euros in Q2/2016) as well as higher digital lifestyle revenue.

The **GROSS PROFIT MARGIN** increased by 0.4 percentage points compared with the second quarter of 2016 to 27.6 per cent. The gross profit of 231.6 million euros was considerably higher than the level reported for the previous year quarter. Both developments are primarily connected with the segment TV and Media contributing 45.4 million euros to the gross profit of the group (Q2/2016: 32.0 million euros).

OVERHEAD EXPENSES, which form the difference between gross profit and EBITDA, and which include the items **OTHER OPERATING INCOME, OTHER OWN WORK CAPITALISED, PERSONNEL EXPENSES, OTHER OPERATING EXPENSES**, and the **SHARE OF RESULTS OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD** (only profit share) increased by 8.2 million euros compared with Q2/2016. On the one hand, the increase in marketing costs within the process of changing over to the new antenna standard DVB-T2 HD resulted in higher overheads; on the other hand, the outsourcing of business processes in customer service to Capita Customer Services (Germany) GmbH resulted in an increase in the other operating expenses with a simultaneous decline in personnel expenses. In this connection, please refer to point 4 of the selected explanatory disclosures in the notes to the financial statements. The recognition of the earnings elements of the Sunrise participation of 9.7 million euros (Q2/2016: 5.9 million euros) had a positive impact on overheads.

In the second quarter of 2017, **EBITDA** is stated as 108.4 million euros, representing an increase of 4.0 million euros compared with the figure reported for the previous year quarter. Without recognising the earnings element of the participation in Sunrise of 9.7 million euros, EBITDA is reported as 98.6 million euros (Q2/2016: 98.4 million euros). In the second quarter of 2017, the Mobile Communications segment contributed 99.9 million euros to group EBITDA (including 9.7 million euros relating to the participation in Sunrise; Q2/2016 98.6 million euros, including 5.9 million euros relating to the participation in Sunrise); the TV and Media segment contributed

10.5 million euros (Q2/2016: 9.0 million euros) and the Other/Holding segment contributed -2.0 million euros (Q2/2016: -3.3 million euros). With regard to the segment EBITDA of TV and Media in the second quarter of 2017, it must be borne in mind that this indicator was affected by higher marketing expenses relating to the process of changing over to DVB-T2 HD; a further factor is that the new B2C business of the Media Broadcast Group will not generate revenue with end users (and thus contributions to earnings) before the third quarter of 2017.

DEPRECIATION AND IMPAIRMENT WRITE-DOWNS have declined by 0.8 million euros compared with the previous year, namely to 34.9 million euros, mainly as a result of lower inventories of licences and rights of use with a parallel slight increase of depreciation on property, plant and equipment.

The **NET INTEREST INCOME**, i.e. the difference between interest income and interest expenses, is disclosed as -12.2 million euros in the reporting quarter (Q2/2016: -15.5 million euros). The positive development in net interest income is essentially attributable to the refinancing carried out in the previous year, which had a positive impact on interest expenses in conjunction with much more favourable conditions.

As a result of the effects explained above, **THE GROUP'S RESULT BEFORE TAXES ON INCOME (EBT)** amounted to 56.0 million euros, representing an increase of 8.3 million euros compared with the previous year.

For the second quarter 2017, **INCOME TAX** expenses of 5.8 million euros were reported (Q2/2016: income from taxes on income of 5.2 million euros). Current tax expenses of 8.4 million euros (Q2/2016: 7.3 million euros) were netted with deferred tax income of 2.6 million euros (Q2/2016: 12.5 million euros), mainly as a result of the write-up of deferred tax assets from tax loss carry-forwards.

As was the case in the corresponding period of the previous year, the **GROUP RESULT** reported in the second quarter of 2017 was exclusively attributable to continued operations, and amounted to a total of 50.2 million euros; compared with the figure of 53.0 million euros reported for the previous year quarter, this represents a decline of 2.8 million euros.

Assets and financial position

Table 12: **Selected Group balance sheet figures**

Assets

In EUR million	30.6.2017
Non-current assets	3,372.4
Current assets	770.8
Total assets	**4,143.2**

In EUR million	31.3.2017
Non-current assets	3,430.4
Current assets	831.6
Total assets	**4,262.0**

Shareholders' equity and liabilities

In EUR million	30.6.2017
Shareholders' equity	1,288.9
Non-current and current liabilities	2,854.3
Total equity and liabilities	**4,143.2**

In EUR million	31.3.2017
Shareholders' equity	1,445.6
Non-current and current liabilities	2,816.4
Total equity and liabilities	**4,262.0**

The **BALANCE SHEET TOTAL** as of 30 June 2017 amounted to 4,143.2 million euros, and thus declined by 118.8 million euros (2.8 per cent) compared with 31 March 2017 (4,262.0 million euros).

On the **ASSETS SIDE OF THE BALANCE SHEET**, non-current assets declined by 58.0 million euros to 3,372.4 million euros. This is mainly due to a decline of 33.8 million euros (to 716.3 million euros) in the companies recognised using the equity method, mainly due to the dividend payment of 34.4 million euros received from Sunrise. Please refer to point 3 of the selected disclosures in the notes to the financial statements. The minor decline of 12.3 million euros in property, plant and equipment to 478.6 million euros is mainly attributable to current depreciation in conjunction with lower investments.

Within **CURRENT ASSETS**, the main item to be highlighted is the decline in liquid assets of 95.9 million euros to 260.5 million euros. The decline in liquid assets is mainly attributable to the dividend payment of 204.8 million euros made in the second quarter of 2017, whereas the free cash flow of 124.7 million euros had the effect of boosting liquid assets. The increase of 32.0 million euros in trade accounts receivable, to 388.2 million euros, is mainly attributable to the familiar seasonal effect of accruing annual bonuses for network operators and dealers.

The main items on the **LIABILITIES SIDE OF THE BALANCE SHEET** are shareholders' equity of 1,288.9 million euros (31 March 2017: 1,445.6 million euros) and the financial debt of 1,735.5 million euros (31 March 2017: 1,733.4 million euros).

The **EQUITY RATIO** declined from 33.9 per cent at the end of March 2017 to 31.1 per cent at the end of June, mainly as a result of the dividend paid out in the second quarter of 2017. **NET FINANCIAL DEBT** increased to 714.2 million euros as of 30 June 2017 (31 March 2017: 596.9 million euros). For this parameter, financial debt is reduced by the liquid assets and the stake in the market value of Sunrise as of 30 June 2017 (11,051,578 shares multiplied by the closing price of 68.84 euros – source: Bloomberg). The increase in net financial debt is mainly attributable to the decline in liquid assets in connection with the dividend payment. In this context, please refer to the statements in the chapter „Financial management".

The trade accounts payable have increased by 50.5 million euros to 486.4 million euros - mainly as a result of higher liabilities due to network operators as of the reference date. The decline of 4.5 million euros in pension provisions to 85.6 million euros is due to the higher discount rate. In this connection, please refer to point 11 of the selected explanatory disclosures in the notes to the financial statements.

