INTERIM REPORT
AS OF 30 JUNE 2018

Q2
2018

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 2018	1st half 2017	Q2/2018	Q1/2018	Q2/2017
Revenue without IFRS 15	1,767.7	1,677.2	894.0	873.7	839.2
Revenue	1,386.2	1,677.2	696.6	689.6	839.2
Gross profit	445.8	458.6	222.2	223.5	231.6
EBITDA	224.4	209.3	117.9	106.5	108.4
EBIT	148.1	129.0	83.0	65.2	68.3
EBT	125.1	104.4	70.8	54.2	56.0
Group result	108.0	91.9	61.3	46.7	50.2
Earnings per share in EUR (diluted and undiluted)	0.89	0.76	0.50	0.39	0.41

Balance Sheet

In EUR million/as indicated	30.6.2018	30.6.2017	30.6.2018	31.3.2018	30.6.2017
Balance sheet total	4,495.8	4,143.2	4,495.8	4,665.7	4,143.2
Shareholders` equity	1,327.0	1,288.9	1,327.0	1,473.6	1,288.9
Equity ratio in %	29.5	31.1	29.5	31.6	31.1

Finances and investments

In EUR million	1st half 2018	1st half 2017	Q2/2018	Q1/2018	Q2/2017
Free cash flow	165.8	181.1	111.1	54.8	124.7
Depreciation and amortisation	66.8	69.9	30.2	36.6	34.9
Net investments (CAPEX)	23.5	30.4	12.5	11.0	8.5
Net debt	657.6	714.2	657.6	596.7	714.2
Pro forma net debt	1,428.5	1,475.0	1,428.5	1,311.8	1,475.0

Share

	30.6.2018	30.6.2017	30.6.2018	31.3.2018	30.6.2017
Closing price XETRA in EUR	22.69	27.93	22.69	24.71	27.93
Number of issued shares in '000s	128,061	128,061	128,061	128,061	128,061
Market capitalisation in EUR '000s	2,905.7	3,576.1	2,905.7	3,164.4	3,576.1

Employees

	30.6.2018	30.6.2017	30.6.2018	31.3.2018	30.6.2017
Employees	4,078	4,156	4,078	4,108	4,156

OVERVIEW KEY FINANCIALS[1]

MOBILE COMMUNICATIONS SEGMENT

Customer development

In million	1st half 2018	1st half 2017	Q2/2018	Q1/2018	Q2/2017
Mobile Communications customers/cards[2]	11.69	11.99	11.69	11.77	11.99
Thereof Customer Ownership	9.57	9.59	9.57	9.60	9.59
Thereof Postpaid	6.83	6.56	6.83	6.77	6.56
Thereof No-frills	2.74	3.03	2.74	2.83	3.03
Thereof Prepaid	2.12	2.39	2.12	2.16	2.39
Gross new customers/cards	1.24	1.35	0.66	0.59	0.70
Net change	-0.14	-0.07	-0.08	-0.06	-0.02

Result

In EUR million	1st half 2018	1st half 2017	Q2/2018	Q1/2018	Q2/2017
Revenue without IFRS 15	1,619.6	1,519.8	814.6	805.0	756.9
Revenue	1,238.2	1,519.8	617.2	621.0	756.9
Gross profit	354.8	354.1	175.7	179.0	176.0
EBITDA	201.5	200.0	101.3	100.2	99.9

Monthly average revenue per user (ARPU)

In EUR	1st half 2018	1st half 2017	Q2/2018	Q1/2018	Q2/2017
Postpaid	21.4	21.3	21.5	21.4	21.4
No-frills	3.3	2.6	3.5	3.2	2.7
Prepaid	3.3	3.0	3.4	3.2	3.1

TV AND MEDIA SEGMENT

Customer development

In ´000s	1st half 2018	1st half 2017	Q2/2018	Q1/2018	Q2/2017
freenet TV subscribers	1,138.4	454.3	1,138.4	1,022.0	454.3
waipu.tv registered customers[3]	824.0	255.3	824.0	608.8	255.3
Thereof waipu.tv subscribers	174.3	52.1	174.3	133.1	52.1

Result

In EUR million	1st half 2018	1st half 2017	Q2/2018	Q1/2018	Q2/2017
Revenue	148.7	149.4	77.3	71.5	74.7
Gross profit	72.2	83.8	34.7	37.4	45.4
EBITDA	28.0	13.8	20.3	7.8	10.5

Monthly average revenue per user (ARPU)

In EUR	1st half 2018	1st half 2017	Q2/2018	Q1/2018	Q2/2017
freenet TV	4.6	-	4.6	4.6	-

1 Unless otherwise identified, we refer to the section "Definition of alternative performance measures" for the definition of the key figures.
2 At the end of the period.
3 Exclusive of pre-registered users (Q2/2018: about 72,000; Q1/2018: about 71,000)

TO OUR SHAREHOLDERS

From left to right: Joachim Preisig (CFO), Antonius Fromme (CCE), Christoph Vilanek (CEO), Rickmann v. Platen (CCO), Stephan Esch (CTO)

LETTER TO SHAREHOLDERS

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

Three analyses have produced some noticeable results in recent months - for our sector and beyond. The market researchers of Gartner have published an analysis according to which manufacturers for the first time sold fewer smartphones world-wide during last year's Christmas trading; overall, the manufacturers have reported a downturn of 5.6 per cent compared with the previous year. According to an analysis of the private broadcasting association VPRT, media consumption in Germany has increased to approximately nine hours per day: The average user switches on TV and radio for approximately seven hours, streams videos and audio for one hour, and the remaining hour is spread over CD, DVD, cinema or video games. And finally, according to a current evaluation of the German digital association Bitkom, 40 per cent of Internet users are now prepared to pay a fee for films or series, for instance on Netflix, Amazon Prime, Maxdome, and thus also for our new product freenet Video. This represents an increase of eight percentage points compared with the previous year. Among younger users aged between 14 and 29 years, approximately every second user now downloads content from premium sites.

These figures have once again confirmed our strategic decision taken at the turn of the year 2015/2016, namely that of investing in the TV and Media segment in addition to our core business of Mobile Communications and Digital Lifestyle products. Now that the freenet AG has entered TV and home entertainment business, it thus has a further strong base with which we cover eight out of nine hours of the media consumption of German users described above. And we achieve this across all generations and preferences regarding media consumption - ranging from the young streamer right through to older TV viewers. At the same time, in our traditional area of Mobile Communications, we concentrate successfully on high-quality and profitable contract relations with our main and discount brands in view of the increasing market saturation. These two mainstays of our earnings are ideally complemented by the attractive Digital Lifestyle business, where we have been achieving organic growth for several years - with innovative digital services and products relating to entertainment and infotainment, data security, home automation and health.

The fundamental conditions and features of successful entrepreneurial activity include the following: constantly re-visiting business models and processes, identifying opportunities which arise, taking on risks in a controlled manner and, in the final analysis, consistently implementing successful attempts. Even if this means that errors can occur, as is the case with all human activities. However, in view of the analyses described above, we are firmly convinced that we have made the correct decisions - and that we have so far done much which has been right with regard to implementing our targets.

This is demonstrated particularly by a glance at the figures of freenet AG for the first half of 2018:

- In our traditional Mobile Communications segment, the growth among particularly valuable customers with two-year contracts has continued: The number of these postpaid users has increased from 6.56 million as June 2017 to 6.83 million as of 30 June 2018. The total number of customers for whom we have customer ownership (postpaid and no-frills users) has hardly changed at all (from 9.59 million to 9.57 million customers).

- In the first half of 2018, postpaid ARPU was still stable at 21.4 euros - compared with 21.3 euros in the corresponding period in 2017 and compared with 21.4 euros in the first quarter of 2018.

- In the new TV and Media segment, the number of freenet TV subscribers has increased from 454.3 thousand users in the comparison period 2017 to 1,138.4 thousand. The number of waipu.tv subscribers has increased from 52.1 thousand as of 30 June 2017 to 174.3 thousand users, whereas the number of registered waipu.tv users has increased to 824.0 thousand customers (Q2/2017: 255.3 thousand customers).

- At the end of June 2018, freenet TV ARPU continued to be stable compared with the previous quarters, at 4.6 euros (Q1/2018: 4.6 euros).

- If the accounting standard IFRS 15 is not taken into consideration, revenue[1] increased to 894.0 million euros in the second quater 2018, compared with the comparison period 2017 (839.2 million euros). This increase reflects our sustainably sound mobile communications activities as well as the increasing sales of digital-lifestyle services. However, if IFRS 15 is taken into consideration, revenue has to be disclosed with 696.6 million euros clearly lower.

- In the second quater 2018, gross profit was lower than the previous-year figure at 222.2 million euros, with a gross profit margin of 31.9 per cent.

- Compared with the comparison period 2017, EBITDA has improved by 9.6 million euros to 117.9 million euros in the second quater 2018. This includes a one-off effect from the partial sale of the VHF infrastructure amounting to 7.3 million euros.

- At 165.8 million euros, free cash flow is now lower than the level reported for the first half of 2017; however, it has exceeded six-month guidance from March 2018 by 3.9 million euros.

This means that we have achieved a successful performance in the first half of 2018, confirming our guidance for the full year 2018: stable revenue before IFRS 15 effects, EBITDA exclusive of Sunrise of 410 to 430 million euros and free cash flow exclusive of Sunrise of 290 to 310 million euros. Accordingly, notwithstanding our acquisitions and investments, we continue to be a company which focusses on sustainable profitability - also and particularly in the interest of our shareholders. Based on this focus, we paid out dividends of 211.2 million euros for the financial year 2017 in May 2018, this represents 1.65 euros per eligible share, and is now the ninth increase in succession.

In addition to these positive results, numerous positive developments have documented the success of our work in the first half of 2018. For instance, Media Broadcast in March extended the reception of freenet TV to satellite users. In addition, six further regions were changed over to DVB-T2 HD, thus increasing the number of potential freenet TV users to almost 60 million customers. The freenet TV service has also been extended to include the online service “freenet TV connect”: This add-on service offers not only the linear TV channels but also video-on-demand use.

EXARING has also continuously expanded the range of programmes of waipu.tv during the past six months. Major “new arrivals” included the football station “sportdigital HD”, “Watch Movies” with approximately 3,000 films of various genres, as well as the stations of the ProSiebenSat.1 Group in HD quality. At the same time, the

1 The adoption of the accounting standard IFRS 15 (mandatory applicable since 1.1.2018) has resulted in a significant change in the way revenue is reported. One major outcome of the adoption is that network operator commissions which are received by the freenet Group need to be reported as a reduction in cost of material, instead of being shown in revenue as has been the case previously.

technical range of waipu.tv was extended by way of a web version. In consequence, there has been a further increase in the number of users: At the end of June, there were 174,300 waipu.tv subscribers.

We are continuing our work in the other segments with the same consistency and intensity. As has been the case in previous years, we have been setting further standards in our core business of Mobile Communications - for instance with upgraded or restructured tariffs of our main and discount brands, with attractive new offerings and with customer-oriented special promotions. As has been the case in previous years, this strategy has continued to receive an excellent reception: in the form of continuously rising growth figures in the number of particularly valuable postpaid customers for us, as well as in the form of numerous top placings in independent tests, including Stiftung Warentest.

We have also been successful in our Digital Lifestyle division with an equivalent strategy. At the end of the first half, we started a digital-lifestyle service (with “freenet Video”) in the attractive market of online video services: This offers more than 1,000 films and series in HD quality for a monthly fee of approximately 5 euros. The account can be terminated on a monthly basis, and can be used on up to five devices - via smartphone, tablet, smart TV and PC; there are also more than 8,000 further productions available for purchase and hire. In addition, the user is able to stream a selection of top films by means of movie coins - the company’s own virtual currency which can be exchanged for the blockbusters which change on a monthly basis. A further key area are very competitive offerings of devices - smartphones, tablets, smartwatches, PCs and laptops - of the leading international manufacturers. We also have successfully marketed various niche products, such as the ecologically sustainable Fairphone.

New partners have also been established in the course of the first half of the year. The end of January for instance saw the start of a co-operation between freenet.de and Tipico, the leading bookmaker in Germany. This comprises the presentation of current Bundesliga game pairings and betting odds on our portal, and enables bets to be placed directly by means of a mouse click.

In March, freenet.de GmbH presented its new developed product “Carmada.de” - in conjunction with the company of the same name. This cloud-based software-as-a-service platform for modern corporate mobility permits the simple and efficient utilisation of corporate car sharing and pooling for small to mid-size enterprises in return for a small monthly fee. The customer does not require any special hardware or software, is spared the trouble of extensive installation and maintenance processes, and benefits from a wide range of administrative functions - i.e. uses the characteristic advantages of software-as-a-service.

Nor does this wide range of sales marketing activities mean that we have been neglecting our internal processes. On the contrary: We are also successfully working on continuous improvements in this respect. Together with the Danish design agency Brig Group, we have recently implemented a radically new and disruptive shop concept in four pilot stores in Berlin, Düsseldorf, Munich and Freising. The main features of this concept are an open-transparent store front, flexible and clear structures and inspirational modules for presenting our digital-lifestyle worlds. This revolution at the point-of-sale requires a great deal of courage - resulting in February in our company being presented with the German Design Award 2018 in the category “Excellent communication design retail architecture.” We are now gradually extending the new concept to further mobilcom-debitel shops.

In mid-April, we opened the “freenet Campus” at our Group location in Hamburg - our modern training centre with elaborate technical design. It was established within a period of ten months on approximately

1,000 m² almost implemented exclusively by ourselves, and has been designed to provide personnel developments measures for our approximately 4,000 employees of the Group, including the shop personnel and all franchisees. We then also received praise in February for our sustainable and staff-oriented corporate policy from a competent quarter – namely from Bernd Buchholz, the Economics and Labour Minister of the Federal State of Schleswig-Holstein, on the occasion of his visit to the company headquarters of mobilcom-debitel in Büdelsdorf: His conclusion that we are "a very attractive employer for the Federal State of Schleswig-Holstein and an exemplary training operation" is recognition of our work and is also an incentive for us to continue in this way. This is because we need competent and motivated employees for the major challenges which we are about to face: They are and will continue to be the basis for our economic success and are also a key element of our corporate responsibility as a company.

However, in view of the new areas of operation, the associated tasks and the increasingly complex nature of competition, we also have to strengthen the management team of the Group; the Supervisory Board and Executive Board have reached this conclusion jointly. Since 1 June 2018, freenet AG has therefore an extended Executive Board: Antonius Fromme, Chief Customer Experience Officer (CCE), will in future be the member of the Executive Board responsible for "customer experience". He has been working in the company since 2001, and in future will be responsible for the direct customer activities in the company's core business of Mobile Communications; he will also be responsible for all online and offline activities in marketing as well as the digitalisation of all customer interactions and transactions. As the member of the Executive Board for "partner management", Rickmann von Platen, Chief Commercial Officer (CCO), will be responsible for relations with all major business partners such as network operators, hardware suppliers and major distribution partners such as the MediaMarktSaturn Retail Group and specialist retail groups. Joachim Preisig, Chief Financial Officer (CFO), and Stephan Esch, Chief Technical Officer (CTO), will continue their very successful work in their areas of responsibility, whereas Christoph Vilanek will, in addition to his function as CEO, increasingly focus on the new TV and Media segment. For this purpose, the Supervisory Board has prolonged his agreement by five years until 31 December 2023.

We have thus taken important decisions and set the foundation for continuing the history of success of freenet AG in the course of the next few months. The commitment and motivation of the company's management and employees are unchanged: We will continue to devote our entire energy and competence in order to overcome the challenges which we will face and thus assure a prosperous future for your company.

Christoph Vilanek

Stephan Esch

Antonius Fromme

Joachim Preisig

Rickmann v. Platen

FREENET AG AND THE CAPITAL MARKETS

Capital market environment

The first half of 2018 was characterised mainly by falling prices and rising volatility on the international financial markets. The considerable weakening of the ifo business climate index, the potential escalation of trade policy conflicts, the rate hike carried out by the US central bank as well as fears of gradual tightening of loose monetary policy had a negative impact on equity markets throughout the world. Mainly driven by higher yields on government bonds, the expectation of rising interest rates and the still unresolved conflict in Syria, the European and German markets have also experienced a correction.

At the beginning of the year, the optimistic prospects of strong growth of the global economy as well as the diffusion of political tensions on the Korean Peninsula initially had a positive impact on the capital markets. However, a correction on the financial markets started at the end of January. In February, fears that the US central bank would implement the rate hikes, which had previously been announced, more quickly than had previously been expected, had an additionally negative impact on all markets. March and April experienced further headwind in the form of the announcement made by the USA that it intended to impose tariffs on products imported from China; this fuelled further fears of an imminent trade conflict between the two economies. The May meeting, in which the FED (contrary to general fears) left the benchmark rate in the range of 1.50 to 1.75 per cent was followed by a brief phase of stabilisation. In this climate, the DAX reported a decline of 5 per cent in the first half of 2018, closing at 12,306 points on 29 June. The high of 13,560 points on 23 January 2018 and the low of 11,787 points on 26 March 2018 provide a good reflection of the volatility seen in the reporting period.

The other indices were also not able to escape the effects of the trend of the market, and also reported a negative development in the first half of 2018. Accordingly, in addition to the DAX benchmark index, declines were also reported for the index of European telecommunication stocks SXKP (-11 per cent) and the MDAX (-1 per cent) in the reporting period. Only the German technology index TecDAX was able to advance by 6 per cent in the first six months of the year.

The freenet share

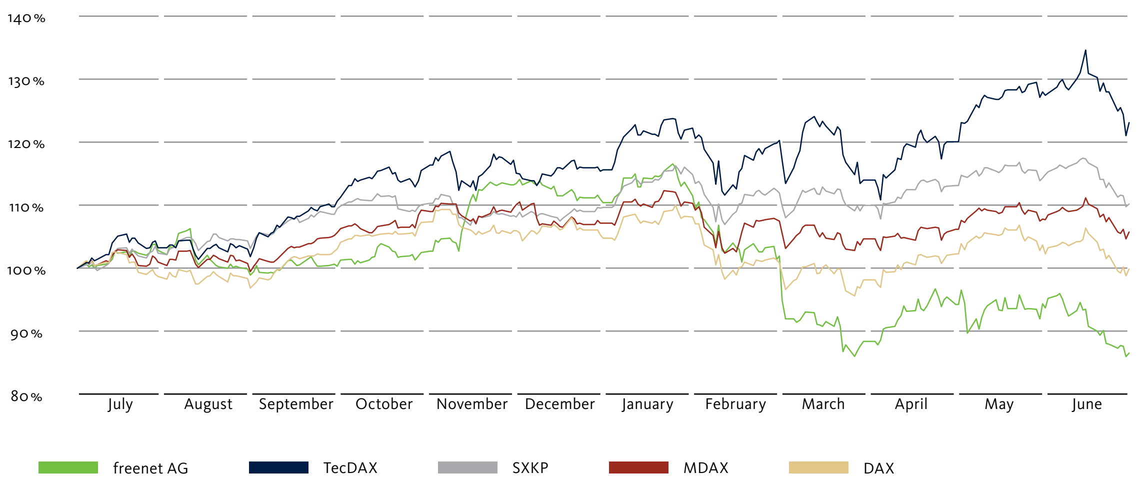
Despite a moderately positive start in the first three weeks of the year, in which the freenet share advanced to its high for the year of 30.52 euros on 22 January 2018, it fell overall by 20 per cent in the first quarter, to 23.17 euros on 30 March 2018. The considerable corrections on the stock markets at the end of January 2018 saw shares of freenet AG also decline; the price of 22.54 euros on 26 March was the lowest price seen during the first three months. In a climate of reduced interest rate expectations, the DAX index as well as the European index for telecommunication stocks SXKP in particular saw prices decline by 6 per cent and 9 per cent respectively. The average XETRA daily closing price in the first quarter was 26.88 euros.

In the first quarter, 620 thousand freenet shares were traded on all German markets per trading day, compared with 397 thousand shares in the first quarter of 2017. The volume of trading was thus 56 per cent higher than the corresponding prior-year quarter. Overall market turnover increased by 51 per cent, namely from 25.8 million in the first quarter of 2017 to 39.1 million in the comparison period 2018. The percentage of the overall volume traded via alternative trading platforms (“dark pools”) declined however to 32 per cent of the total trading volume (prior year quarter 39 per cent).

Whereas the markets stabilised at the lower level, the share price of freenet AG again declined in the second quarter. In the period between April and June, the DAX increased by 1 per cent, and the TecDAX increased by a further 7 per cent, whereas the freenet share fell by 6 per cent. However, the freenet share initially peaked at 25.34 euros in the second quarter on 23 April 2018, and subsequently declined to its low of 22.53 euros on 28 June 2018, before closing the first half of the year at 22.69 euros on the last trading day. The average XETRA daily closing price was also lower than the previous quarter at 24.24 euros.

In the second quarter of 2018, the average trading volume of freenet shares was approximately 553 thousand, compared with 569 thousand traded shares per market day in the second quarter of 2017. The total number of traded XETRA shares amounted to 34.8 million, compared with 37.0 million traded freenet shares in the period between April and June 2017. The percentage of the volume traded via dark pools declined by 10 percentage points to 33 per cent.

Figure 1: **12-month‘s performance of the freenet share**
(indexed; 100 = XETRA closing price on 30 June 2017)

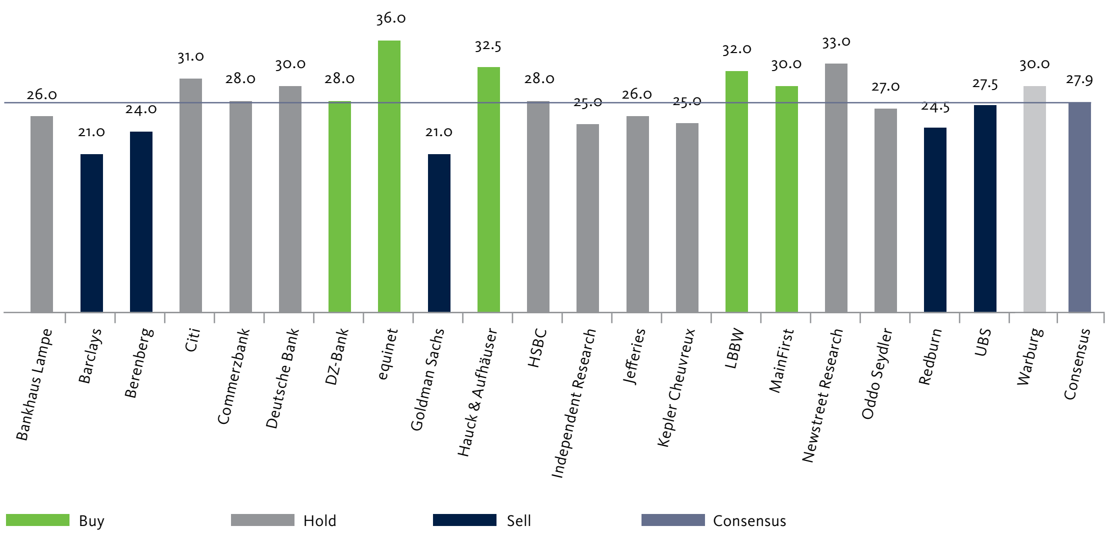


Analysts' recommendations

In the first half of 2018, a total of 21 bank analysts reported on the freenet share. The reports resulted in 5 buy and 11 hold recommendations as well as 5 sell recommendations. The average price target at the end of June 2018 was 27.88 euros.

With regard to the recent analysts' recommendations the following overview results as of 30 June 2018:

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



* As of 30 June 2018.

Dividend

The annual general meeting of freenet AG for the financial year 2017 was held on 17 May 2018 in Hamburg. All of the resolutions proposed by the management were approved with the required majorities. The company increased the dividend for the ninth year in succession, paying out a dividend of 1.65 euros per dividend-bearing share for the financial year 2017 (previous year: 1.60 euros). Dividend payments amount in total to more than 211.2 million euros.

Shareholder structure

The share capital of freenet AG amounts to 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.

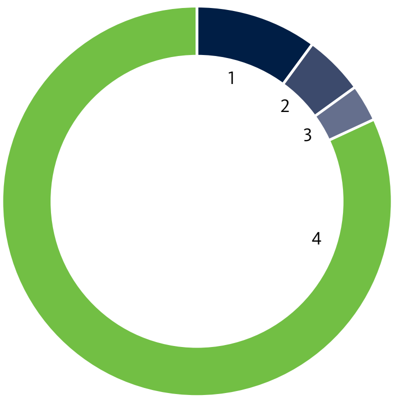
According to the voting rights disclosures received pursuant to Section 21 of the German Securities Trading Act (WpHG), the shareholder structure of freenet AG changed as follows during the reporting period:

- In February, **DEUTSCHE ASSET MANAGEMENT INVESTMENT GMBH (GERMANY)** has 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 19 February amounted to 2.87 per cent (3,679,158 voting rights).
- In March, **POLARIS CAPITAL MANAGEMENT, LLC (USA)** has 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 3 March amounted to 3.05 per cent (3,904,742 voting rights).
- In June, **BNP PARIBAS ASSET MANAGEMENT FRANCE S.A.S. (FRANCE)** has 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 6 June amounted to 2.98 per cent (3,812,962 voting rights).
- In July, **BLACKROCK, INC. (USA)** has notified us that its holding had fallen down the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 29 June amounted to 4.94 per cent (5,885,394 voting rights).
  - In March, BlackRock, Inc. (USA) has notified us that its holding had exceeded the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 6 March amounted to 5.004 per cent (5,959,982 voting rights).
  - In March, BlackRock, Inc. (USA) has notified us that its holding had fallen below the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 7 March amounted to 4.99 per cent (5,997,685 voting rights).
  - In March, BlackRock, Inc. (USA) has notified us that its holding had exceeded the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 8 March amounted to 5.001 per cent (6,016,621 voting rights).
  - In March, BlackRock, Inc. (USA) has notified us that its holding had fallen below the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 16 March amounted to 4.99 per cent (5,694,078 voting rights).
  - In March, BlackRock, Inc. (USA) has notified us that its holding had exceeded the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 19 March amounted to 5.003 per cent (5.743,220 voting rights).
  - In March, BlackRock, Inc. (USA) has notified us that its holding had fallen below the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 20 March amounted to 4.998 per cent (5,819,420 voting rights).
  - In April, BlackRock, Inc. (USA) has notified us that its holding had exceeded the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 4 April amounted to 5.11 per cent (5,745,606 voting rights).
  - In April, BlackRock, Inc. (USA) has notified us that its holding had fallen below the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 5 April amounted to 4.94 per cent (5,508,086 voting rights).
  - In April, BlackRock, Inc. (USA) has notified us that its holding had exceeded the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 17 April amounted to 5.003 per cent (5,241,797 voting rights).
  - In April, BlackRock, Inc. (USA) has notified us that its holding had fallen below the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 18 April amounted to 4.99 per cent (5,227,188 voting rights).
  - In April, BlackRock, Inc. (USA) has notified us that its holding had exceeded the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 23 April amounted to 5.002 per cent (5,222,747 voting rights).

- In May, BlackRock, Inc. (USA) has notified us that its holding had fallen below the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 3 May amounted to 4.99 per cent (4,960,824 voting rights).
- In May, BlackRock, Inc. (USA) has notified us that its holding had exceeded the 5 per cent reporting threshold. This revealed that its share of the voting rights in freenet AG on 15 May amounted to 5.01 per cent (5,121,687 voting rights).

As a result, the shareholder structure of freenet AG on 30 June 2018 was as follows:

Figure 3: **Current shareholder structure**



1	**10.08 %**	Flossbach von Storch AG*
2	**4.94 %**	BlackRock Inc.
3	**3.05 %**	Polaris Capital Management, LLC*
4	**81.93 %**	Other shareholders / free float**

* *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 increased by 1.15 percentage points from 80.78 per cent to 81.93 per cent compared with 31 December 2017.

INTERIM GROUP MANAGEMENT REPORT

INTERIM GROUP MANAGEMENT REPORT

Economic report

Business performance

The freenet AG as the largest independent telecommunications and digital-lifestyle provider without an own network offers its approximately 13 million customers products, services as well as hardware from the fields of mobile communications, TV and media and all other parts of the digital life. In the core business of Mobile Communications, the company operates as an independent service provider and offers customer-oriented services and inexpensive tariffs in all three German mobile networks. The portfolio comprises the company's own tariffs and services as well as corresponding offerings of the network operators for mobile communications and mobile Internet. In addition, the company offers innovative digital applications for entertainment and infotainment, data security as well as home automation and security - including the latest smartphones, tablets and notebooks as devices as well as attractive accessories.

The 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 focusses primarily on high-quality contract relations for signing up new customers and also for managing existing customers. Furthermore, the discount brands of freenet - klarmobil, freenetmobile, callmobile and debitel light - cover the no-frills market.

In addition to its core segment of Mobile Communications, freenet AG completed the process of breaking into the TV and media business with a fundamental acquisition and a larger participation. The Cologne-based Media Broadcast Group is the sole commercial provider of the DVB-T2 HD standard in Germany, which initially started as a pilot operation at the end of May 2016. This standard permits the terrestrial broadcasting of a comprehensive package in full-HD quality, and addresses millions of German TV households which previously had been using DVB-T1 and which until the official changeover on 29 March 2017 used DVB-T1 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 the train or in the car. This also includes access to the catch-up services of the various stations. The acquired package also included the business units radio (VHF and DAB+) as well as network services for TV productions.

In addition, freenet AG has acquired a 50.01 per cent stake in EXARING AG, and has secured the distribution rights for a closed IP platform for innovative entertainment and TV services. The company based in Munich, uses a fibre-optic network, enabling the technical means for motion-picture entertainment for 23 million German broadband households, for approximately 60 million smartphone owners and for all users of PCs, laptops or tablets. The fibre-optic technology means that the platform is also in an excellent position to cope with innovations such as 4K, 8K virtual reality and holography/3D.

Following lengthy pilot operation and intensive technological preparations, March 2017 saw the start of the commercial phase of the new TV broadcasting standard DVB-T2 HD under the brand name freenet TV in several German metropolitan areas: Since that time, it has only been possible for high-definition TV images of up to 20 private stations to be received via antenna in encrypted form in the core regions of Germany. For this purpose, in the case of new DVB-T2-HD-capable TVs, not only an internal or external antenna but also a CI+ module of freenet TV is required - for all other TVs, a small set-top box is required as a receiver. waipu.tv also made its debut at the end of 2016 - this is the IPTV/entertainment product of EXARING. Since that time, the consistent process of developing the new TV and Media segment has formed one of the focal points of the operating activities of freenet – in addition to the continuous expansion of its core business relating to Mobile Communications, Mobile Internet and Digital Lifestyle.