Cash flow

Table 13: **The Group's key cash flow indicators**

In EUR million	Q2/2017	Q2/2016 adjusted	Q2/2016 as reported	Change
Cash flow from operating activities	133.2	142.8	133.6	-9.6
Cash flow from investing activities	-8.4	-39.7	-39.7	31.3
Cash flow from financing activities	-220.7	-402.6	-393.3	181.9
Change in cash and cash equivalents	**-95.9**	**-299.4**	**-299.4**	**203.5**
Free cash flow[1]	**124.7**	**125.1**	**115.9**	**-0.4**

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

In the second quarter of 2017, the **cash flow from operating activities** is reported at 133.2 million euros, equivalent to a decline of 9.6 million euros compared with the previous year quarter. Compared with the second quarter of 2016, net working capital declined by 10.1 million euros, and tax payments increased by 4.2 million euros (Q2/2017: 11.7 million euros; Q2/2016: 7.5 million euros); these are the main factors behind the decline in cash flow from operating activities. This is opposed mainly by the increase of 4.3 million euros (compared with the second quarter of 2016) in the dividend payment of Sunrise (Q2/2017: 34.4 million euros; Q2/2016: 30.1 million euros).

cash flow from investing activities amounted to -8.4 million euros in Q2/2017, compared with -39.7 million euros in the second quarter of 2016. This change is primarily due to the payment of 22.1 million euros made in the second quarter of 2016 for the additional holding of 0.73 per cent in the share capital of Sunrise.

The cash outflows for investments in intangible assets and in property, plant and equipment, netted out against the cash inflows from such assets, declined in the second quarter of 2017 compared with the previous year quarter from 17.7 million euros to 8.5 million euros due to the higher investments in the previous year for the conversion to DVB-T2 HD. The cash-effective investments were financed in full out of the Company's own resources.

In the reporting quarter, **cash flow from financing activities** improved in the reporting quarter to -220.7 million euros compared with -402.6 million euros in the previous year. The change is mainly attributable to the repayment of the corporate bond in the previous year quarter and the raising of financial debt as part of the refinancing process. The dividend payment increased from 198.4 million euros in the second quarter of 2016 to 204.8 million euros in the reporting quarter. Interest payments of 9.8 million euros are shown in the second quarter of 2017, mainly as a result of the refinancing carried out in the previous year. There were also repayments of 6.1 million euros relating to the framework rental agreement of the Media Broadcast Group classified as a finance lease.

As a result of the effects described above, **free cash flow** of 124.7 million euros was generated in the second quarter of 2017 – representing a stable level compared with the corresponding previous year quarter (125.1 million euros).

Financial Management

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

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

Table 14: **Key figures of financial management**

	Q2/2016 adjusted[1]	2016	Q2/2017	Target
Debt ratio	2.3	1.7	1.6	1.0 – 2.5
Pro forma debt ratio	3.9	3.2	3.2	-
Interest Cover	7.4	8.0	8.8	> 5
Equity ratio in percent	30.8	32.7	31.1	> 50

1 Retrospective adjustment due to finalised purchase price allocation of Media Broadcast Group.

The debt ratio indicates the relationship between financial debt (1,735.5 million euros) less liquid assets (260.5 million euros), less the Sunrise share of market value as of 30 June 2017 (11,051,578 shares multiplied by the closing price of 68.84 euros - source: Bloomberg) and the EBITDA generated within the past 12 months. It amounted to 1.6 as of 30 June 2017 and, as was also the case as of 30 June 2016, was within the strategic range of 1.0 to 2.5. The debt primarily comprises borrowers' note loans with a total nominal value of 1,129.0 million euros which fall due upon final maturity between 2017 and 2026 as well as a syndicated bank loan (second tranche) with a nominal value of 610.0 million euros which was concluded in March 2016.

The pro-forma debt ratio (financial debt less liquid assets in relation to the EBITDA generated in the last 12 months) is stated as 3.2, due to the refinancing in the previous year.

The interest cover (ratio between EBITDA and interest result) of 8.8 is higher compared with the corresponding previous-year quarter (7.4), and is thus still higher than the defined lower limit of 5.0.

As of 30 June 2017, the equity ratio (ratio between equity and balance sheet total) was below the target of 50 per cent; this is connected with new refinancing in the previous year.

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

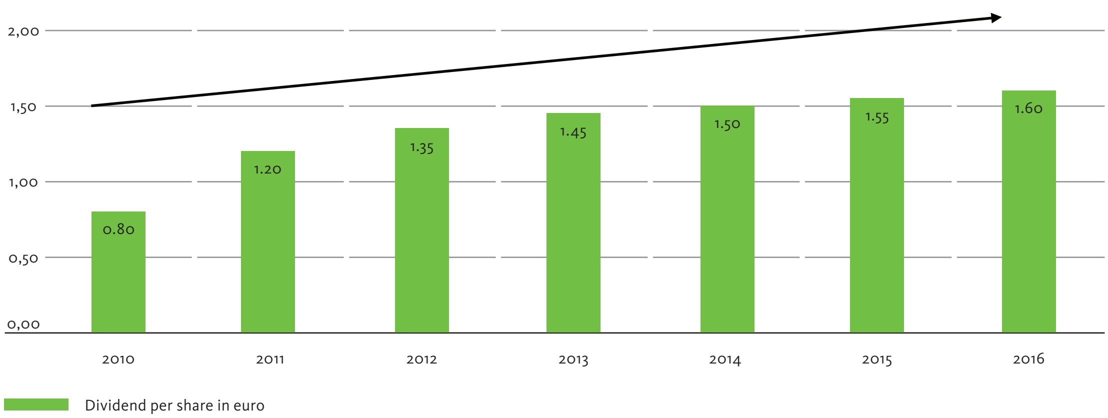
Dividend policy

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

Due to the positive business development in 2016, the Annual General Meeting resolved on 1 June 2017 the distribution of a dividend in the amount of 1.60 euros per share from retained earnings for the financial year 2016.

In this way, the sustainability of the business model is reflected in the continuous increase in the distribution compared with the previous years.

Figure 4: **Dividend policy KPIs**



SIGNIFICANT EVENTS AFTER THE REPORTING DATE

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

OPPORTUNITIES AND RISK REPORT

Opportunities

In order to manage and monitor its ongoing business activities, the Executive Board has established an extensive monthly reporting system that covers both the financial and non-financial performance indicators in the 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. In the marketing of smartphones and flat-rate tariffs, the focus of commercial activity was mainly on customer quality and the stabilisation of the contract customer base.

The existing digital lifestyle product and service portfolio has been continuously expanded.

The relevant activities in this respect comprise products in the field of e-health such the mobile back exercise course „Valedo“, app-based applications and products of the Home Automation segment.

With this strongly diversified portfolio, the positioning of freenet AG is now more broadly based in digital lifestyle than has ever been the case in the past. As the largest network-independent mobile communications provider, freenet AG is going to expand along its successful path in digital lifestyle business and make use of opportunities against the backdrop of a strict orientation towards stakeholder value.

As a consistent continuation of its digital lifestyle strategy, freenet AG last year completed last year the process of breaking to the new TV and Media segment with the acquisition of the Media Broadcast Group and the equity participation in EXARING AG. In 2017, freenet AG increased its holding in EXARING AG 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.

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 flatrate products
- Trend towards the interconnection of products („Internet of Things”, „integrated product landscapes”)
- Strengthening the new TV and Media segment

Furthermore, the effects of the increased mobile internet and data usage and the associated trend towards higher-priced flatrate 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,
- a further improvement in shop performance, also by marketing additional products,
- the implementation and marketing of new products in the digital lifestyle and TV sector,
- the intensified establishment of the brands klarmobil, freenetmobile, callmobile and debitel light in the steadily growing discount market, with the aim of participating even more actively in their growth, and,
- the continuous improvement of processes and quality for a lasting reduction in cost structures.

The assessment and implementation of strategic options in the mobile communications and 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.