The TV and Media segment is developing according to plan.

Up to the end of June 2017, freenet TV users were initially able to use the full-HD offering of private stations free-of-charge, and subsequently for a monthly fee of 5.75 euros. This means that the first full annual cycle of the commercial product offering was completed at the end of the first half of 2018. The cycle was characterised by a wide range of sales and marketing activities, and comprised TV spots and inserts, online advertising on the company's own websites and installations in several hundred mobilcom-debitel shops. This was accompanied by targeted promotions - for instance with major daily newspapers or with Samsung as one of the main manufacturers of TV hardware. With these concentrated measures, freenet TV achieved an initial major milestone in mid-March 2018: The freenet subsidiary Media Broadcast as a platform operator celebrated its one millionth customer in its headquarters in Cologne - and presented him with a Samsung TV to mark the occasion.

Notwithstanding the above, freenet and Media Broadcast further boosted the quality and extent of the product in recent months. Accordingly, in the course of the second quarter, satellite users also gained access to freenet TV, broadcast via Astra and for the same monthly fee of 5.75 euros as applicable for terrestrial reception. At the start of this service, the freenet TV CI+ module which has been available from dealers for more than one year was accompanied by the new freenet TV receiver "DIGIT S4" of TechniSat.

At the same time, freenet started a new service for freenet TV customers in co-operation with Deutsche Technikberatung. For a price of 49 euros, they are able to use the services of this major provider of professional technical assistance in Germany - for instance for setting up components or for maintaining all devices. The price includes the call-out charges and an operating time of up to one hour.

At the end of April 2018, Media Broadcast then changed the signal for antenna TV to DVB-T2 HD in a further six regions. With the new locations of Augsburg, Bielefeld, Erfurt, Münster, Osnabrück and Weimar, the number of potential freenet TV users has increased by 2.5 million to 58.6 million.

At the end of May 2018, the programmes of freenet TV broadcasted via terrestrial and satellite means were extended to include the online service "freenet TV connect". As an Internet-based add-on service, it offers video-on-demand use in addition to the linear TV channels. This service requires an Internet connection with a bandwidth of at least 3 mbps as well as a receiver which supports the HbbTV standard. Waiting times for surfing are frequently long in conjunction with HbbTV, and are to be considerably reduced by the innovative technology "Dash Direct Play". At the end of the first half of the year, the number of users of freenet TV had increased further, rising to 1.14 million at the end of June. However, it has to be borne in mind that there is generally a certain amount of time between the date at which a voucher is purchased (count as customer) and the date of initial activation (generation of revenue). There was a considerable increase in this difference at the end of June, because many customers had stocked up with new vouchers in view of the expiry in the third quarter of 2018 after twelve months.

Marketing of the IPTV product waipu.tv of EXARING had started at the end of 2016. Since that time, waipu.tv has been available in two versions, which are increasingly comprising all major traditional stations as well as many special-interest channels: As a Comfort version with initially 10 hours of storage for 4.99 euros per month and as a Perfect version with initially 50 hours of storage for 14.99 euros - both with the option of monthly termination and with a free test month. The price of the "Perfect" version has since been reduced to 9.99 euros, and the recording storage has been increased to 100 hours; at the same time, the recording storage of the "Comfort" version has been increased to 25 hours.

waipu.tv continuously expanded its portfolio during the first half of 2018. The end of 2017/start of 2018 initially saw the start of the football station "sportdigital HD", "Der Heimatkanal" with sentimental films with a regional background/event films, popular theatre pieces, music shows and TV series as well as "Romance TV" with romantic TV movies and series. In February 2018, "Watch Movies" also placed its approximately 3,000 films in the fields of drama, thrillers, comedies and love stories on the IPTV platform. March 2018 saw the arrival of the stations of the ProSiebenSat.1 Group in the Perfect package without any additional costs in HD quality, and also all series of Stromberg within the framework of a co-operation with "MySpass". Since April 2018, the users have also been able to receive films of "Netzkino" - in the categories: highlights, thrillers, comedies, horror and drama. A further highlight is the offering of the music station Jukebox - for all customers with an HD option automatically in full-HD definition without any additional costs. Overall, the Perfect offering of waipu.tv now comprises more than 90 stations, most of which in HD quality.

On the occasion of the Football Word Cup in Russia, waipu.tv initially broadcast “das schnellste Tor ins Wohnzimmer” (“the quickest goal into your living room”). Using the high-speed data transmission service “Low Latency Service” (for which a patent application has been submitted), the World Cup goals can be celebrated via high-speed streaming up to one minute before they can be celebrated for instance with cable TV. And finally, EXARING has also increased the technical range of waipu.tv: The platform contents are now also available to the user thanks to a web version which has been developed in-house or an app on the laptop, PC or tablet apps.

With the expanding attractive offerings, the number of users of waipu.tv has also increased: At the end of June, the number of paying customers was 174,300. The number of registered customers has now increased to approximately 824,000.

At the end of the first half of 2018, freenet started “freenet Video”, an offering which addresses the attractive market of online video services. For 0.99 euros in the first month (minimum duration), it offers more than 1,000 films and series in HD quality; starting with the second month, the monthly fee is 4.99 euros. The account can be used via smartphone, tablet, smart TV and PC on up to five devices. More than 8,000 other productions are also available to be purchased and loaned. The user is also able to download a selection of top films with movie coins - an in-house virtual currency which can be exchanged for the monthly changing blockbusters.

Attractive tariffs and special promotions contribute to constant customer growth in mobile communications.

For more than six years in succession, freenet has now reported continuous growth in the particularly valuable segment of postpaid users with two-year contracts. In the fiercely competitive mobile communications market, the company regularly sets standards via its individual brands, with customer-oriented tariffs and top placings in independent comparison tests.

Since March of this year, the main brand mobilcom-debitel and the discount subsidiary klarmobil have also for the first time been offering access to the high-speed LTE data network of Deutsche Telekom. For this purpose, klarmobil has presented its new Telekom LTE tariffs with a duration of two years in three different sizes - with data volumes of 2 GB, 4 GB and 8 GB.

In mid-April, mobilcom-debitel then started two exclusive eSports tariffs in co-operation with the eSports community and the League of Legends team: “No Limit” and “Level 8”. Both Sim-only offerings include a call and text flatrate on all national networks and also the freenet Hotspot flatrate for world-wide surfing in more than 50 million hotspots as well as the basic package of the mobilcom-debitel cloud with 100 GB storage. “No Limit” with a monthly fee of approximately 80 euros also provides unlimited surfing in the mobile Internet with a maximum bandwidth of up to 300 Mbps, whereas “Level 8”, for approximately 25 euros per month, comprises a one-off “Unicorns of Love pass” for an additional 1 GB of unthrottled surfing volume.

In June, klarmobil reduced the price of all offered Allnet flatrates: The Allnet flatrate 2000 with 2 GB data volume was reduced to approximately 13 euros, the Allnet flatrate 3000 was reduced to approximately 17 euros, and the Allnet flatrate 4000 was reduced to approximately 20 euros.

In addition, the individual brands of the freenet Group carried out a range of temporary special promotions in the first six months of the current year. For instance, in January, April and May, mobilcom-debitel reduced the price of “Smart Surf” in the D-network of Vodafone with a 2 GB Internet flatrate and 50 free call minutes and texts from around 17 euros to 5 euros, partially in co-operation with ComputerBild. In February, freenet’s main brand initially offered the tariff “Comfort Allnet” in the Telekom and Vodafone network for no charge in the first three months, and subsequently with a discount of 17 euros per month; this represents a saving of more than 450 euros over the minimum two-year contract.

freenetmobile in turn cancelled the activation charge in February for all Allnet flatrates and smartphone tariffs. In May, klarmobil offered the Allnet flatrate 24M – 2000 MB for approximately 15 euros per month in conjunction with AutoBild and ComputerBild - representing a saving of 240 euros over the two-year contract duration. In return, the user received 2 GB monthly high-speed surfing volume with max. 50 mbps with unlimited free minutes/texts into all German networks.

And finally, the majority holding Motion TM offered various World Cup specials in June on the occasion of the Football World Cup. In addition to an extensive World Cup betting game, it also comprised eleven special offers, including reduced tariffs such as the Allnet flatrate 4000 of klarmobil and the Vodafone Smart L+ as well as heavily subsidised premium smartphones such as the HTC U12 Plus or the Huawei P20.

In this way, the individual brands have again gained leading places in various tariff tests. For instance, freenetmobile with Stiftung Warentest for contracts with a minimum one-month duration or klarmobil in a list of data tariffs at ComputerBild with the data flatrate 1000 in the Vodafone network.

The customers have also been convinced by the various offerings: The number of the most profitable part of the Mobile Communications segment – the Postpaid customers - increased in the first half of 2018 by 117,000 to 6.83 million and compared to the previous-year quarter by 264,000. Thus, the number of customers with a two-year contract increased the 24th quarter in a row.

At the same time, the number of no-frills users declined in the first half of 2018 by 137,000 to 2.74 million. This demonstrates a trend covering all markets, which is also applicable for the traditional Prepaid customer segment; it is attributable to the need to provide identification, which has been required by the legislative authorities since July 2017, and which means that is more difficult to buy a corresponding card from online retailers and also in highstreet outlets.

Overall, customer ownership of 9.57 million customers at the end of June 2018 is stable compared with the previous quarter and corresponding previous-year period. This is also applicable for Postpaid ARPU at 21.5 euros – compared with 21. euros in the previous quarter and 21.4 euros in the corresponding previous-year period.

The Digital Lifestyle portfolio is making an increasing contribution to revenues.

Under the heading “Digital Lifestyle”, services as well as products in the fields of entertainment, security, SmartHome and eHealth form a further mainstay of the freenet Group. They complement the traditional Mobile Communications activities and the TV and Media segment. The products and services are generally offered via the main brand mobilcom-debitel - in the various shops, via online sales and also via a wide range of special promotions and activities. These also include the “Sunday Stunners” which have now been successfully marketed for more than two years at very competitive conditions.

In the first half of 2018, one focus was on smartphones in a wide range of price classes of the market leaders Apple and Samsung, rounded off by further hardware and attractive offerings of other manufacturers.

The highlights of Apple include the following:
- the iPhone SE with 32 GB for a price of approximately 300 euros instead of the normal price of 479 euros, and with 64 GB for 409 euros instead of 589 euros,
- the iPhone 6 with 32 GB also for approximately 300 euros,
- the iPhone 6s with 32 GB for 444 euros, representing a saving of more than 300 euros compared with the normal market price,
- the iPhone 8 Plus in the 64 GB version for a price of 759 euros and a saving of approximately 150 euros as well as
- the current smartphone flagship - the iPhone X - again with a saving of approximately 150 euros for a price of around 1,000 euros.

On the occasion of Valentine’s Day, mobilcom-debitel lowered the price for the iPad Pro 64 GB Wi-Fi by 110 euros to 619 euros. GRAVIS reduced Apple TV 4K in the versions 32 GB as well as 64 GB by approximately 10 per cent to around 180 euros and 200 euros respectively.

There were also attractive offerings of Samsung smartphones:
- The price of the Samsung Galaxy A3 (2017) was reduced by 150 euros to 180 euros and
- the price of the Samsung Galaxy A5 (2017) was reduced by approximately 180 euros to 250 euros

in January, and was reduced further in March to 235 euros,

- in February, mobilcom-debitel offered the Samsung Galaxy S8 for a considerably reduced price of approximately 310 euros in co-operation with Media Markt and combined with a mobile contract - representing a saving of approximately 200 euros compared with other dealers on the market,
- in combination with a mobile contract in the D-networks of Deutsche Telekom or Vodafone, the prices of the new Samsung smartphone flagships Galaxy S9 and S9+ were initially reduced in February to 99 euros and 199 euros respectively,
- at the end of May, mobilcom-debitel then put together a particularly attractive package consisting of a smartphone and mobile contract in co-operation with ComputerBild - approximately 25 euros for the Galaxy S9 with the real Allnet tariff in the Vodafone network for 37 euros per month.

With the Y6 Pro (2017), the Chinese manufacturer Huawei has extended its smartphone range to include a first-class product in the entry-level segment. At the end of January, mobilcom-debitel reduced the price of this ultra-slim model with high-quality metal unibody to 159 euros. In April, freenet's main brand reduced the price of the Huawei P10 by 200 euros to approximately 380 euros.

Also at the beginning of the year, mobilcom-debitel offered the Fairphone 2 which is manufactured particularly in line with social and environmental compatibility considerations, for a reduced price of 509 euros. The device stands out as a result of its robust design and modular structure, which enables users to repair or replace the individual elements themselves. This is accompanied by a much higher useful life and efficient utilisation of resources and the environment. The company also uses minerals obtained from conflict-free production sites, thus indirectly improving working conditions during the production process.

GRAVIS in turn has carried out regular special promotions. For instance, at the start of the Football World Cup, under the motto “So sehen Sieger aus” (“This is what winners look like”); within this framework, TVs, smartwatches and Apple MacBooks were offered for partially reduced prices, and the promotion also included lighting systems and motion sensors of Philips, as well as power banks, fitness trackers, monitors and mobile loudspeakers.

As a consequence of all these activities, this growth segment generated revenue of approximately 85,0 million euros in the first half of 2018. This represents growth of 14,5 per cent compared with the corresponding previous-year period. This was based on approximately 2.5 million options which had been activated as of the end of June 2018.

Recognition of a wide range of service activities.

An optimum service is a key element of the business model of a service provider. The freenet Group therefore aims to achieve continuous improvements from the customer perspective in all segments. For instance, GRAVIS entered into partnership with Grover before the end of the year within the framework of a pilot project carried out initially in two branches in Berlin and Hamburg. The company focusses on leasing instead of selling digital-lifestyle products - i.e. smartphones and tablets, computers and wearables, gaming and home entertainment, audio and music as well as e-mobility and Smart Home.

The benefits from the point of view of customers are the ability to use the latest devices in a customised manner with a positive impact on liquidity, protection in the event of any damage and full flexibility. For instance, the products become the property of the customer three months after the rental payments have attained the recommended retail price of the manufacturer. If the customer wishes to purchase the device beforehand, 30 per cent of the user's previous rental payments are offset against the recommended retail price. In the first half of 2018, GRAVIS then extended this model of a rapid and uncomplicated “product as a service” to all branches throughout Germany.

In addition, the freenet subsidiary has extended its services as an authorised Apple service provider to include its own battery service. The replacement batteries of the well-known Swiss manufacturer LMP can be ordered in advance, and can be changed very quickly in the respective shop; this avoids the time-consuming process of sending the devices to Apple.

Varied and customer-oriented services were the main reason behind the fact that GRAVIS received the Plus X Award in the first quarter of the current year. With its international and independent adjudicators, the prize is one of the most important innovation prizes in the world in the fields of technology, lifestyle and sport. GRAVIS gained the award in the category "IT/telecommunication" based on more than 3,000 valid consumer verdicts within the framework of an online survey.

PR campaigns promote growth in Mobile Communications and in the TV segment.

freenet supports its sales activities with continuous and systematic marketing campaigns. The campaign carried out in the early summer of 2018 again used the popular figure of Costa, referring to the Football World Cup in Russia, and focussed on expanding the range and frequency activation in the shops and online channels.

The focus was on an extended selection of products from the core business of Mobile Communications and also on the innovative possibilities of TV consumption at home and on the move. As was the case in previous campaigns, the marketing mix consisted accordingly of TV spots, online advertising, out-of-home measures, digital out-of-home, PoS flyers, instore and display window TVs as well as a wide range of social media measures. In addition to the main private stations such as ProSieben, RTL, Sat1 and Vox, the TV spots also involved the public channel ZDF for the first time. With regard to the out-of-home measures, the number of cities covered doubled to more than 40 - with the aim of improving the broad effect of the offerings.

Key drivers of the business development

Customer base development in the Mobile Communications segment

Table 1: **Customer base development in the Mobile Communications segment**

In million	30.6.2018	31.3.2018	31.12.2017	30.9.2017	30.6.2017
Customer Ownership	9.57	9.60	9.59	9.60	9.59
Thereof Postpaid	6.83	6.77	6.71	6.65	6.56
Thereof No-frills	2.74	2.83	2.88	2.95	3.03
Prepaid	2.12	2.16	2.24	2.28	2.39
Mobile customers/cards	11.69	11.77	11.83	11.88	11.99

In its core business Mobile Communications, the freenet Group in 2018 continued to focus on the well-proven objectives in gaining new customers and managing existing customers: the establishment of sustainable customer relations and also the consistent expansion and marketing of digital lifestyle activities. The main focus was on the numbers of particularly valuable postpaid customers, comprising mobile contracts with a minimum two-year duration. At the end of the second quarter of 2018, the positive development in the number of customers in this strategically important group resulted in total numbers of 6.83 million customers. Compared with the previous year, this represents an increase of approximately 4 per cent or 264,000 users. Compared with the first quarter of 2018, the increase is approximately 1 per cent (58,000 users).

At the end of the second quarter of 2018, the number of no-frills customers amounted to 2.74 million, and was thus approximately 287,000 lower than the figure of the previous-year quarter (Q2/2017: 3.03 million). Compared with the first quarter of 2018, the decline is approximately 88,000. The development continues to be characterised by the impact and the statutory requirements of the registration obligation for gaining new customers.

The positive development in valuable postpaid business has virtually compensated for the downturn in no-frills business, so that the non-financial performance indicator customer ownership is disclosed as 9.57 million users as of 30 June 2018. Compared with the previous year, there has been a slight decline of approximately 23,000 users; compared with the previous quarter, the number of users has declined by approximately 30,000. Overall therefore, the development in customer ownership has been relatively stable.

The number of issued prepaid cards continued to decline in the last quarter, and amounted to 2.12 million (Q2/2017: 2.39 million). This decline is attributable to the deactivation of unused SIM cards by the network operators (technical churn) as well as to the decline in the activation of new customers caused by the Anti-Terror Act for purchasing prepaid cards after 1 July 2017.

Accordingly, the total number of mobile customers declined by approximately 300,000 compared with the previous-year quarter to 11.69 million as of the end of June 2018, (Q2/2017: 11.99 million).

Monthly average revenue per user in the Mobile Communications segment

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

In EUR	Q2/2018	Q1/2018	Q4/2017	Q3/2017	Q2/2017
Postpaid	21.5	21.4	21.4	21.7	21.4
No-frills	3.5	3.2	3.0	2.9	2.7
Prepaid	3.4	3.2	3.2	3.3	3.1

The value of postpaid business is also demonstrated in the stable development of postpaid ARPU, which amounted to 21.5 euros in the second quarter of 2018, slightly higher than the figures reported for the previous year and also the previous quarter. Compared with the previous year, no-frills ARPU has increased by 0.8 euros to 3.5 euros. In comparison to the previous quarter, the increase is 0.3 euros. This positive development over previous quarters shows that the optimisation and extension of the tariff portfolio has been well received by this customer group in recent months. At 3.4 euros, prepaid ARPU is also higher than the corresponding previous-year quarter (3.1 euros) and the previous quarter (3.2 euros).

Digital Lifestyle

In addition to optimising its core business Mobile Communications, the freenet Group has since 2013 been focussing on the still recent growth area of Internet-based mobile applications for private customers. For the freenet Group, the Digital Lifestyle business, as part of the Mobile Communications segment, encompasses telecommunications, Internet and energy plus all services, applications and devices that are connected to the Internet by way of a mobile device or which can be controlled through such a device.

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

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

Customer base development in the TV and Media segment

Table 3: **Customer base development in the TV and Media segment**

In `000s	30.6.2018	31.3.2018	31.12.2017	30.9.2017	30.6.2017
freenet TV subscribers	1,138.4	1,022.0	974.6	874.3	454.3
waipu.tv registered customers*	824.0	608.8	463.6	339.4	255.3
Thereof waipu.tv subscribers	174.3	133.1	102.3	71.9	52.1

The TV business is another important pillar of freenet Group´s business activities which completes the attractive digital lifestyle growth market.

Since the beginning of commercial marketing of the new broadcasting standard DVB-T2 HD on 29 March 2017 under the new created brand freenet TV, there has been a very positive development in the number of customers. At the end of the second quarter of 2018, there were approximately 1,138 thousand subscribers, representing an increase of approximately 684 thousand compared with the corresponding previous-year period. Compared with the previous quarter, the increase of approximately 116 thousand customers has also been positive.

The continuous expansion and improvement of the content offerings of waipu.tv, the IPTV offering of the freenet majority holding EXARING, is also reflected in a positive development in these user figures. Whereas approximately 255 thousand customers were registered at the end of the corresponding quarter in 2017, the figure at the end of the second quarter of 2018 had increased to approximately 824 thousand. The number of subscribers included in this figure has increased to approximately 174 thousand (Q2/2017: 52 thousand).

Monthly average revenue per user in the DVB-T2 HD unit (freenet TV)

With the launch of the new broadcasting standard DVB-T2 HD, high definition TV images of approximately 20 private stations in the core regions of Germany can now only be received via antenna in encrypted form. This service was free until the end of the first half of 2017; since that time, a monthly charge of 4.80 euros net (5.75 euros incl. VAT) has been levied. Taking account of the initial free months, freenet TV ARPU has been constantly rising in recent quarters, and has now stabilised at a level of approximately 4.6 euros.

Table 4: **Monthly average revenue per user (ARPU)**

In EUR	Q2/2018	Q1/2018	Q4/2017	Q3/2017	Q2/2017
freenet TV	4.6	4.6	4.5	4.1	-

* Exclusive of pre-registered customers (Q2/2018: about 72,000; Q1/2018: about 71,000)

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 2017.

The following are financial performance indicators relevant for management purposes:

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

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

A derivation schedule for the non-GAAP measures (also: alternative performance measures) EBITDA and free cash flow is set out in the section “Definition of alternative performance indicators” at the end of this chapter.

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

- Customer Ownership,
- TV customer base.

In line with the ongoing expansion of our digital-lifestyle activities and the further development of the new TV segment, we constantly monitor the composition of our entire internal performance indicators. If a corresponding need for adjustment is identified, we may adjust our internal control indicators. In the first half of 2018, no adjustments were made compared with the financial year 2017.

Other performance indicators

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

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

Compared to the end of March 2018, the number of employees slightly declined from 4,108 to 4,078 as of 30 June 2018. As of 30 June 2017, 4,156 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 are not defined in the IFRS. Please note that these do not replace historical financial results, assets or liabilities of the company or other performance indicators defined by the company or IFRS parameters, and therefore should not be viewed in isolation and should therefore be considered to be additional information. Even though 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 and EBITDA exclusive of Sunrise,
- EBIT,
- Gross profit and gross profit margin,
- Net debt, pro-forma net debt and related debt ratios,
- Interest cover,
- Free cash flow and free cash flow exclusive of Sunrise,
- Equity ratio.

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

Definition and calculation of EBITDA and EBITDA exclusive of Sunrise

EBITDA is a financial performance indicator of the freenet Group, and is defined as earnings before interest, taxes, depreciation and amortisation, including the share of result of the associates accounted for using the equity method (EBIT), excluding depreciation, amortisation and deferred taxes arising from the subsequent recognition of companies accounted for using the equity method, plus depreciation and amortisation. Thus, the amortisations resulting from the subsequent recognition of the shadow purchase price allocation do not affect EBITDA.

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

Table 5: **Calculation of EBITDA and EBITDA exclusive of Sunrise**

In EUR `000s	Q2/2018	Q2/2017
EBIT	82,957	68,285
Depreciation and impairment write-downs	30,218	34,905
Subsequent recognition from purchase price allocation	4,764	5,182
EBITDA	**117,939**	**108,372**
Profit share of Sunrise	-9,861	-9,742
EBITDA exclusive of Sunrise	**108,078**	**98,630**

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 profit share of Sunrise, the Executive Board manages EBITDA without including the profit share of Sunrise (EBITDA exclusive of Sunrise). Accordingly, the budget-actual comparisons as well as the forecast of the financial performance indicator do not take account of the Sunrise profit share.

Definition and calculation of EBIT

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

Table 6: **Calculation of EBIT**

In EUR `000s	Q2/2018	Q2/2017
Operating result	77,876	63,770
Share of results of associates accounted for using the equity method	5,081	4,515
EBIT	**82,957**	**68,285**

Definition and calculation of gross profit and gross profit margin

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

Table 7: **Calculation of gross profit**

In EUR `000s / as indicated	Q2/2018	Q2/2017
Revenue	696,629	839,240
Cost of material	-474,404	-607,614
Gross profit	**222,225**	**231,626**
Gross profit margin (in per cent)	**31.9**	**27.6**

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

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

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

Table 8: **Calculation of net debt**

In EUR `000s	30.6.2018	31.3.2018
Non-current borrowings	1,668,682	1,667,307
Current borrowings	6,252	5,369
Cash and cash equivalents	-246,448	-360,918
Market value of Sunrise shares	-770,890	-715,062
Net debt	**657,596**	**596,696**

Pro-forma net debt is defined as long-term and short-term financial debt less cash and cash equivalents.

Table 9: **Calculation of pro-forma net debt**

In EUR `000s	30.6.2018	31.3.2018
Non-current borrowings	1,668,682	1,667,307
Current borrowings	6,252	5,369
Cash and cash equivalents	-246,448	-360,918
Pro-forma net debt	**1,428,486**	**1,311,758**

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 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. The interest result is defined as the balance between “interest and similar income” and “interest and similar expenses” in the consolidated income statement.

Table 10: **Calculation of interest result**

In EUR `000s	Q2/2018	Q2/2017
Interest payable and similar expenses	12,182	12,399
Interest receivable and similar income	-33	-163
Interest result	**12,149**	**12,236**
Interest cover	**11.4**	**8.8**

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 and free cash flow exclusive of Sunrise

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

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

Table 11: **Calculation of free cash flow and free cash flow exclusive of Sunrise**

In EUR `000s	Q2/2018	Q2/2017
Cash flow from operating activities	123,591	133,210
Investments in property, plant and equipment and intangible assets	-14,589	-12,895
Proceeds from the disposal of property, plant and equipment and intangible assets	2,056	4,407
Free cash flow	**111,058**	**124,722**
Sunrise dividend	-36,912	-34,409
Free cash flow exclusive of Sunrise	**74,146**	**90,313**

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 (free cash flow exclusive of Sunrise). Accordingly, the budget-actual comparisons as well as the forecast of the financial performance indicator do not take account of the Sunrise earnings elements.

Definition and calculation of the equity ratio

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

Table 12: **Calculation of the equity ratio**

In EUR `000s / as indicated	30.6.2018	31.3.2018
Shareholders` equity	1,327,029	1,473,606
Balance sheet total	4,495,843	4,665,680
Equity ratio (in per cent)	**29.5**	**31.6**

Assets, earnings and financial position

Revenue and earnings position

Table 13: **The Group's key performance indicators**

In EUR `000s	Q2/2018	Q2/2017	Change
Revenue without IFRS 15	893,998	839,240	54,758
Revenue	696,629	839,240	-142,611
Gross profit	222,225	231,626	-9,401
Overhead costs	-104,286	-123,254	18,968
EBITDA	117,939	108,372	9,567
EBITDA exclusive of Sunrise	108,078	98,630	9,448
EBIT	82,957	68,285	14,672
EBT	70,808	56,049	14,759
Group result	**61,349**	**50,208**	**11,141**

Without the effects of the change-over to IFRS 15, there would have been a considerable increase of 54.8 million euros in **REVENUE**, from the figure of 839.2 million euros achieved in the previous-year quarter to 894.0 million euros in the reporting quarter. The fact that the revenue has to be disclosed lower now is exclusively caused by IFRS 15 which is applicable for the first time since 1 January 2018. Compared with the corresponding previous-year quarter, group revenue thus was reported lower in the second quarter of 2018 by 142.6 million euros at the amount of 696.6 million euros.

In the Mobile Communications segment, customer ownership (9.57 million customers at the end of June 2018 compared with 9.59 million customers at the end of June 2017) as well as postpaid ARPU (21.5 euros in Q2/2018 compared with 21.4 euros in Q2/2017) were roughly in line with the corresponding previous year figures. Without the effects of the change-over to IFRS 15, revenue in the Mobile Communications segment would have increased by 57.7 million euros to 814.6 million euros. However, the disclosed revenue in the Mobile Communications segment amounts to 617.2 million euros in the second quarter of 2018. Revenue in the TV and Media segment increased by 2.5 million euros compared with the previous-year quarter, to 77.3 million euros.

Cost of materials amounted to 474.4 million euros, and was thus 133.2 million euros lower than the figure disclosed for the corresponding previous-year quarter. This change is mainly attributable to IFRS 15; without the application of IFRS 15, the increase in cost of materials compared with the previous-year quarter would have been similar to the increase in revenue adjusted by IFRS 15 effects.

At 222.2 million euros, **GROSS PROFIT** has declined by 9.4 million euros compared with the figure reported for the previous year comparison quarter. The gross profit margin increased by 4.3 percentage points to 31.9 per cent.

OVERHEAD EXPENSES - the difference between gross profit and EBITDA - 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 SHARES)** declined by 19.0 million euros to 104.3 million euros compared with the second quarter 2017. The decline in overheads is mainly attributable to higher other operating income related to accounting profits from the partial sale of VHF infrastructure, as well as to increased marketing activities in the previous year quarter as a result of the introduction of the DVB-T2 HD standard.

In the reporting quarter, **EBITDA** is stated as 117.9 million euros, representing an increase of 9.6 million euros compared with the figure reported for the previous year quarter. Without recognising the profit share of the participation in Sunrise of 9.9 million euros (Q2/2017: 9.7 million euros), EBITDA is reported as 108.1 million euros (Q2/2017: 98.6 million euros). In the second quarter of 2018, the Mobile Communications segment contributed 101.3 million euros to EBITDA (including 9.9 million euros relating to the participation in Sunrise; Q2/2017: 99.9 million euros, including 9.7 million euros relating to the participation in Sunrise); the TV and Media segment contributed 20.3 million euros (Q2/2017: 10.5 million euros) and the Other/Holding segment contributed -3.7 million euros (Q2/2017: -2.0 million euros).

Compared with the previous year quarter, **DEPRECIATION AND IMPAIRMENT WRITE-DOWNS** decreased by 4.7 million euros to 30.2 million euros, mainly as a result of lower inventories of property, plant and equipment assets in the TV and Media segment.

NET INTEREST INCOME, i.e. the difference between interest income and interest expenses, is disclosed as -12.1 million euros in the reporting quarter (Q2/2017: -12.2 million euros).