In addition to the established main brand mobilcom-debitel, the no-frills brands klarmobil, freenetmobile, callmobile and debitel light in particular, as well as others, could establish themselves more firmly on the market, possibly leading to a higher rate of market penetration.

If the brands perform 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. In the future, this could lead to more positive contributions to the underlying financial performance indicators than had hitherto been expected. The significance of the strategic transformation from a mobile communications specialist pure and simple to a digital lifestyle provider will increase against this background.

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

Media Broadcast aims to divest the analog VHF-Antenna and -Channels. A multiple-stage procedure has been initiated for this purpose. If these activities are sold, there is a chance that the proceeds which are generated might exceed the carrying amounts of the assets which are sold, with the possibility that a book profit might be achieved.

A further opportunity has resulted from the sale of infrastructure which was communicated by Sunrise Communications Group AG in May 2017 - freenet AG holds 24.56 per cent of Sunrise Communications Group AG. The sale of infrastructure might have a positive impact on the results of operations of Sunrise. In consequence, the contributions to earnings of Sunrise might produce a more positive performance than originally forecast.

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.

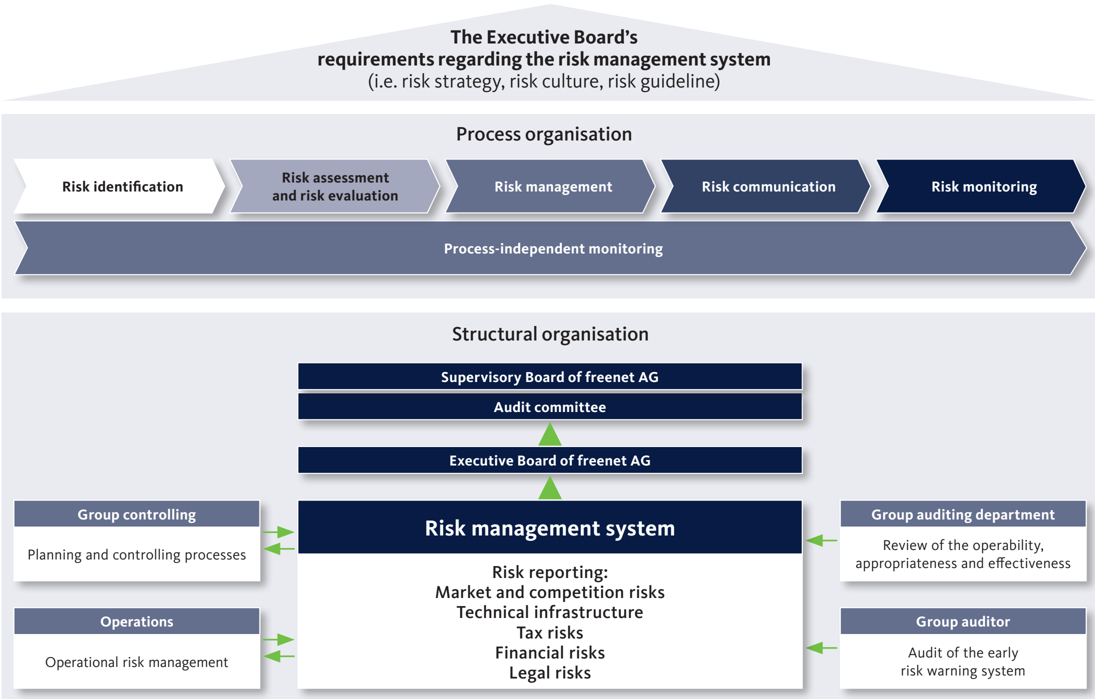
Both external and internal opportunities that had basically remained at the same level since the previous year were identified. The significance of the opportunities shown and the resulting positive effects on the forecast financial and non-financial performance indicators, and therefore on the development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

Risk management system

An effective risk management system is essential for safeguarding the continued existence of freenet AG in the long term. freenet AG's risk management system is applied solely to risks, not opportunities. This should ensure that any risks to the company's future development are identified at an early stage by all 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.

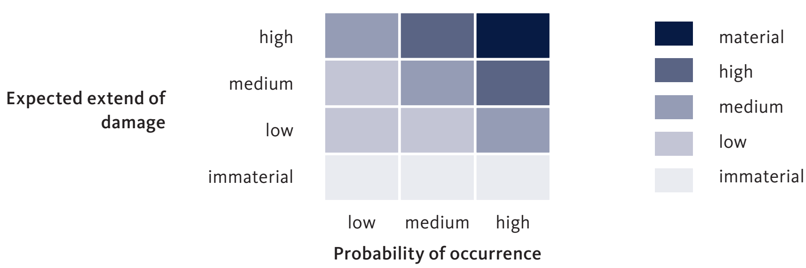
Figure 5: **Process and structural organisation of freenet AG's risk management system**



At least every six months, freenet AG's individual departments and subsidiaries identify or update existing and new risks that exceed a defined materiality threshold in formalised risk reports (risk identification). The risk reports describe the specific risks and 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 mitigating influence of any countermeasures that were implemented. The criteria „probability of occurrence" and „anticipated extent of damage" are used to assess the risks. In the process, risks with a low (<50 per cent), medium (50 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 6: **Risk matrix at freenet AG**



Based on the results of the risk analysis and assessment that were communicated, various alternatives for action are carried out as part of the company's general management, in order to 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 Supervisory Board, in particular freenet AG's audit committee, monitors the effectiveness of the risk management system from the standpoint of German stock corporation law. The Supervisory Board is integrated by means of regular reporting and, if necessary, an up-to-date report by the Executive Board (process-independent risk monitoring).

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

Risks

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

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

Market risks

Highly competitive markets

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

Vigorous competition can also lead to higher costs for new customer acquisitions, accompanied by falling revenue and a significant propensity of customers to switch. As a result, the forecast revenue-based key performance indicators, earnings indicators and free cash flow could develop in a slightly more negative fashion than had previously been expected. In order to prevail against its competitors, freenet AG must continue to design its products 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. 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.

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

The merger between the two network operators O2 and E-Plus might result in a reduced amount of competition between the remaining mobile network operators (“MNOs”) and an associated weakening of the service provider model. This might be reflected in various ways, including a reduction of the margin. There is also the risk of coordinated behaviour of the three 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 agreements 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.

Acquisition of companies

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

Acquisition of the Media Broadcast Group

The acquisition which was completed in the first quarter 2016 has resulted in various risks for the company.

There is the risk of excessive inventories, which means that receivables invoiced to freenet AG by the manufacturers of the products would not be covered by adequate sales of the products. This constitutes a minor risk for freenet.

A further aspect is that customer demand for the product freenet TV might be less significant than originally anticipated. The latter constitutes a medium risk for freenet AG.

Stake in EXARING AG

Since the end of 2015, freenet AG has owned a 24.99 per cent stake in EXARING AG. This stake has since been increased, and amounted to 50.01 per cent as of 30 June 2017. freenet AG is thus now the majority shareholder of EXARING AG. The stake might result in the risk that the costs, particularly in the field of content (TV stations) and acquisition (sales partners/ marketing partners), might be higher than originally anticipated. 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.

Termination charges

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

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.

IT risks

Data theft and hacker attack

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

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

Tax risks

Loss carry-forwards

If, within five years, over 25 per cent of the shares or voting rights in the company 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 due to „remuneration from third party“

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

Other tax risks

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

The risk of different interpretations and assessments of circumstances applies in particular to corporate restructuring processes under company law. It cannot therefore be ruled out entirely that as a result of contributions of assets, other conversion procedures, new capital injections and changes in the shareholding structure, the corporate income and trade tax carry-forwards declared by the corporations 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 account receivables reported in the balance sheet and other assets.