As a result of the effects explained above, the **RESULT BEFORE TAXES ON INCOME (EBT)** amounted to 70.8 million euros, representing an increase of 14.8 million euros compared with the previous year (Q2/2017: 56.0 million euros).

INCOME TAX EXPENSES of 9.5 million euros were reported for the second quarter of 2018 (Q2/2017: 5.8 million euros). Current tax expenses of 9.9 million euros (Q2/2017: 8.4 million euros) and deferred tax income of 0.4 million euros (Q2/2017: 2.6 million euros) were recognised. Deferred tax income reported for the previous-year period was mainly attributable to write-ups in relation to deferred tax asset attributable to 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 2018 was exclusively attributable to continued operations, and amounted to a total of 61.3 million euros; compared with the figure of 50.2 million euros reported for the previous year quarter, this represents an increase of 11.1 million euros.

Net assets and financial position

Table 14: **Selected Group balance sheet figures**

Assets

In EUR million	30.6.2018
Non-current assets	3,746.7
Current assets	749.1
Total assets	**4,495.8**

In EUR million	31.3.2018
Non-current assets	3,790.3
Current assets	875.4
Total assets	**4,665.7**

Shareholders' equity and liabilities

In EUR million	30.6.2018
Shareholders' equity	1,327.0
Non-current and current liabilities	3,168.8
Total equity and liabilities	**4,495.8**

In EUR million	31.3.2018
Shareholders' equity	1,473.6
Non-current and current liabilities	3,192.1
Total equity and liabilities	**4,665.7**

The **BALANCE SHEET TOTAL** as of 30 June 2018 amounted to 4,495.8 million euros, and thus declined by 169.8 million euros (3.6 per cent) compared with 31 March 2018 (4,665.7 million euros).

On the **ASSETS SIDE** of the balance sheet, **NON-CURRENT ASSETS** declined by 43.6 million euros to 3,746.7 million euros. This is mainly due to a decline of 28.2 million euros to 793.1 million euros in the companies recognised using the equity method, mainly due to Sunrise dividends (36,9 million euros). Please refer to point 6 and 9 of the selected explanatory notes in the condensed interim financial statements. The minor decline of 9.6 million euros in intangible assets to 542.9 million euros is mainly attributable to depreciation in conjunction with lower investments.

Within **CURRENT ASSETS**, the main item to be highlighted is the decline in cash and cash equivalents of 114.5 million euros to 246.4 million euros. The decline in cash and cash equivalents is mainly attributable to the dividend payment of 211.2 million euros made in the second quarter of 2018, whereas the free cash flow of 111.1 million euros had the effect of boosting cash and cash equivalents. The decrease of 38.2 million euros in trade accounts receivable to 178.8 million euros is mainly attributable to the familiar seasonal effect of accruing annual bonuses for network operators.

The main items on the **LIABILITIES SIDE** of the balance sheet are shareholders' equity of 1,327.0 million euros (31 March 2018: 1,473.6 million euros) and the financial debt of 1,674.9 million euros (31 March 2018: 1,672.7 million euros).

The **EQUITY RATIO** declined from 31.6 per cent at the end of March 2018 to 29.5 per cent at the end of June 2018, mainly as a result of the dividend paid in the second quarter of 2018. Net debt increased to 657.6 million euros as of 30 June 2018 (31 March 2018: 596.7 million euros). The increase in **NET DEBT** is mainly attributable to the decline in cash and cash equivalents in connection with the dividend payment. The debt ratio has accordingly increased from 1.1 as of the end of March 2018 to 1.2 as of the end of June 2018. In this context, please refer to the statements in the chapter "Financial management".

The other financial liabilities declined by 20.0 million euros to 392.3 million euros - due mainly to the reduction of 14.9 million euros in liabilities in connection with the exclusive distribution co-operation with Media-Saturn Deutschland GmbH. Trade payables also declined by 9.5 million euros to 391.7 million euros due to reference date factors.

Cash flow

Table 15: **The Group's key cash flow indicators**

In EUR million	Q2/2018	Q2/2017	Change
Cash flow from operating activities	123.6	133.2	-9.6
Cash flow from investing activities	-12.6	-8.4	-4.2
Cash flow from financing activities	-225.5	-220.7	-4.8
Change in cash and cash equivalents	**-114.5**	**-95.9**	**-18.6**
Free cash flow[1]	**111.1**	**124.7**	**-13.7**

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

With respect to the comparison period, the **CASH FLOW FROM OPERATING ACTIVITIES** declined by 9.6 million euros to 123.6 million euros. With the increase of 9.4 million euros in EBITDA exclusive of Sunrise, the increase of 21.9 million euros in net working capital compared with the previous year quarter has the effect of reducing cash flow from operating activities. This is opposed mainly by lower income taxes (which declined by 5.2 million euros compared with the second quarter of 2017) and higher dividend payments of Sunrise (Q2/2018: 36.9 million euros; Q2/2017: 34.4 million euros).

CASH FLOW FROM INVESTING ACTIVITIES amounted to -12.6 million euros in Q2/2018, compared with -8.4 million euros in the previous year quarter.

The cash outflows for investments in intangible assets and in property, plant and equipment, netted out against the cash inflows from such assets, increased in the second quarter of 2018 compared with the previous year quarter from 8.5 million euros to 12.5 million euros. The cash-effective investments were financed entirely out of the company's own resources, and mainly related to the TV and Media segment.

Compared with the corresponding previous year quarter, **CASH FLOW FROM FINANCING ACTIVITIES** in the reporting quarter developed from -220.7 million euros to -225.5 million euros. The dividend payment increased from 204.8 million euros in the second quarter of 2017 to 211.2 million euros in the second quarter of 2018. This was opposed by the decline of 0.9 million euros in interest payments (to 8.8 million euros) mainly as a result of improved interest conditions.

As a result of the effects described above, **FREE CASH FLOW** of 111.1 million euros was generated in the second quarter of 2018 – representing a decline of 13.7 million euros compared with the corresponding previous year quarter (Q2/2017: 124.7 million euros).

Financial Management

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

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

For all periodic figures such as EBITDA and net interest income, the relevant period is the previous 12 months (i.e. July 2017 to June 2018 and for the previous year July 2016 to June 2017).

Table 16: **Key figures of financial management**

	Q2/2017	2017	Q2/2018	Target
Debt ratio	1.6	0.9	1.2	1.0 – 2.5
Pro forma debt ratio	3.2	2.5	2.6	-
Interest Cover	8.8	10.8	11.4	> 5
Equity ratio in per cent	31.1	33.9	29.5	> 50

The debt ratio amounted to 1.2 as of 30 June 2018 and, as was also the case as of 30 June 2017, was within the strategic range of 1.0 to 2.5. The debt primarily comprises borrowers' note loans with a total nominal value of 1,064.5 million euros which fall due upon final maturity between 2018 and 2026 as well as the syndicated amortising loan with a nominal value of 610.0 million euros which was concluded in October 2017.

The pro-forma debt ratio is stated as 2.6, due to the acquisitions and participations which were concluded in 2016.

The interest cover of 11.4 is higher compared with the corresponding previous-year quarter (8.8), and is thus still higher than the defined lower limit of 5.0.

As of 30 June 2018, the equity ratio was below the target of 50 per cent; this is connected with the acquisitions and participations in the previous years.

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

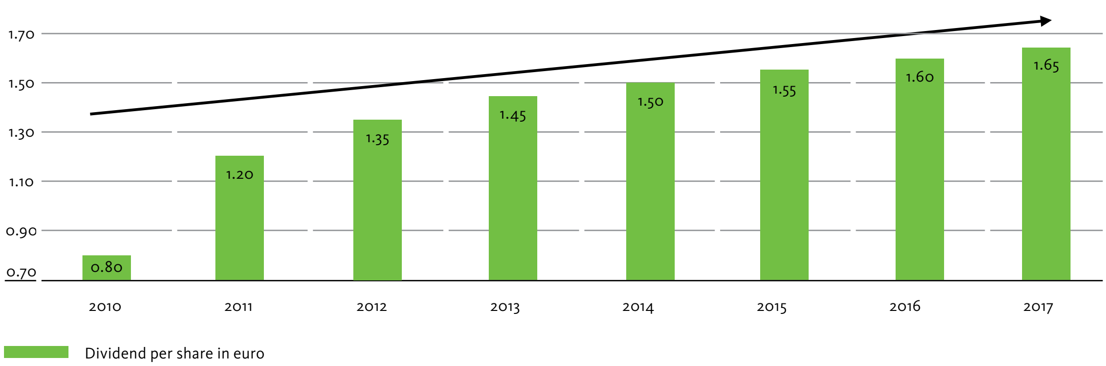
Dividend policy

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 expected 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 2017, the annual general meeting has decided on 17 May 2018 to distribute a dividend in the amount of 1.65 euros per dividend-bearing share from retained earnings for the financial year 2017. This is equivalent to a pay-out ratio of almost 62 per cent of the free cash flow generated in the financial year 2017.

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

Figure 4: **Dividend policy KPIs**



SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On 29 June 2018, freenet AG and CECONOMY AG ("CECONOMY") concluded an agreement for the acquisition of approximately 32,633,555 shares which will be issued by CECONOMY within the framework of a 10 per cent capital increase (excluding shareholders´ subscription rights) for a total price of approximately 277 million euros or 8.50 euros per share. After completion of the capital increase, the freenet AG will hold approximately 9.1 per cent of the ordinary shares of CECONOMY. The transaction, which on 30 June 2018 was still subject to compliance with standard market conditions, was completed after the reference date of these interim financial statements on 12 July 2018.

By 30 June 2018, Media Broadcast GmbH concluded agreements with various investors for the sale of its VHF infrastructure (essentially comprising antennas). In the second quarter of 2018 a one-off effect in EBITDA of 7.3 million euros was generated due to the first asset disposals related to the sale of the VHF infrastructure. However, for the remaining part of the sold VHF infrastructure the balance sheet disposal will only take place after 30 June 2018; this disposal is expected to be shown in the third quarter of 2018. A major criterion applicable for the balance sheet disposal of the remaining assets which were sold was only satisfied after the balance sheet date: On 6 July 2018, with the moderation of Federal Minister (retired) Friedrich Bohl and the German Federal Network Agency (Bundesnetzagentur), the broadcast network operators Divicon and Uplink reached agreement with five investors (new antenna operators) regarding a contractual regulation of VHF antenna access. Media Broadcast GmbH has provided financial support for this agreement. Accordingly, broadcast network operation for various radio broadcasters by Media Broadcast GmbH ended on 30 June 2018; this had been temporarily handled by the latter up to that time.

No other reportable events of major significance have occurred after the reference 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 developed further the strategy of focusing on mobile voice and data services and the marketing of digital lifestyle services and products with a careful and consistent approach. Marketing activities relating to smartphones and flatrate tariffs focussed on customer quality and particularly on stabilisation of the contract customer base. In addition, the process of expanding the TV and Media segment was at the centre of the company's business activity. The existing digital lifestyle product and service portfolio has thus been continuously expanded.

As a consistent continuation of its digital lifestyle strategy, freenet AG completed the process of breaking into the new TV and Media segment with the acquisition of the Media Broadcast Group and the majority holding in EXARING AG. 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. freenet AG has intensified its product, sales and marketing activities in relation to the subject of freenet TV. For instance, the new product "freenet TV connect" has for the first time offered additional use of video-on-demand in addition to the traditional linear TV channels.

For EXARING, the expansion of the possibilities of using waipu.tv as well as the extension of the station and content offerings are steps along the way towards constantly higher market penetration. Particular mention has to be made of the continuous expansion of the programme offering as well as the launch of a new web version of waipu.tv which now also enables the service to be utilised on laptops, PCs and tablets.

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 laptop
- 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") with new possibilities in Digital Lifestyle
- Change in consumption patterns of motion images and trend towards individually designed TV programmes via streaming services
- Increasing demand for bundle products (e.g. mobile communications and TV)
- Potential relating to combining customer groups from the individual segments (cross-selling)

In addition to the development of the TV and Media segment, the effects of the increased mobile internet and data usage and the associated trend towards higher-priced 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,
- the further strengthening of shop performance by way of marketing additional products as well as the implementation and marketing of new digital lifestyle and TV products
- the strengthening of the brands klarmobil, freenetmobile, callmobile and debitel light in the steadily growing discount market, with the aim of participating even more actively in their growth
- the continuous improvement of processes and quality for an increase in productivity through digitalisation of business proccesses
- the intensive promotion and development of staff in order to boost staff loyalty

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

Since March 2018, in addition to the network operator tariffs, mobilcom-debitel as well as klarmobil have also for the first time been offering own tariffs offering access to the high-speed LTE data network of Deutsche Telekom. In this connection, klarmobil has extended its Telekom tariffs to include LTE tariffs with a range of data volumes and durations.

If the brands perform more strongly than expected on the steadily growing discount market, this could lead to higher revenue and to improved results and higher free cash flow than had been forecast.

The strategic collaboration of mobile communications services and digital lifestyle applications was accelerated further. This Group-level orientation of business activities will be pursued consistently in the future as well, as the trend towards the continuing digitalisation and interconnection of products and services will carry on into the future. In this connection, we continue to see growth opportunities, potential synergy and opportunities for new strategic partnerships with regard to rendering digital lifestyle services. As a result of the co-operation with our new accessory supplier Strax, we are able to ensure that new trends and products are made available for customers more rapidly in our shops, and can also ensure that further revenue opportunities are realised. The significance of the strategic transformation from a mobile communications specialist pure and simple to a digital lifestyle provider will increase against this background.

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

The Sunrise Communications Group could sell further parts of its infrastructure, which means that the contributions to earnings at freenet AG might produce a more positive development than originally forecast.

Overall evaluation of opportunities

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

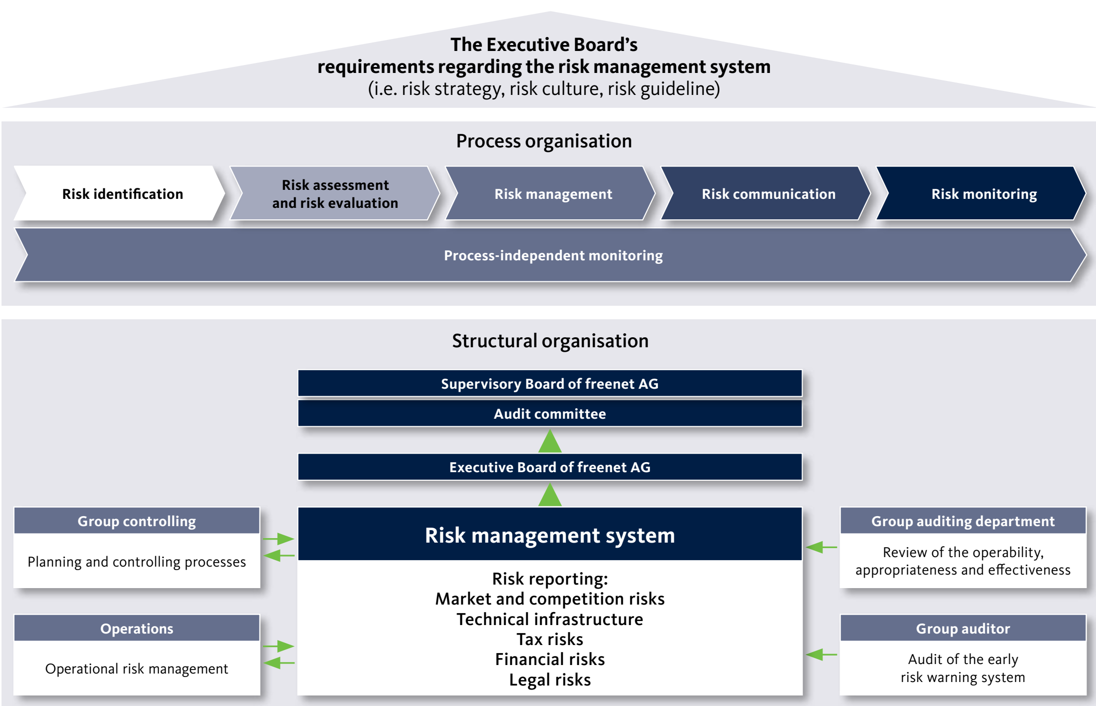
Both external and internal opportunities that had basically remained at the same level since the previous year were identified. The significance of the opportunities shown and the resulting positive effects on the forecast financial and non-financial performance indicators, and therefore on the development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

Risk management system

An effective risk management system is essential for safeguarding the going concern of the 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.

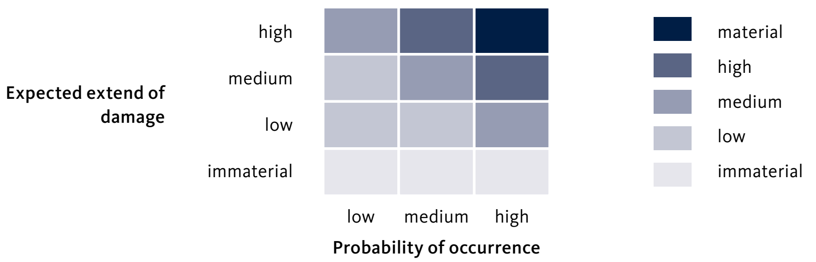
Figure 5: **Process and structural organisation of freenet AG's risk management system**



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 impact of any risk mitigation measures that were implemented. The criteria "probability of occurrence" and "anticipated extent of damage" are used to assess the risks. In the process, risks with a low (<50 per cent), medium (50 to 75 per cent), and high (>75 per cent) probability of occurrence are systematically categorised and differentiated from each other. With regard to the extent of the anticipated damage arising from a risk, distinctions are drawn between immaterial (<1.0 million euros), low (1.0 to 2.5 million euros), medium (2.5 to 10.0 million euros) and high (>10.0 million euros) anticipated damages. The combination of the probability of occurrence and the extent of the anticipated damage results in the classification of the risks' significance as "immaterial", "low", "medium", "high" and "material". These risk categories are shown in the following illustration.

Figure 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 standard reporting times, too, risks are recorded, analysed, evaluated and controlled immediately after their identification and, if they are of sufficient magnitude, reported immediately to the Executive Board and the Supervisory Board (risk communication).

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

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

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

Risk report

This section presents the risks that could influence freenet AG's net assets, financial position or results of operations. The risks are categorised as market risks, IT risks, tax risks, financial risks, strategic risks and operating risks.

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

Market risks

Highly competitive markets

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

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

Network operators

Bonus payments and commissions of the network operators form part of the revenue of freenet AG. 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 an immaterial risk for freenet AG. The merger between the two network operators O2 and E-Plus might result in a reduced amount of competition between the remaining mobile network operators ("MNOs") and an associated weakening of the service provider model. This might be reflected in various ways, including a reduction of the margin. There is also the risk of coordinated behaviour of the three network operators remaining after the merger to the detriment of all service providers. Any coordinated action of these three network operators might mean that they would be less willing to negotiate and that freenet AG would find it more difficult to achieve positive negotiation results. The network capacity provided by Telefónica Deutschland to another market player without its own mobile network will probably be marketed quite aggressively. freenet AG has gained a certain amount of protection as a result of the duration of the own agreements with Telefónica up to 2025. If conditions were to be reduced across the market, the conditions for the distribution partners would be adjusted. The risk is classified as immaterial by freenet AG.

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

Distribution

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

Laws and regulation

Legislative changes, interventions by regulatory authorities 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 developments defined by regulatory authorities or following the outcomes of legal judgements.

As a result of new and more complex data protection legislation, and in particular the General Data Protection Regulation (GDPR) which came into force in May 2018, there are new and more extensive requirements regarding the handling of data, including personal data. This might mean that it might no longer be possible for business processes within freenet AG to be carried out in the same way as in the past, and/or might mean that considerable fines might be imposed on the company. The risk has been classified as low by freenet AG.

Risks in the TV and Media segment

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

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

IT risks

System failures/errors

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

Data theft and hacker attack

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

Management of employee rights

There is a risk that sensitive customer data might be stolen or disclosed as a result of inadequate security measures regarding the allocation of employee rights. This risk is combatted by extensive authorisation management regarding the employee rights in all IT systems. A uniform process for allocating rights, in which the senior executives are also involved, provides additional protection with regard to this risk. freenet AG considers that there is a medium risk of loss of customer data as a result of the absence of security measures for the process of allocating employee rights.

Tax risks

Loss carry-forwards

If, within five years, over 25 per cent of the shares or voting rights in the company came to be held directly or indirectly by a single shareholder or by several shareholders with parallel interests (harmful acquisition of shares), any negative income (corporation and trade tax loss carry-forwards) of the company not settled or deducted by the time of the harmful acquisition could be lost in whole or in part, in accordance with section 8c of the German Corporation Tax Act. 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-a-vis the mobile communications company, but rather as remuneration from a third party as defined by section 10 (1) sentence 3 of the German VAT Act (UStG) for the supply of the mobile communications device or the other electronic article. This applies irrespective of the amount of any additional payment to be made by the customer. The application of this rule as from 1 January 2015 will not involve any reportable risks for the company. As for the revenue reported before 1 January 2015, the company regards it as very likely indeed that the rule specified above will have no significant negative effects for freenet AG under VAT law. However, a low risk remains for the revenue reported before 1 January 2015 for assessment periods that have not been audited conclusively, as a result of which freenet AG would have to refund some of its input tax to the tax authorities.

Other tax risks

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

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

Financial risks

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

Bad debt losses

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

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

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

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

Impairment of the assets

In freenet AG's consolidated balance sheet, both goodwill and intangible assets such as customer relationships, trademark rights and usage rights are essential components. There is a medium risk that significant impairments might occur in future. Possible triggering events are taken into account within the framework of impairment tests.

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

Liquidity

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

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

The Group uses a variety of financial instruments to reduce the general liquidity risk. The liabilities due to banks shown under borrowings relate to the borrower's note loan concluded in December 2012, May 2015, February 2016 and October 2016 (disclosed as 1,066.9 million euros, including interest accruals, as of 30 June 2018) as well as the loan tranche in the syndicated facility agreement of October 2017 for a total of 610.0 million euros (shown as 608.0 million euros, including interest accruals, as of 30 June 2018). The second tranche for 100.0 million euros (in the form of a revolving credit line) had not been drawn as of 30 June 2018.

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

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

Capital risk

The Group's capital risk management is related to the shareholders' equity as shown in the consolidated balance sheet and to ratios derived therefrom. The primary objective of the Group's capital risk management is to guarantee compliance with the financial covenants contained within the credit agreements. The main financial covenants are defined in relation to the Group's equity (equity ratio) and the debt (debt ratio). 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 cash and cash equivalents on the basis of the day-to-day liquidity planning at its disposal as well as the various options available for scheduling the debt. Changes in market interest rates could have an impact on the net interest income from originally variable-interest financial instruments and are included in the calculation process for results-related sensitivities. The risk has been classified as low by freenet.

Other financial risks

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

Strategic risks

Acquisition of companies

freenet AG has acquired companies in the past. In connection with this, there is a medium risk that the operating activities of these new investments will not develop as expected. This development would have a negative impact on the forecast results and free cash flow. The management report contains regular monitoring of the investment development with the aim of initiating countermeasures immediately if there are any deviations from the original plan.

Stake in Sunrise

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

Customer service of mobilcom-debitel handled by Capita

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

Operating risks

Service prices for customers in default of payment

Throughout the sector, consumer protection associations are taking action against network operators and service providers with regard to the nature and extent of fees charged to customers in default of payment. In this connection, consumer protection associations have taken action against freenet AG regarding the imposition of service fees on customers in default of payment; this action requires freenet AG to "cease and desist" and where appropriate to make payment. freenet AG considers that there is a medium risk of a decline in revenue or potential payment resulting from the above.

Overall assessment of the risk position

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

Risks	Probability of occurrence	Expected extent of damage	Risk	Tendency
Market risks				
Highly competitive markets	medium	medium	medium	→
Network operator				
Bonuses and commission	medium	medium	medium	→
Premiums and margins	low	low	low	→
Shift to direct	medium	immaterial	immaterial	↘
O2 and E-Plus	medium	immaterial	immaterial	→
Distribution	low	immaterial	immaterial	→
Laws and regulation	low	medium	low	→
Risk in the TV and Media segment				
Customer demand freenet TV	medium	medium	medium	→
Delay in the commercialisation of DAB+	medium	medium	medium	→
IT risks				
System failures / errors	low	medium	low	→
Data theft and hacker attack	low	low	low	→
Management of employee rights	low	high	medium	→
Tax risks				
Loss carry forwards	low	high	medium	→
VAT risk due to “renumeration of a third party”	low	low	low	→
Other tax risks	low	medium	low	→
Financial Risk				
Bad debt losses	medium	low	low	↘
Impairment of the assets	low	high	medium	→
Liquidity				
General liquidity risk	low	high	medium	→
Constraint of financial leeway	low	medium	low	→
Dividend payment	low	high	medium	→
Capital risk	low	high	medium	→
Interest rate risk	medium	medium	medium	→
Other financial risks	low	medium	low	→
Strategic risks				
Acquisition of companies	medium	medium	medium	→
Stake in Sunrise	low	medium	low	→
Customer service of mobilcom-debitel handled by Capita	low	medium	low	→
Operational risks				
Service prices for customers in default of payment	medium	medium	medium	→

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

Thanks to the risk management process that has been implemented and the monthly reporting system, the Executive Board has a view of the risk situation presented here. Market, IT, tax, financial, strategic as well as operational risks were identified as of 30 June 2018. These risks remain virtually unchanged compared with the previous year as far as their probability of occurrence or their impact are concerned. Their potential effects on the going concern of the 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. All in all, it can be assumed that the risks have no impact on the going concern of the 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 in the coming financial year.

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

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

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

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

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

The key elements of freenet AG's internal control system are based on automated IT control processes with alarm thresholds on the one hand, and on manual process controls to check the plausibility of the automatically aggregated results on the other. As an independent and internal monitoring body, the Group Internal Audit function of freenet AG carries out risk-oriented scheduled audits in relation to specific orders, and also where appropriate carries out ad-hoc audits. 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 details in the management report and notes to the financial statements are obtained from standard reporting packages and institutionalised reconciliation processes within the framework of the internal control system.

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

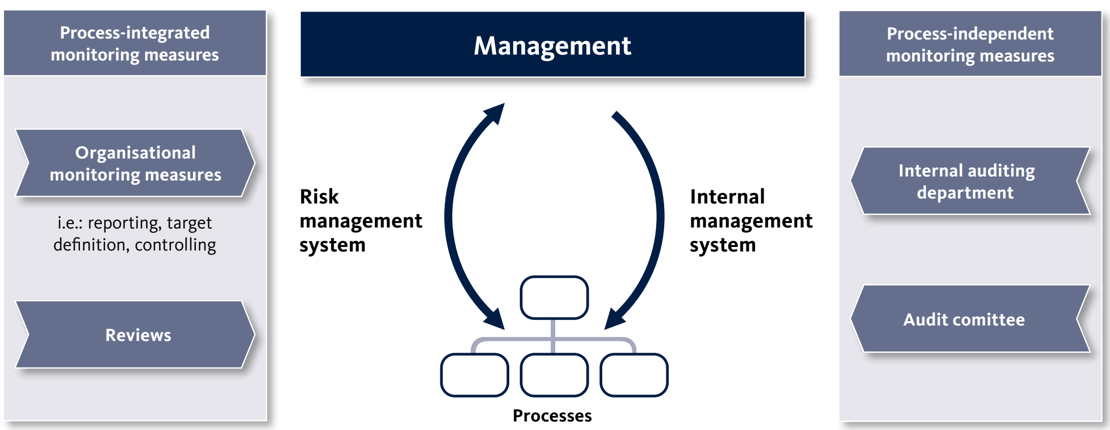
Key regulatory and controlling activities to ensure proper and reliable Group accounting

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

The regular elements in the Group's internal control system are aimed at achieving the extensive automation of the formation and cross-checking of all relevant data, from raw accounting data and customer invoicing to valuation allowances, accruals, depreciation and amortisation. These automated controls are supplemented by manual plausibility checks of all relevant interim results and random checks of the underlying detailed data. This ensures proper inventory management and the accurate recognition, measurement and disclosure of assets and liabilities in the consolidated financial statements. The Group 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

In EUR million / as indicated	Forecast for financial year 2017	2017	1st half 2018	Forecast for financial year 2018
Financial performance indicator				
Revenue[1]	moderate increase	3,507.3	1,767.7	stable
EBITDA exclusive of Sunrise	slightly above 410	408.0	204.7	410-430
Free cash flow exclusive of Sunrise	around 310	308.4	128.9	290-310
Postpaid ARPU (in EUR)	stable	21.4	21.4	stable
freenet TV ARPU (in EUR)	around 4.5	4.3	4.6	around 4.5
Non-financial performance indicator				
Customer Ownership (in million)	slight increase	9.59	9.57	stable
freenet TV subscribers (in million)	> 0.80	0.98	1.14	> 1.20
waipu.tv registered customers (in million)[2]	> 0.50	0.46	0.82	significant increase
waipu.tv subscribers (in million)	> 0.10	0.10	0.17	> 0.25

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 exclusive of Sunrise is not used for management purposes at the segment level; it is used exclusively at the group level. Postpaid ARPU is used as a performance indicator only in the Mobile Communications segment, and freenet TV ARPU is used only as a performance indicator in the TV and Media segment.

The freenet Group expects that revenue will be stable in the financial year 2018. However, as a result of the accounting standard IFRS 15 which has to be applied for the first time starting 1 January 2018, the disclosed revenue in future will be much lower. This is mainly due to the fact that network operator commissions which are received will be disclosed as a reduction of cost of materials, instead of (as has been the case previously) being disclosed in revenue. Assuming that the overall business structure will remain constant in 2018, revenue will be shown approximately 700 million euros lower due to the changeover to IFRS 15.

On the basis of the anticipated sector developments, the company aims to achieve a slightly higher EBITDA

1 Excluding the effects of the first-time application of IFRS 15 in 2018
2 Exclusive of pre-registered users (Q2/2018: about 72,000, Q4/2017: about 76,000).

exclusive of Sunrise of 410 to 430 million euros for the financial year 2018.

At the segment level for Mobile Communications, the Executive Board expects that revenue and EBITDA will be stable in 2018 compared with the previous year. Based on a constant business structure, only the process of changing over to IFRS 15 will result in revenue declining by approximately 700 million euros. In addition, the company expects to see the following for the development in the performance indicators postpaid ARPU and customer ownership in the current financial year: The company continues to expect a stable postpaid ARPU at the level of previous years, and also expects to see stable customer ownership compared with the financial year 2017. It is however expected that there will be an increase in the particularly valuable postpaid customer numbers. The freenet Group combats the challenges in the Mobile Communications market with greater marketing of data tariffs and the latest devices such as smartphones and tablets.