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

There 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 impairment tests in the subsequent periods might lead to substantial reductions in value.

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

Liquidity

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

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

The Group uses a variety of financial instruments to reduce the general liquidity risk. The liabilities due to banks shown under borrowings relate to the borrowers' note loan concluded in December 2012, May 2015, February 2016 and October 2016 (disclosed as 1,129.7 million euros, including interest accruals, as of 30 June 2017) as well as the two loan tranches in the syndicated facility agreement of March 2016 for a total of max. 1,040.0 million euros (shown as 605.7 million euros, including interest accruals, as of 30 June 2017). The third tranche in the facility agreement for 100.0 million euros (in the form of a revolving credit line) had not been drawn as of 30 June 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.

Capital risk management

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

Interest rate risk

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

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

Stake in Sunrise Communications Group AG

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

Acquisition of customer service of mobilcom-debitel GmbH by Capita Customer Services GmbH

In November 2016, freenet AG and Capita Customer Services GmbH concluded an agreement regarding a strategic partnership for acquiring the business processes of mobilcom-debitel GmbH in customer service. Since 1 March 2017, Capita has been responsible for the entire customer service of mobilcom-debitel GmbH. 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.

Overall assessment of the risk position

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

Risks	Probability of occurence	Expected extent of damage	Risk	Tendency
Market risks				
Highly competitive markets	medium	medium	medium	►
Network operator				
Bonuses and margins	low	medium	low	►
Shift to direct	low	medium	low	►
O_2 and E-Plus	low	immaterial	immaterial	►
Acquisition of companies	medium	medium	medium	►
Customer volume freenet TV	low	high	medium	►
Termination charges	low	medium	low	►
Laws and regulation	low	low	low	►
Regulation EU-Roaming	low	immaterial	immaterial	►
Customer development EXARING AG	medium	medium	medium	►
Cost development EXARING AG	medium	medium	medium	►
IT risks	low	medium	low	►
Data theft and hacker attack	low	low	low	►
Tax risks				
Loss carryforwards	low	high	medium	►
VAT risk on renumeration of a third party	low	medium	low	►
Other tax risks	low	medium	low	►
Financial risks				
Bad debt losses	high	low	medium	►
Impairment of the assets	low	high	medium	►
Liquidity				
General liquidity risk	low	high	medium	►
Constraint of financial leeway	low	medium	low	►
Capital risk management	low	high	medium	►
Interest rate risk	medium	medium	medium	►
Other financial risk	low	medium	low	
Strategic risks				
Earnings impact Sunrise Communications Group AG	low	medium	low	►
Cessation business operations Capita	low	medium	low	►
Operational risks				
Increased stock of inventory	medium	low	low	►

Classification in higher risk class compared to previous report.
► Classification in same risk class compared to previous report or newly registered risk.
Classification in same risk class compared to previous report or newly registered risk.

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 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 30 June 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. 5 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.

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

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

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

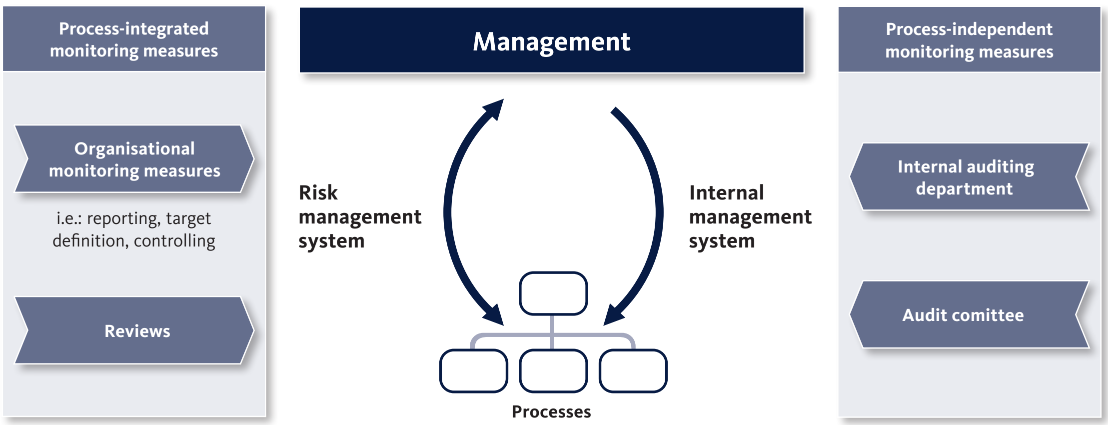
The regular elements in the Group's internal control system are aimed at achieving the extensive automation of the formation and cross-checking of all relevant data, from raw accounting data and customer invoicing to valuation allowances, accruals, depreciation and amortisation. These automated controls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

The Group internal audit department's annual review of the internal control system in 2016 showed that potential improvements ascertained in the departments audited in previous years have been implemented. On the one hand, the department has intensified its proven controlling activities continuously and increased the frequency of internal audits, and on the other hand, it has increased the level of automation within the controlling activities. The results are used to systematically derive measures and monitor their success.

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

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

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



FORECAST

Development of the key performance indicators[1]

In EUR million / as indicated	Forecast of 2015 for financial year 2016	2016	1st half 2017	Forecast for financial year 2017[3]	Forecast for financial year 2018
Financial performance indicators					
Group revenue	moderate increase	3,362.4	1,677.2	slight increase	slight increase
Group EBITDA[2]	slightly above 400	402.3	189.8	slightly above 410	slight increase
Free cash flow[2]	around 300	311.4	146.7	around 310	slight increase
Postpaid ARPU (in EUR)	stable	21.4	21.3	stable	stable
Non-financial performance indicators					
Customer Ownership (in million)	slight increase	9.53	9.59	slight increase	slight increase

1 Definitions of these terms are included in the glossary.
2 The interest of freenet AG in the earnings of Sunrise Communications Group AG and the dividend payment of Sunrise Communications Group AG are disregarded for the purpose of managing consolidated EBITDA and the free cash flow.
3 The figures forecast in the annual report 2016 have now become more concrete.

As part of its corporate management policy, the freenet Group uses financial and non-financial performance indicators for measuring the short-, medium- and long-term success of its strategic alignment and the related operational implementation. 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. The performance indicators postpaid-ARPU and customer ownership are used exclusively for management purposes in the Mobile Communications segment.

For the financial year 2017 and, going forward, for the financial year 2018, freenet AG is predicting slightly higher consolidated revenue, in comparison with the previous year in each case. In the opinion of the Executive Board, consolidated EBITDA in 2017 will rise to just above 410 million euros, and will report further slight growth in 2018 compared with the previous year. In addition, the company is expecting to see group-wide free cash flow of approximately 310 million euros for the whole of 2017. In the financial year 2018, the Executive Board expects that free cash flow will again increase slightly compared with the previous year.

For the TV and Media segment, taking account of the different consolidation periods of the Media Broadcast Group (9.5 months in the financial year 2016 and 12 months in the current financial year), the company expects to see slightly higher revenue and also slightly higher EBITDA in 2017, both compared with the previous year.

In the opinion of freenet AG, the number of connected DVB-T2 HD reception devices will rise to more than 2.5 million by the end of 2017, and will also achieve further slight growth in 2018. By the end of 2017, freenet AG expects to see the number of freenet TV subscribers' increase to more than 800,000, and also expects to see a further slight increase in 2018 compared with the previous year. The average monthly revenue per freenet TV user (freenet TV ARPU) will be approximately 4.5 euros in 2017 according to the Executive Board, and will also be roughly in line with this figure in 2018.