In the TV and Media segment, the company expects to see stable revenue in the current year and a significantly higher EBITDA compared with the previous year. For the DVB-T2 HD product freenet TV, the company expects to see more than 1.2 million freenet TV subscribers at the end of 2018, whereas freenet TV ARPU will be approximately 4.5 euros in the financial year 2018, roughly in line with the level seen in the previous year. The number of customers for the IPTV offering waipu.tv is predicted to increase in 2018: Management expects to see more than 250,000 waipu.tv subscribers and a significant increase in the number of waipu.tv registered customers.

For the financial year 2018, the company aims to achieve free cash flow exclusive of Sunrise of 290 to 310 million euros.

OVERVIEW

Consolidated income statement

for the period from 1 January to 30 June 2018

In EUR `000s/as indicated	1st half 2018 1.1.2018-30.6.2018	1st half 2017 1.1.2017-30.6.2017	Q2/2018 1.4.2018-30.6.2018	Q2/2017 1.4.2017-30.6.2017
Revenue	1,386,237	1,677,227	696,629	839,240
Other operating income	34,395	27,365	21,713	13,031
Other own work capitalised	7,726	8,868	4,067	4,432
Cost of material	-940,471	-1,218,622	-474,404	-607,614
Personnel expenses	-106,620	-113,788	-51,753	-54,105
Depreciation and impairment write-downs	-66,790	-69,881	-30,218	-34,905
Other operating expenses	-176,354	-191,235	-88,158	-96,309
Thereof result from the allowance of financial assets	-25,609	-25,841	-11,138	-12,904
Thereof exclusive the result from allowance of financial assets	-150,745	-165,394	-77,020	-83,405
Operating result	**138,123**	**119,934**	**77,876**	**63,770**
Share of results of associates accounted for using the equity method	9,989	9,075	5,081	4,515
Thereof profit share	19,517	19,439	9,845	9,697
Thereof subsequent accounting from purchase price allocation	-9,528	-10,364	-4,764	-5,182
Interest receivable and similar income	39	328	33	163
Interest payable and similar expenses	-23,101	-24,927	-12,182	-12,399
Result before taxes on income	**125,050**	**104,410**	**70,808**	**56,049**
Taxes on income	-17,006	-12,549	-9,459	-5,841
Group result	**108,044**	**91,861**	**61,349**	**50,208**
Group result attributable to shareholders of freenet AG	114,165	97,816	64,206	52,582
Group result attributable to non-controlling interest	-6,121	-5,955	-2,857	-2,374
Earnings per share in EUR (undiluted)	**0.89**	**0.76**	**0.50**	**0.41**
Earnings per share in EUR (diluted)	**0.89**	**0.76**	**0.50**	**0.41**
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

Consolidated statement of comprehensive income

for the period from 1 January to 30 June 2018

In EUR `000s	1st half 2018 1.1.2018- 30.6.2018	1st half 2017 1.1.2017- 30.6.2017	Q2/2018 1.4.2018- 30.6.2018	Q2/2017 1.4.2017- 30.6.2017
Group result	**108,044**	**91,861**	**61,349**	**50,208**
Change in fair value of financial instruments through other comprehensive income	-5	-2	-1	-1
Currency difference	607	-210	197	-193
Currency difference from subsequent accounting of associates accounted for using the equity method	624	-4,218	2,331	-4,555
Income tax recognised in other comprehensive income	-8	64	-34	68
Other comprehensive income/to be reclassified to the income statement in the following periods	**1,218**	**-4,366**	**2,493**	**-4,681**
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. IAS 19 (2011)	1,195	4,958	-621	2,965
Profit share of associates accounted for using the equity method	1,179	518	1,179	518
Income tax recognised in other comprehensive income	-381	-1,495	171	-897
Other comprehensive income/not to be reclassified to the income statement in the following periods	**1,993**	**3,981**	**729**	**2,586**
Other comprehensive income	**3,211**	**-385**	**3,222**	**-2,095**
Consolidated comprehensive income	**111,255**	**91,476**	**64,571**	**48,113**
Consolidated comprehensive income attributable to shareholders of freenet AG	117,376	97,431	67,428	50,487
Consolidated comprehensive income attributable to non-controlling interest	-6,121	-5,955	-2,857	-2,374

Consolidated balance sheet as of 30 June 2018

Assets

In EUR '000s	30.6.2018	31.3.2018	31.12.2017
Non-current assets			
Intangible assets	542,865	552,455	563,507
Goodwill	1,379,919	1,379,919	1,379,919
Property, plant and equipment	415,307	421,847	435,818
Investments in associates accounted for using the equity method	793,077	821,252	810,984
Deferred income tax assets	173,964	173,439	153,508
Trade accounts receivable	45,251	44,568	79,081
Other receivables and other assets	11,047	15,383	9,500
Other financial assets	103,024	97,408	7,945
Contract acquisition costs	282,252	283,985	0
	3,746,706	**3,790,256**	**3,440,262**
Current assets			
Inventories	91,963	94,489	76,310
Current income tax assets	2,046	2,085	2,205
Trade accounts receivable	178,793	217,002	453,700
Other receivables and other assets	7,252	9,393	4,572
Other financial assets	221,965	191,537	14.258
Cash and cash equivalents	246,448	360,918	322,816
Assets classified as held for sale	670	0	0
	749,137	**875,424**	**873,861**
	4,495,843	**4,665,680**	**4,314,123**

Shareholders' equity and liabilities

In EUR `000s	30.6.2018	31.3.2018	31.12.2017
Shareholders' equity			
Share capital	128,061	128,061	128,061
Capital reserve	737,536	737,536	737,536
Cumulative other comprehensive income	-9,906	-13,198	-20,256
Retained earnings	446,332	593,344	586,433
Capital and reserves attributable to shareholders of freenet AG	**1,302,023**	**1,445,743**	**1,431,774**
Capital and reserves attributable to non-controlling interest	25,006	27,863	31,127
	1,327,029	**1,473,606**	**1,462,901**
Non-current liabilities			
Other payables	107,635	103,391	0
Other financial trade accounts	337,705	354,953	332,218
Borrowings	1,668,682	1,667,307	1,666,001
Pension provisions	83,045	85,793	87,909
Other provisions	25,975	26,836	26,794
	2,223,042	**2,238,280**	**2,112,922**
Current liabilities			
Trade accounts payable	391,726	401,239	517,276
Other payables	411,112	411,180	81,842
Other financial trade accounts	54,606	57,405	49,121
Current income tax liabilities	38,874	35,185	33,806
Borrowings	6,252	5,369	7,145
Other provisions	43,202	43,416	49,110
	945,772	**953,794**	**738,300**
	4,495,843	**4,665,680**	**4,314,123**

Schedule of changes in equity

for the period from 1 January to 30 June 2018

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	Sharehol-ders'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 financial instruments through other comprehensive income[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 Figures are balanced with income tax recognised in other comprehensive income.

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 1.1.2018	**128,061**	**737,536**	**-164**	**255**	**-11,956**	**-20,548**	**12,157**	**586,433**	**1,431,774**	**31,127**	**1,462,901**
Effects from the change-over to IFRS 15 and IFRS 9 at freenet	0	0	0	0	0	0	0	-43,048	-43,048	0	-43,048
Effects from the change-over to IFRS 15 and IFRS 9 at Sunrise	0	0	0	0	0	0	7,139	0	7,139	0	7,139
Dividend payment	0	0	0	0	0	0	0	-211,218	-211,218	0	-211,218
Group result	0	0	0	0	0	0	0	114,165	114,165	-6,121	108,044
Profit share of associates accounted for using the equity method[1]	0	0	0	0	0	0	1,161	0	1,161	0	1,161
Recognition of actuarial gains and losses acc. IAS 19 (2011)[1]	0	0	0	0	0	832	0	0	832	0	832
Change in fair value of financial instruments through other comprehensive income[1]	0	0	-3	0	0	0	0	0	-3	0	-3
Foreign currency translation[1]	0	0	0	607	0	0	0	0	607	0	607
Foreign currency translation from subsequent accounting of associates accounted for using the equity method[1]	0	0	0	0	614	0	0	0	614	0	614
Sub-total: Consolidated comprehensive income	0	0	-3	607	614	832	1,161	114,165	117,376	-6,121	111,255
As of 30.6.2018	**128,061**	**737,536**	**-167**	**862**	**-11,342**	**-19,716**	**20,457**	**446,332**	**1,302,023**	**25,006**	**1,327,029**

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

Consolidated statement of cash flows

for the period from 1 January to 30 June 2018

In EUR `000s	1st half2018 1.1.2018- 30.6.2018	1st half 2017 1.1.2017- 30.6.2017
Result before interest and taxes (EBIT)	**148,112**	**129,009**
Adjustments		
Depreciation and impairment on items of fixed assets	66,790	69,881
Share of results of associates accounted for using the equity method	-9,989	-9,075
Dividends received	36,912	34,409
Gains / losses on the disposal of fixed assets	-7,248	114
Increase in net working capital not attributable to investing or financing activities	-38,127	-531
Capitalisation of contract acquisition costs	-148,069	0
Amortisation of contract acquisition costs	155,406	0
Tax payments	-14,422	-12,271
Cash flow from operating activities	**189,365**	**211,536**
Investments in property, plant and equipment and intangible assets	-26,494	-34,842
Proceeds from the disposal of property, plant and equipment and intangible assets	2,976	4,409
Proceeds from the sale of subsidiaries	0	125
Payments in shareholders' equity, accounted for using the equity method	-75	-225
Investments in other financial participations	-200	-13
Interest received	20	660
Cash flow from investing activities	**-23,773**	**-29,886**
Dividend payments to company owners and minority shareholders	-211,218	-204,818
Cash repayments of borrowings	0	-37
Cash repayments from liabilities from finance lease	-10,877	-12,189
Interest paid	-19.865	-22,283
Cash flow from financing activities	**-241,960**	**-239,327**
Cash-effective change in cash and cash equivalents	**-76,368**	**-57,677**
Cash and cash equivalents at the beginning of the period	**322,816**	**318,186**
Cash and cash equivalents at the end of the period	**246,448**	**260,509**

Composition of cash and cash equivalents In EUR '000s	30.6.2018	30.6.2017
Cash and cash equivalents	246,448	260,509
	246,448	**260,509**

Composition of free cash flow In EUR '000s	30.6.2018	30.6.2017
Cash flow from operating activities	189,365	211,536
Investments in property, plant and equipment and intangible assets	-26,494	-34,842
Proceeds from the disposal of property, plant and equipment and intangible assets	2,976	4,409
Free cash flow [1]	**165,847**	**181,103**

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

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.

2. The Group has applied all of the accounting standards which are mandatory as of the reporting date. The following information is provided with regard to the new accounting standards IFRS 15 (Revenue from contracts with customers) and IFRS 9 (Financial instruments):

IFRS 15

In May 2014, the IASB published the standard IFRS 15. The standard must be applied for reporting periods commencing on or after 1 January 2018. IFRS 15 provides a standard body of rules for all questions arising from the reporting of revenue from contracts with customers.

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

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

The main impact of IFRS 15 on our consolidated balance sheet and consolidated income statement is attributable to the Mobile Communications segment, and primarily for our postpaid end customers. The corresponding impact of IFRS 15 is negligible for our segments TV and Media as well as Other/Holding. The following four paragraphs provide details of the main individual effects of IFRS 15 on the consolidated income statement:

With many of our postpaid end customers, the freenet Group generates on the one hand service revenue from mobile and digital lifestyle services with the end customer, and on the other hand sells the corresponding device to the customer. In general, cross subsidy arrangements are used for pricing these two elements, i.e.

the tariff and the device. Under the terms of the IFRS 15, a higher level of revenue is reported with regard to the hardware revenue which is generated immediately upon the sale, whereas the revenue reported in relation to the monthly tariff revenue will be lower than the one reported so far. In addition, the revenue recognised in relation to every customer contract throughout the entire duration of the contract will be the same as before. Only the realisation times are changed: The application of the new standard means that, as a result of the individual effect described above, the revenue and EBITDA of our postpaid business tend to be recognised at an earlier date than before.

Under IFRS 15, the contract acquisition costs, which in the freenet Group mainly consist of dealer commissions, have to be capitalised, whereas they have been so far mainly recognised in cost of materials directly at the point at which they are incurred. Under IFRS 15, the contract acquisition costs are mainly amortised over a period of 24 months, and reduce the cost of materials. This individual effect means that EBITDA now tends to be realised at an earlier date than before.

A further changeover effect resulting from the application of IFRS 15 in the freenet Group is that the commissions and bonuses received from the network operators are no longer (as was before the case) recognised immediately in the income statement at the point at which they arise (as revenue); instead, they will in future reduce the cost of materials: most will be recognised over a period of 24 months, and a minor percentage will be recognised immediately at the point at which they arise. This individual effect means that there will tend to be a considerable reduction in revenue and cost of materials, and EBITDA will be realised at a much later date than was before the case.

A fourth changeover effect is described as follows: If freenet sells only the tariff to the end customer, whereas the dealer (acting as a principal in an indirect distribution arrangement) provides the end customer with a device or other benefit, freenet pays remuneration to the dealer which in certain cases exceeds the consideration for the arrangement service. In such cases, the tariff price which freenet charges for the mobile communications service may include an increasing element (a “consideration payable to the customer”). Under IFRS 15, a deduction has to be recognised in the income statement under these circumstances: The figure shown for the tariff revenue is reduced by such elements, and the cost of materials for dealer commissions is simultaneously reduced. This individual effect means that revenue as well as cost of materials are lower than before.

However, because all effects of the process of changing over to the new accounting method are recognised directly in equity, effects with an impact on the income statement result from changes in timing differences regarding the realisation of income and expenses in the financial year 2018. Assuming that the business development remains constant, this will have the following consequences in a mass market with a large number of customer agreements which are concluded at different times:

- In the case of contracts which are still in existence as of the changeover point on 1 January 2018, lower current service revenue, higher costs of materials relating to the amortisation of contract acquisition costs as well as lower costs of materials relating to commissions and bonuses received from network operators are essentially offset by
- the following items which are applicable upon the conclusion of new contracts or upon the prolongation of existing contracts: higher revenue from hardware sales, the lower costs of materials relating to the capitalisation of contract acquisition costs as well as the lower revenue due to the fact that, under IFRS 15, network operator commissions and bonuses are no longer realised at the point at which they arise.

As of the changeover date 1 January 2018, IFRS 15 had the following major impact on the consolidated balance sheet:

- On the assets side
  - Deferred tax assets increased by 11.0 million euros (deferred taxes on temporary differences relating to the changeover effect recognised directly in equity)
  - The sum of trade accounts receivables, other receivables and other assets as well as other financial assets increased by 82.4 million euros. This was due mainly to the generation of contractual assets resulting from the cross-subsidising of service and hardware revenue in direct distribution arrangements as well as the recognition in the balance sheet of the “consideration payable to a customer” in indirect distribution arrangements.