With regard to the new IPTV product of freenet AG, which will be marketed under the brand waipu.tv, the company is anticipating more than 500,000 registered subscribers for the whole of 2017, including more than 100,000 paying users. For the year 2018, the Executive Board expects that the number of registered and paying waipu.tv users will increase significantly compared with the previous year. The average monthly revenue per waipu.tv user (waipu.tv ARPU) will be approximately 6.0 euros in 2017 in the opinion of freenet AG, and there is expected to be a slight increase in the financial year 2018.

In the Mobile Communications segment, the Executive Board expects to see stable revenue and stable EBITDA for the financial year 2017, compared with the previous year in both cases. The targets for the development in postpaid-ARPU and customer ownership are unchanged for the financial year 2017 and also for the financial year 2018. In the Mobile Communications segment, the company still expects that postpaid-ARPU will stabilise at the level of the respective previous year, and that there will be a slight increase in customer-ownership numbers, compared with the previous year in each case.

The Group EBITDA and free cash flow are managed without taking account of the interest of freenet AG in the earnings of Sunrise Communications Group AG and also without taking account of the dividend payment of Sunrise Communications Group AG, as these are not actively controllable elements. Accordingly, neither the anticipated EBITDA contribution from the holding of freenet AG in Sunrise Communications Group AG nor any contribution resulting from this holding to the group-wide free cash flow of freenet AG are included in guidance or rather prospects for the financial year 2017 or for 2018.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

OVERVIEW

Consolidated income statement

for the period from 1 January to 30 June 2017

In EUR `000s/as indicated	1st half 2017 1.1.2017-30.6.2017	1st half 2016 adjusted[1] 1.1.2016-30.6.2016	Q2/2017 1.4.2017-30.6.2017	Q2/2016 adjusted[1] 1.4.2016-30.6.2016
Revenue	1,677,227	1,556,856	839,240	807,673
Other operating income	27,365	32,366	13,031	14,335
Other own work capitalised	8,868	7,313	4,432	4,921
Cost of material	-1,218,622	-1,145,200	-607,614	-588,310
Personnel expenses	-113,788	-101,605	-54,105	-56,730
Depreciation and impairment write-downs	-69,881	-57,460	-34,905	-35,705
Other operating expenses	-191,235	-162,361	-96,309	-83,466
Operating result	**119,934**	**129,909**	**63,770**	**62,718**
Share of results of associates accounted for using the equity method	9,075	620	4,515	565
Thereof profit share*	19,439	6,160	9,697	5,913
Thereof subsequent accounting from purchase price allocation*	-10,364	-5,540	-5,182	-5,348
Interest receivable and similar income	328	520	163	350
Interest payable and similar expenses	-24,927	-28,046	-12,399	-15,845
Result before taxes on income	**104,410**	**103,003**	**56,049**	**47,788**
Taxes on income	-12,549	1,071	-5,841	5,187
Group result	**91,861**	**104,074**	**50,208**	**52,975**
Group result attributable to shareholders of freenet AG	97,816	106,968	52,582	55,225
Group result attributable to non-controlling interest	-5,955	-2,894	-2,374	-2,250
Earnings per share in EUR (undiluted)	**0.76**	**0.84**	**0.41**	**0.43**
Earnings per share in EUR (diluted)	**0.76**	**0.84**	**0.41**	**0.43**
Weighted average of shares outstanding in thousand (undiluted)	128,011	128,011	128,011	128,011
Weighted average of shares outstanding in thousand (diluted)	128,011	128,011	128,011	128,011

1 Retrospective adjustment due to finalised purchase price allocation of Media Broadcast Group.

Consolidated statement of comprehensive income

for the period from 1 January to 30 June 2017

In EUR `000s	1st half 2017 1.1.2017- 30.6.2017	1st half 2016 adjusted[1] 1.1.2016- 30.6.2016	Q2/2017 1.4.2017- 30.6.2017	Q2/2016 adjusted[1] 1.4.2016- 30.6.2016
Group result	**91,861**	**104,074**	**50,208**	**52,975**
Change in fair value of available-for-sale financial assets	-2	-28	-1	-5
Reclassification adjustments from the change in fair value of available-for-sale financial assets	0	35	0	35
Currency difference	-210	-20	-193	49
Currency difference from subsequent accounting of associates accounted for using the equity method	-4,218	1,196	-4,555	1,196
Income tax recognised in other comprehensive income	64	-14	68	-42
Other comprehensive income/to be reclassified to the income statement in the following periods	**-4,366**	**1,169**	**-4,681**	**1,233**
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. IAS 19 (2011)	4,958	-12,675	2,965	-7,871
Profit share of associates accounted for using the equity method	518	0	518	0
Income tax recognised in other comprehensive income	-1,495	3,815	-897	2,369
Other comprehensive income/not to be reclassified to the income statement in the following periods	**3,981**	**-8,860**	**2,586**	**-5,502**
Other comprehensive income	**-385**	**-7,691**	**-2,095**	**-4,269**
Consolidated comprehensive income	**91,476**	**96,383**	**48,113**	**48,706**
Consolidated comprehensive income attributable to shareholders of freenet AG	97,431	99,277	50,487	50,956
Consolidated comprehensive income attributable to non-controlling interest	-5,955	-2,894	-2,374	-2,250

1 Retrospective adjustment due to finalised purchase price allocation of Media Broadcast Group.

Consolidated balance sheet

as of 30 June 2017

Assets

In EUR '000s	30.6.2017	31.3.2017	31.12.2016
Non-current assets			
Intangible assets	529,387	540,395	526,234
Goodwill	1,379,919	1,379,919	1,379,919
Property, plant and equipment	478,598	490,854	493,132
Investments in associates accounted for using the equity method	716,257	750,063	745,066
Other investments	535	523	586
Deferred income tax assets	173,919	172,211	174,172
Trade accounts receivable	79,095	81,777	81,132
Other receivables and other assets	14,718	14,664	20,738
	3,372,428	**3,430,406**	**3,420,979**
Current assets			
Inventories	88,653	85,039	74,906
Current income tax assets	4,125	5,279	5,169
Trade accounts receivable	388,228	356,194	438,764
Other receivables and other assets	29,291	28,716	26,558
Cash and cash equivalents	260,509	356,398	318,186
Assets classified as held for sale	0	0	197
	770,806	**831,626**	**863,780**
	4,143,234	**4,262,032**	**4,284,759**

Shareholders' equity and liabilities

In EUR `000s	30.6.2017	31.3.2017	31.12.2016
Shareholders' equity			
Share capital	128,061	128,061	128,061
Capital reserve	737,536	737,536	737,536
Cumulative other comprehensive income	-10,519	-8,424	-10,134
Retained earnings	397,580	549,816	504,582
Capital and reserves attributable to shareholders of freenet AG	**1,252,658**	**1,406,989**	**1,360,045**
Capital and reserves attributable to non-controlling interest	36,267	38,641	42,222
	1,288,925	**1,445,630**	**1,402,267**
Non-current liabilities			
Other payables	298,724	303,201	294,608
Borrowings	1,675,729	1,674,768	1,673,871
Pension provisions	85,622	90,159	92,638
Other provisions	49,556	50,054	58,559
	2,109,631	**2,118,182**	**2,119,676**
Current liabilities			
Trade accounts payable	486,437	435,923	515,696
Other payables	121,627	120,034	110,423
Current income tax liabilities	46,644	52,087	46,847
Borrowings	59,765	58,623	60,302
Other provisions	30,205	31,553	29,548
	744,678	**698,220**	**762,816**
	4,143,234	**4,262,032**	**4,284,759**

Schedule of changes in equity
for the period from 1 January to 30 June 2017

In EUR `000s	Share capital	Capital reserve	Cumulative other comprehensive income: 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	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
(adjusted[1])											
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	106,968	106,968	-2,894	104,074
Recognition of actuarial gains and losses acc. IAS 19 (2011)[2]	0	0	0	0	0	-8,860	0	0	-8,860	0	-8,860
Change in fair value of available-for-sale financial instruments[2]	0	0	5	0	0	0	0	0	5	0	5
Foreign currency translation[2]	0	0	0	-14	0	0	0	0	-14	0	-14
Foreign currency translation from subsequent accounting of associates accounted for using the equity method[2]	0	0	0	0	1,178	0	0	0	1,178	0	1,178
Sub-total: Consolidated comprehensive income	0	0	5	-14	1,178	-8,860	0	17,256	9,565	-948	8,617
As of 30.6.2016	**128,061**	**737,536**	**-134**	**350**	**1,178**	**-24,448**	**0**	**383,128**	**1,225,671**	**51,330**	**1,277,001**

In EUR `000s	Share capital	Capital reserve	Cumulative other comprehensive income: 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	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
As of 1.1.2017	**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	97,816	97,816	-5,955	91,861
Profit share of associates accounted for using the equity method[1]	0	0	0	0	0	0	510	0	510	0	510
Recognition of actuarial gains and losses acc. IAS 19 (2011)[1]	0	0	0	0	0	3,471	0	0	3,471	0	3,471
Change in fair value of available-for-sale financial instruments[1]	0	0	-1	0	0	0	0	0	-1	0	-1
Foreign currency translation[1]	0	0	0	-210	0	0	0	0	-210	0	-210
Foreign currency translation from subsequent accounting of associates accounted for using the equity method[1]	0	0	0	0	-4,155	0	0	0	-4,155	0	-4,155
Sub-total: Consolidated comprehensive income	0	0	-1	-210	-4,155	3,471	510	97,816	97,431	-5,955	91,476
As of 30.6.2017	**128,061**	**737,536**	**-141**	**405**	**-537**	**-19,315**	**9,069**	**397,580**	**1,252,658**	**36,267**	**1,288,925**

1 Retrospective adjustment due to finalised purchase price allocation of Media Broadcast Group.
2 Figures are balanced with income tax recognised in other comprehensive income.

Consolidated statement of cash flows
for the period from 1 January to 30 June 2017

In EUR `000s	1st half 2017 1.1.2017- 30.6.2017	1st half 2016 adjusted[1] 1.1.2016- 30.6.2016
Result before interest and taxes (EBIT)	**129,009**	**130,529**
Adjustments		
Depreciation and impairment on items of fixed assets	69,881	57,460
Share of results of associates accounted for using the equity method	-9,075	-620
Dividends received from associates accounted for using the equity method	34,409	30,124
Gains on the sale of subsidiaries	0	-35
Gains / losses on the disposal of fixed assets	114	-187
Increase in net working capital not attributable to investing or financing activities	-531	17,708
Tax payments	-12,271	-18,766
Cash flow from operating activities	**211,536**	**216,213**
Investments in property, plant and equipment and intangible assets	-34,842	-25,141
Proceeds from the disposal of property, plant and equipment and intangible assets	4.409	424
Payments for the acquisition of subsidiaries	0	-76,618
Proceeds from the sale of subsidiaries	125	43
Payments for the acquisition of associates, accounted for using the equity method	0	-738,219
Payments in shareholders' equity, accounted for using the equity method	-225	0
Investments in other financial assets	-13	0
Interest received	660	488
Cash flow from investing activities	**-29,886**	**-839,023**
Dividend payments to company owners and minority shareholders	-204,818	-198,417
Proceeds from new borrowings	0	1,505,680
Cash repayments of borrowings	-37	-697,231
Cash repayments from liabilities from finance lease	-12,189	-6,815
Interest paid	-22,283	-46,149
Cash flow from financing activities	**-239,327**	**557,068**
Cash-effective change in cash and cash equivalents	**-57,677**	**-65,742**
Cash and cash equivalents at the beginning of the period	**318,186**	**269,761**
Cash and cash equivalents at the end of the period	**260,509**	**204,019**

Composition of cash and cash equivalents In EUR '000s	30.6.2017	30.6.2016
Cash and cash equivalents	260,509	204,019
	260,509	**204,019**

Composition of free cash flow In EUR '000s	30.6.2017	30.6.2016 adjusted[1]
Cash flow from operating activities	211,536	216,213
Investments in property, plant and equipment and intangible assets	-34,842	-25,141
Proceeds from the disposal of property, plant and equipment and intangible assets	4,409	424
Free cash flow (FCF)[2]	**181,103**	**191,496**

1 Retrospective adjustment due to finalised purchase price allocation of Media Broadcast Group.
2 Free cash flow is a non-GAAP parameter

SELECTED EXPLANATORY NOTES IN ACCORDANCE WITH IAS 34

Major accounting, valuation and consolidation principles

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

The Group has applied all of the accounting standards which are mandatory as of the reporting date.

Compared with the consolidated financial statements 2016, the following information is provided with regard to the new standards IFRS 15 (first-time adoption 1 January 2018) and IFRS 16 (first-time adoption 1 January 2019): It is not necessary for the information regarding IFRS 15 to be updated. Compared with the consolidated financial statements 2016, we have updated the information regarding IFRS 16 in such a way that the adoption of IFRS 16 results in a considerable increase in EBITDA, in conjunction with a simultaneous significant increase in amortization/depreciation and interest expenses. There is also likely to be a considerable increase in free cash flow on the one hand and also a considerable increase in the outflow of cash from financing activities on the other.

Significant events and transactions

2. As of 30 June 2017, receivables of 85.7 million euros (31 March 2017: 86.5 million euros) relating to the existing agreement for the factoring of mobile phone option receivables had been sold and derecognised, but the corresponding payment had not yet been received.

3. On 19 April 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 Communications Group AG („Sunrise“) on 11 April 2017.

4. On 21 November 2016, the freenet Group and Capita Customer Services (Germany) GmbH, Berlin (“Capita”) concluded an agreement for acquiring the business processes of mobilcom-debitel GmbH in customer service. Starting 1 March 2017, Capita will take on the entire customer service of mobilcom-debitel GmbH, incl. the associated IT infrastructure and approximately 650 in-house employees in customer support as well as the location in Erfurt. This is the main reason for the decline of 730 in the number of employees compared with 31 December 2016. In the freenet Group, the process of outsourcing the business processes to Capita results in a reduction in personnel expenses and a simultaneous increase in the other operating expenses.

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

In EUR '000s	1.1.2017-30.6.2017	1.1.2016-30.6.2016
Sales of services		
Joint ventures		
Jestoro GmbH, Hamburg (formerly FunDorado GmbH)	205	173
Total	**205**	**173**

In EUR '000s	1.1.2017-30.6.2017	1.1.2016-30.6.2016
Expenditures of the purchase of services		
Joint ventures		
Check Tech Service GmbH, Hamburg (Affiliate of Jestoro GmbH)	13	0
Total	**13**	**0**

As of 30 June 2017, there were the following major receivables due from related parties:

In EUR '000s	30.6.2017	30.6.2016
Receivables from related parties		
Joint ventures		
Jestoro GmbH, Hamburg	57	41
Total	**57**	**41**

All transactions were at market rates.

Other disclosures

6. The following sections set out significant financial information regarding the last interim report published by Sunrise for the period ending 31 March 2017 as well as a reconciliation relating to the carrying amounts of the Sunrise holding shown in the freenet consolidated financial statements.

Summarised information for Sunrise on first quarter 2017:

Balance sheet[1]

In CHF '000s	31.3.2017
Non-current assets	3,105,200
Thereof intangible assets	2,299,723
Current assets	788,548
Thereof cash and cash equivalents	242,106
Total assets	**3,893,748**
Non-current liabilities	2,195,292
Thereof non-current borrowings	1,829,862
Current liabilities	494,606
Thereof trade accounts payable and other payables	436,262
Total liabilities	**2,742,226**

Income statement

In CHF '000s	1.1.-31.3.2017
Revenue	430,968
Gross profit	286,255
EBITDA	141,154
Depreciation and amortisation	-110,448
Interest payable and similar expenses	-12,759
Taxes on income	-5,516
Group result after taxes	**12,870**

Other comprehensive income

In CHF '000s	1.1.-31.3.2017
Group result after taxes	12,870
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. IAS 19 (2011)	2,833
Taxes on income	-578
Other comprehensive income / not to be reclassified to the income statement in the following periods	2,255
Other comprehensive income	**15,125**

Reconciliation to carrying amount

In EUR million	1.1.-30.6.2017
Carrying amount as of 1 January 2017	**743,102**
Current profit share	19,484
Subsequent recognition from purchase price allocation	-10,364
Other comprehensive income	-3,700
Dividend paid for freenet	-34,409
Carrying amount as of 30 June 2017	**714,113**

7. The following information is provided in connection with the framework rental agreement classified as a finance lease:

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.

1 Closing date as of 30.6.2017 amounted to 0.9137 CHF/EUR.

The carrying amounts of the finance lease assets were stated as 289,409 thousand euros for technical equipment, plant and machinery as of 30 June 2017.

The minimum lease payments will become due as follows:

In EUR '000s	30.6.2017
Within one year	35,185
Within one and five years	136,496
Greater than five years	197,792
Total	**369,473**
Interest share of future leasing rates	
Within one year	-12,118
Within one and five years	-38,920
Greater than five years	-24,290
Present value of total liabilities from finance lease	**294,145**

The maturities of the overall finance lease liabilities are shown below:

In EUR '000s	30.6.2017
Within one year	23,067
Within one and five years	97,576
Greater than five years	173,502
Total	**294,145**

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.

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

Calculating the underlying figure for the consolidated cash flow statement

In EUR '000s	1.1.2017-30.6.2017	1.1.2016-30.6.2016 adjusted[1]
Earnings before taxes	104,410	103,003
Interest payable and similar expenses	24,927	28,046
Interest receivable and similar expenses	-328	-520
Interest before interest and taxes (EBIT)	**129,009**	**130,529**

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

The following overview „Fair value hierarchy as of 30 June 2017“ sets out the key parameters used as the basis for calculating the value of the financial instruments recognised at fair value as well as those instruments recognised at amortised cost of purchase for which a fair value has been established. With regard to the definition of the individual levels in accordance with IFRS 13, please refer to the notes to the consolidated financial statements of freenet AG for the period ending 31 December 2016.

1 Retrospective adjustment due to finalised purchase price allocation of Media Broadcast Group.

Financial instruments according to classes as of 30 June 2017

			Value approach					
In EUR '000s	Valuation category according to IAS 39	Carrying amount balance sheet 30.6.2017	Amortised cost	Cost	Fair value recognised in profit or loss	Fair value recognised in equity	Non-financial assets/liabilities	Fair value financial assets 30.6.2017
Assets								
Cash and cash equivalents	LR	260,509	260,509					-*
Other financial assets	AFS	535						
Other financial assets (measured at cost)	AFS	535		535				-*
Trade accounts receivable	LR	467,323	467,323					-*
Other receivables and other assets		44,009					10,939	
Other non-derivative financial assets	LR	30,298	30,298					-*
Available-for-sale financial assets	AFS	2,772				2,772		2,772
Liabilities								
Trade accounts payable	FLAC	486,437	486,437					-*
Borrowings	FLAC	1,735,494	1,735,494					1,128,972
Other payables and accruals		420,351					78,496	
Other non-derivative financial liabilities	FLAC	341,855	341,855					-*
Thereof aggregated by valuation categories acc. to IAS 39								
Available-for-sale financial instruments	AFS	3,307		535		2,772		2,772
Loans and receivables	LR	758,130	758,130					0*
Financial liabilities (measured at amortised cost)	FLAC	2,563,786	2,563,786					1,128,972*

Fair value hierarchy as of 30 June 2017

In EUR '000s	Total	Level 1	Level 2	Level 3
Assets				
Available-for-sale financial assets	2,772	2,772	0	0
Liabilities				
Borrowings	1,128,972	0	0	1,128,972

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

Other financial assets are measured at fair value. If it is not possible for the fair value to be reliably determined, the other financial assets are measured at cost of purchase. The shares which are measured at cost of purchase are not listed on a stock exchange, and no active market exists for them.

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

11. On the basis of updated interest rates (programmes freenet, debitel: 2.2 per cent, programmes Media Broadcast Group: 1.7 per cent), the pension provisions have been revalued in conjunction with otherwise unchanged

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

assumptions. The resulting actuarial profit of 5.0 million euros as well as the opposite reduction of 1.5 million euros in deferred tax assets has been recognised in the statement of comprehensive income. This has resulted in net positive comprehensive income of 3.5 million euros from items which do not have to be reclassified to the income statement.

12. As was the case in the consolidated financial statements 2016, an average tax rate of 30.00 per cent (previous year comparison period: 30.10 per cent) was used as the basis for calculating the current and deferred taxes on income.

13. The net financial debt increased from 596.9 million euros at the end of March 2017 to 714.2 million euros at the end of June 2017. The increase in net financial debt is mainly attributable to the dividend payment of 204.8 million euros made in the second quarter of 2017.

14. No other reportable events of major significance have occurred after the reference date.

15. As its main decision-making body, the Executive Board organises and manages the company on the basis of the differences between the individual products and services offered by the company. As the Group performs its business operations almost entirely in Germany, it has no organisation and management based on geographical regions. The Group was active in the following operating segments in the first six months of 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 T-Mobile, Vodafone and Telefónica Deutschland in Germany
  - Based on the network operator agreements concluded with these network operators, a range of the company’s own network-independent services and tariffs as well as a range of network operator tariffs
  - 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 (business areas of Sunrise: mobile communications, landline, Internet and digital TV)
- TV and Media:
  - Rendering of services, mainly to end users, in the field of IP-TV
  - Planning, project management, installation, operation, service and marketing of broadcast-related solutions for business clients in the radio and media sectors
  - Rendering of services to end users in the field of DVB-T2
- Other/Holding:
  - Rendering of portal services such as e-commerce/advertising services (these essentially comprise the offer of online shopping and the marketing of advertising space on websites), of payment services for end customers as well as various digital products and entertainment formats for downloading and displaying and use on mobile devices
  - Development of communication solutions, 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 38.5 million euros (previous year: 38.6 million euros) reported for the first six months for the “Other/Holding” segment in 2017 is attributable to operating activities (39.0 million euros; previous year: 37.8 million euros) and other business activities (-0.5 million euros; previous year: 0.8 million euros). Of the figure of 24.9 million euros (previous year: 24.8 million euros) reported for gross profit for the first six months for the „Other/Holding“ segment in 2017, 25.7 million euros (previous year: 25.5 million euros) is attributable to the operating activities and -0.8 million euros (previous year: -0.7 million euros) is attributable to the other business activities. The EBITDA of -4.5 million euros (previous year: -5.9 million euros) reported for the “Other/Holding” segment for the first six months of 2017 was accounted for by operating activities to the extent of 6.8 million euros (previous year: 5.1 million euros) and by other business activities (-11.4 million euros; previous year: -11.0 million euros).

Segment report for the period from 1 January to 30 June 2017

In EUR'000s	Mobile Communications	TV and Media	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**1,496,509**	**149,311**	**31,407**		**1,677,227**
Intersegment revenue	23,272	131	7,047	-30,450	0
Total revenue	1,519,781	149,442	38,454	-30,450	1,677,227
Cost of materials, third party	**-1,159,743**	**-47,688**	**-11,191**	**0**	**-1,218,622**
Intersegment cost of materials	-5,915	-17,940	-2,352	26,207	0
Total cost of material	-1,165,658	-65,628	-13,543	26,207	-1,218,622
Segment gross profit	**354,123**	**83,814**	**24,911**	**-4,243**	**458,605**
Other operating income	25,807	969	2,502	-1,913	27,365
Other own work capitalised	3,462	4,353	1,053	0	8,868
Personnel expenses	-63,600	-32,202	-17,986	0	-113,788
Other operating expenses	-139,296	-43,141	-14,954	6,156	-191,235
Share of results of associates accounted for using the equity method	19,484		-45		19,439
Segment EBITDA	**199,980**	**13,793**	**-4,519**	**0**	**209,254**
Depreciation and impairment write-downs					-69,881
Subsequent accounting for associates accounted for using the equity method					-10,364
EBIT					**129,009**
Group financial result					-24,599
Taxes on income					-12,549
Group result					**91,861**
Group result attributable to shareholders of freenet AG					97,816
Group result attributable to non-controlling interest					-5,955
Cash-effective net investments	**8,799**	**19,649**	**1,985**		**30,433**

Segment report for the period from 1 January to 30 June 2016 adjusted[1]

In EUR'000s	Mobile Communications	TV and Media	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**1,449,094**	**77,966**	**29,796**	**0**	**1,556,856**
Intersegment revenue	16,058	6	8,844	-24,908	0
Total revenue	1,465,152	77,972	38,640	-24,908	1,556,856
Cost of materials, third party	**-1,105,857**	**-28,448**	**-10,895**	**0**	**-1,145,200**
Intersegment cost of materials	-5,669	-12,633	-2,990	21,292	0
Total cost of material	-1,111,526	-41,081	-13,885	21,292	-1,145,200
Segment gross profit	**353,626**	**36,891**	**24,755**	**-3,616**	**411,656**
Other operating income	29,890	1,362	3,180	-2,066	32,366
Other own work capitalised	4,501	1,932	880	0	7,313
Personnel expenses	-67,072	-17,941	-16,592	0	-101,605
Other operating expenses	-137,692	-12,212	-18,139	5,682	-162,361
Share of results of associates accounted for using the equity method	6,112	0	48	0	6,160
Segment EBITDA	**189,365**	**10,032**	**-5,868**	**0**	**193,529**
Depreciation and impairment write-downs					-57,460
Subsequent accounting for associates accounted for using the equity method					-5,540
EBIT					**130,529**
Group financial result					-27,526
Taxes on income					1,071
Group result					**104,074**
Group result attributable to shareholders of freenet AG					106,968
Group result attributable to non-controlling interest					-2,894
Cash-effective net investments	**11,361**	**11,532**	**1,824**		**24,717**

1 The management reporting presented to the main decision makers of the Group was changed in the second quarter of 2016. The income statement of the individual segments is no longer reported up to segment EBIT, and instead ends with the segment EBITDA, because EBIT is not a financial performance indicator and is thus not used for management purposes. A corresponding adjustment has been made to the previous year period.

Responsibility statement

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

Büdelsdorf, 9 August 2017
freenet AG
The Executive Board

Christoph Vilanek | Joachim Preisig | Stephan Esch

FURTHER INFORMATION

Financial calendar

09 August 2017

Publication of interim report as of 30.6.2107 – 2nd quarter 2017

31 August 2017[1]

TMT & Consumer Conference (Commerzbank) Frankfurt | Germany

19 September 2017[1]

6th German Corporate Conference (Berenberg/Goldman Sachs) Munich | Germany

09 November 2017[1]

Quarterly Statement as of 30 September 2017 – 3rd quarter 2017

15 and 16 November 2017[1]

TMT Conference 2017 (Morgan Stanley) Barcelona | Spain

1 All dates are subject to change.

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http://www.freenet-group.de/investor/publications

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

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

GLOSSARY

ARPU	Average revenue per user.
Bundesmux	Alternative concept for the nation-wide DABplus multiplex.
Customer ownership	Valuable postpaid and no-frills customers in the Mobile Communications segment.
Debt ratio	Ratio between net financial debt and the EBITDA generated in the last twelve months.
Digital lifestyle	Describes simplification of everyday life via technical equipment based on internet and/or smartphones.
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. Since the acquisition of Sunrise, EBITDA has been defined as follows: As has been the case in the past, the calculation includes only the earnings elements of the item “Result of companies accounted for using the equity method”. The depreciation resulting from the subsequent recognition of the shadow purchase price allocation does not have a negative impact on EBITDA.
EBITDA exclusive Sunrise	Earnings before interest and taxes, excl. the earnings elements of the companies accounted for using the equity method, excl. depreciation and deferred taxes from the subsequent recognition of companies accounted for using the equity method, plus depreciation and amortisation. Equity ratio as percentage Ratio between equity and balance sheet total.
Flight	Advertising campaign which runs for a specified period, mainly on the radio or TV.
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.
Gross profit	Revenue minus cost of materials.
Gross profit margin	Ratio between revenue and cost of materials.
Interest cover	Ratio between EBITDA and net interest income in the last twelve months.
IPTV	Internet Protocol Television: transmission of TV programmes and films with the aid of the Internet protocol.

Lightning	English concept for interface (proprietary interface of Apple).
Net financial debt	Long-term and short-term financial debt, less liquid assets, less the interest of the freenet Group in the market value of Sunrise Communications Group AG as of the reference date. The market value of Sunrise Communications Group AG is calculated by multiplying the closing price of the shares in Sunrise Communications Group AG on the Swiss stock exchange by the number of shares held by the freenet Group in Sunrise Communications Group AG (11,051,578 shares) as of the respective reference date. Swiss francs are converted into euros using an officially defined reference date rate based on data of Bloomberg.
Net interest income	Balance of "interest and similar income" and "interest and similar expenses".
Net investments (CAPEX)	Investments in property, plant and equipment and intangible assets, less the inflows from disposals of intangible assets and property, plant and equipment.
No-frills	Mobile communications services which are not based on a company's own mobile communications network. No-frills providers sell mobile communications minutes, SIM cards and mobile telephones as well as added-value services, e.g. text messages in their own name and for their own account.
Out-of-home campaign	English concept for advertising in public spaces (outdoor advertising).
Postpaid	Mobile services billed at the end of the month.
Prepaid	Mobile communications services paid in advance.
Pro-forma debt ratio	Ratio between long- and short-term financial debt less liquid assets and the EBITDA generated in the last twelve months.