- Contract acquisition costs (289.6 million euros) were recognised for the first time in a separate balance sheet item in non-current assets On the liabilities side
- Shareholders' equity declined by 25.2 million euros as a result of the one-off changeover effect, after the creation of deferred taxes
- The sum of trade payables, other liabilities and accruals/deferrals as well as other financial liabilities increased by 413.4 million euros, mainly as a result of the future deferral of most of the bonuses and commissions received from network operators over a period of 24 months
- The other provisions declined by 5.2 million euros as a result of lower provisions for potential losses of tariffs with negative margins

Consequently the changeover to the new IFRS 15 as of 1 January 2018 results in an increase in the balance sheet total of 389.2 million euros. There has not been any major impacts on gross profit, EBITDA, EBIT, EBT and consolidated result for the first half of 2018. However, as a result of the changes described above regarding the method of recognising the commissions and bonuses received from network operators as well as the "consideration payable to the customer", there have been considerable changes within gross profit. Accordingly, the figure reported for revenue in the first half of 2018 was 381.4 million euros lower as a result of IFRS 15. With regard to the cost of materials, the IFRS 15 effects have resulted in a similar reduction.

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

IFRS 9

In July 2014, the IASB published the standard IFRS 9. IFRS 9 governs the recognition of financial instruments, and replaces IAS 39 in this respect. First-time mandatory adoption of the IFRS 9 is applicable for financial years which commence on or after 1 January 2018.

IFRS 9 governs the classification of initial and subsequent valuation of debt instruments, equity instruments as well as derivatives. Under IFRS 9, all financial instruments are measured at fair value at the point at which they are acquired. Transaction costs increase or reduce the initial carrying amount if the financial asset or financial liability is not measured at fair value with recognition of changes in value in the result for the period. With regard to subsequent measurement, all financial assets are classified in two classification categories - financial assets which are measured at amortised cost of purchase and financial assets which are measured at fair value. If financial assets are measured at fair value, expenses and income items can be recognised either entirely in the result for the period or via shareholders' equity in other comprehensive income. The specific classification is defined at the point at which the financial asset is recognised for the first time, i.e. at the point at which the company becomes the counterparty in the contractual agreements of the instrument. In certain cases however, subsequent reclassification of financial assets may be necessary.

In accordance with the new regulations of IFRS 9, freenet AG classifies financial instruments in the following new categories: at amortised costs (AC), fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVTOCI).

The following table sets out a reconciliation of the valuation categories and carrying amounts following the initial application of IFRS 9:

	Measurement categories		Carrying amount		
in EUR `000s	IAS 39	IFRS 9	31.12.2017	1.1.2018	Difference
Aktiva					
Cash and cash equivalents	Loans and receivable	Amortized cost (AC)	322,816	322,816	0
Trade accounts receivable			532,781	317,591	-215,190*
At amortized cost	Loans and receivable	Amortized cost (AC)	532,781	247,791	-248,990
At fair value through profit or loss	-	Fair value through profit or loss (FVTPL)	0	69,800	69,800
Other financial assets			22,203	278,496	256,293
Non-derivative financial assets					
At amortized cost	Loans and receivable	Amortized cost (AC)	18,671	18,671	0
Other equity instruments					
At fair value through profit or loss	Available-for-sale assets	Fair value through profit or loss (FVTPL)	793	793	0
At fair value through other comprehensive income	Available-for-sale assets	Fair value through other comprehensive income (FVTOCI)	2,793	2,793	0
Liabilities					
Trade accounts payable			517,276	455,860	-61,416
Other trade accounts payable	Financial liabilities (at amortised cost)	Amortized cost (AC)	495,522	434,106	-61,416
Borrowings			1,673,146	1,673,146	0
Borrowings from promissory notes	Financial liabilities (at amortized cost)	Amortized cost (AC)	1,060,637	1,060,637	0
Other borrowings	Financial liabilities (at amortized cost)	Amortized cost (AC)	612,509	612,509	0
Other financial trade accounts			381,339	420,567	39,228
Non-derivative financial liabilities	Financial liabilities (at amortized cost)	Amortized cost (AC)	121,138	149,902	28,764

In addition, IFRS 9 (new) specifies that a new impairment model is introduced for all financial instruments covered by the scope of the standard after an expected loss has to be recorded at the point at which the financial asset is recognised (expected credit loss model).

* The difference between the carrying amount of trade receivables as at 31 December 2017 and 1 January 2018 in the amount of -215.2 million euros results from the change-over effects of the new accounting standards IFRS 15 (-189.6 million euros) and IFRS 9 (-25,6 million euros). Differences reported in the other balance sheet items are solely attributable to the first-time application of IFRS 15.

To summarise, the adjustments recognised directly in equity for balance sheet items as of 1 January 2018 due to IFRS 15 and IFRS 9 are shown in the following:

Balance Sheet Assets

In EUR ´000s	31.12.2017 as reported	1.1.2018 in accordance to IFRS 15/ IFRS 9
Non-current assets		
Intangible assets	563,507	563,507
Goodwill	1,379,919	1,379,919
Property, plant and equipment	435,818	435,818
Investment in associates accounted for using the equity method	810,984	818,053
Deferred income tax assets	153,508	172,310
Trade account receivable	79,081	46,356
Other receivable and other assets	9,500	17,344
Other financial assets	7,945	100,836
Contractual costs	0	289,589
	3,440,262	**3,823,732**
Current assets		
Inventories	76,310	76,310
Current income tax assets	2,205	2,205
Trade accounts receivable	453,700	271,235
Other receivables and other assets	4,572	12,416
Other financial assets	14,258	177,660
Cash and cash equivalents	322,816	322,816
	873,861	**862,642**
	4,314,123	**4,686,374**

Balance Sheet Shareholders´ equity and liabilities

in EUR ´000s	31.12.2017 as reported	1.1.2018 in accordance to IFRS 15/ IFRS 9
Shareholders´ equity		
Share capital	128,061	128,061
Capital reserve	737,536	737,536
Cumulative other comprehensive income	-20,256	-13,187
Retained earnings	586,433	543,386
Capital and reserves attributable to shareholder of freenet AG	1,431,774	1,395,796
Capital and reserves attributable to non-controlling interest	31,127	31,127
	1,462,901	**1,426,923**
Non-current liabilities		
Other payables	0	104,441
Other financial trade accounts	332,218	360,982
Borrowings	1,666,001	1,666,001
Pension provision	87,909	87,909
Other provisions	26,794	26,794
	2,112,922	**2,246,127**
Current liabilities		
Trade accounts payable	517,276	455,860
Other payables	81,842	413,020
Other financial trade accounts	49,121	59,585
Current income tax liabilities	33,806	33,806
Borrowings	7,145	7,145
Other provisions	49,110	43,908
	738,300	**1,013,324**
	4,314,123	**4,686,374**

All other accounting standards applicable as of 1 January 2018 (IFRIC 22: Foreign currency transactions and advance consideration, change to IAS 40: Transfers of investment property, changes to IFRS 2: Classification and measurement of share-based payment) have no significant impact on these condensed consolidated interim financial statements of freenet AG.

3. It is not necessary for our information regarding IFRS 16 (first-time adoption: 1 January 2019) to be updated compared with the consolidated financial statements 2017. Please refer to the notes to the consolidated financial statements 2017.

Significant events and transactions

4. On 29 June 2018, freenet AG and CECONOMY AG ("CECONOMY") concluded an agreement for the acquisition of approximately 32,633,555 shares which will be issued by CECONOMY within the framework of a 10 per cent capital increase (excluding subscription rights) for a total price of approximately 277 million euros or 8.50 euros per share. After completion of the capital increase, freenet will hold approximately 9.1 per cent of the ordinary shares of CECONOMY. The transaction, which on 30 June 2018 was still subject to compliance with standard market conditions, was completed after the reference date of these interim financial statements on 12 July 2018.

As of the reporting date of these interim financial statements (30 June 2018), there was a contingent derivative with a fair value of 18.9 million euros (32,633,555 shares multiplied by the difference between 8.50 euros per share and the closing price of 29 June 2018, namely 7.92 euros per share). As a result of the contingent nature of the derivative (the conditions necessary for completion had an impact on the measurement of the derivative), no cost was to be recognised as of 30 June 2018 in accordance with IFRS 9 B 5.1.2A.

After the initial posting of 12 July 2018, the holding in CECONOMY will be subsequently recognised at fair value through other comprehensive income (FVTOCI).

5. As of 30 June 2018, receivables of 93.7 million euros arising from the existing agreement regarding the factoring of mobile phone option receivables (31 March 2018: 101.8 million euros) were sold and derecognised, but payment had not yet been received.

6. On 19 April 2018, freenet AG received a dividend payment of 36.9 million euros as a result of the dividend distribution of 4.00 CHF per share adopted in the annual general meeting of Sunrise Communications Group AG ("Sunrise") of 11 April 2018.

7. By 30 June 2018, Media Broadcast GmbH concluded agreements with various investors for the sale of its VHF infrastructure (essentially comprising antennas). In the second quarter of 2018, a one-off effect in EBITDA of 7.3 million euros was recognised due to the first asset disposals related to the sale of the VHF infrastructure. However, the remaining VHF infrastructure which had been sold was only derecognised from the balance sheet after 30 June 2018; this derecognition is expected to be shown in the third quarter of 2018. A major criterion applicable for the derecognition of the remaining assets which were sold was only satisfied after the balance sheet date: On 6 July 2018, with the moderation of Federal Minister (retired) Friedrich Bohl and the Bundesnetzagentur, the broadcast network operators Divicon and Uplink reached agreement with five investors (new antenna operators) regarding a contractual regulation of VHF antenna access. Media Broadcast GmbH has provided financial support for this agreement. Accordingly, broadcast network operation for various radio broadcasters by Media Broadcast GmbH ended on 30 June 2018; this had been temporarily handled by the latter up to that time.

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

In EUR '000s	1.1.2018-30.6.2018	1.1.2017-30.6.2017
Sales of services		
Joint ventures		
Jestoro GmbH, Hamburg	215	205
Total	**215**	**205**

In EUR '000s	1.1.2018-30.6.2018	1.1.2017-30.6.2017
Expenditures of the purchase of services		
Joint ventures		
Jestoro GmbH, Hamburg	20	0
Funview GmbH, Hamburg (Affiliate of Jestoro GmbH)	113	0
Check Tech Service GmbH, Hamburg (Affiliate of Jestoro GmbH)	44	13
Total	**177**	**13**

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

In EUR '000s	30.6.2018	30.6.2017
Receivables from related parties		
Joint ventures		
Jestoro GmbH, Hamburg	59	57
Total	**59**	**57**

In EUR `000s	30.6.2018	30.6.2017
Trade accounts from regular transactions		
Joint Ventures		
Check Tech Service GmbH, Hamburg	12	0
Total	**12**	**0**

All transactions were at market rates.

Other disclosures

9. The following sections set out significant financial information regarding the last interim report published by Sunrise for the period ending 31 March 2018 as well as a reconciliation relating to the carrying amounts of the Sunrise holding shown in the freenet consolidated financial statements.

Summarised information as of 31 March 2018

Balance sheet[1]

In EUR '000s	31.3.2018	31.12.2017
Non-current assets	2,591,474	2,621,891
Thereof intangible assets	1,835,984	1,891,183
Current assets	636,085	660,231
Thereof cash and cash equivalents	239,138	233,139
Total assets	**3,227,558**	**3,282,122**
Non-current liabilities	1,463,661	1,476,209
Thereof non-current borrowings	1,184,472	1,189,246
Current liabilities	430,882	513,717
Thereof trade accounts payable and other payables	388,878	462,870
Total liabilities	**1,894,543**	**1,989,925**

Income statement[2]

In EUR `000s	1.1.2018-31.3.2018	1.1.2017-31.3.2017
Revenue	393,514	403,041
Gross profit	251,727	267,706
EBITDA	117,633	132,007
Depreciation and amortisation	-89,852	-103,291
Interest payable and similar expenses	-9,148	-11,932
Taxes on income	-4,794	-5,159
Group result after taxes	**14,357**	**12,036**

Other comprehensive income[2]

In EUR `000s	**1.1.2018-31.3.2018**	**1.1.2017-31.3.2017**
Group result after taxes	14,357	12,036
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. IAS 19 (2011)	6,025	2,649
Taxes on income	-1,224	-541
Other comprehensive income / not to be reclassified to the income statement in the following periods	**4,801**	**2,109**
Other comprehensive income	**19,158**	**14,145**

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

Reconciliation to carrying amount

In EUR `000s	1.1.2018-30.6.2018
Carrying amount as of 1 January 2018	**816,871**
Current profit share	19,722
Subsequent recognition from purchase price allocation	-9,528
Other comprehensive income	1,803
Dividend paid for freenet	-36,912
Carrying amount as of 30 June 2018	**791,955**

1 Closing date as of 30.6.2017 amounted to 0.8586 CHF/EUR.
2 Average stock price for the first quarter 2018 amounted to 0.8586 CHF/EUR.

10. 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.

The carrying amounts of the finance lease assets were stated as 261,846 thousand euros for technical equipment, plant and machinery as of 30 June 2018.

The minimum lease payments will become due as follows:

In EUR `000s	30.6.2018
Within one year	33,557
Within one and five years	138,020
Greater than five years	162,710
Total	**334,287**
Interest share of future leasing rates	
Within one year	-11,168
Within one and five years	-34,899
Greater than five years	-17,142
Present value of total liabilities from finance lease	**271,078**

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

In EUR `000s	30.6.2018
Within one year	23,389
Within one and five years	103,121
Greater than five years	145,568
Total	**271,078**

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.

11. 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	1.1.2018-30.6.2018	1.1.2017-30.6.2017
Earnings before taxes	125,050	104,410
Interest payable and similar expenses	23,101	24,927
Interest receivable and similar expenses	-39	-328
Earnings before interest and income taxes (EBIT)	**148,112**	**129,009**

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

The following overview "Fair value hierarchy as of 30 June 2018" 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 2017.

Financial instruments according to classes as of 30 June 2018

			Value approach				
In EUR ´000s	Valuation category acc. to IFRS 9	Carrying amount balance sheet 30.6.2018	Amortised cost	Cost	Fair value recognised in profit or loss	Fair value recognised in other comprehensive income	Fair value financial instruments 30.6.2018
Assets							
Cash and cash equivalents	AC	246,448	246,448				-*
Trade accounts receivable		224,044					
At amortized cost	AC	155,746	155,746				-*
At fair value through profit or loss	FVTPL	68,298			68,298		-*
Other financial assets		324,989					
Non-derivative financial assets							
At amortized cost	AC	32,777	32,777				-*
Other equity instruments							
At fair value through profit or loss	FVTPL	993			993		-*
At fair value through other comprehensive income	FVTOCI	2,734				2,734	2,734
Liabilities							
Trade accounts payable		391,726	391,726				
Other trade accounts payable	AC	369,337	369,337				
Borrowings		1,674,934	1,674,934				
Borrowings from promissory notes	AC	1,061,295	1,061,295				1,064,347
Other borrowings	AC	613,639	613,639				
Other financial trade accounts		392,311					
Non-derivative financial liabilities	AC	130,211	130,211				-*
Thereof aggregated by valuation categories according to IFRS 9							
Assets							
At amortized cost	AC	434,971	434,971				0*
At fair value through profit or loss	FVTPL	69,291			69,291		0*
At fair value through other comprehensive income	FVTOCI	2,734				2,734	2,734
Liabilities							
At amortized cost	AC	2,174,482	2,174,482				1,064,347*

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

Fair value hierarchy as of 30 June 2018

In EUR '000s	Total	Level 1	Level 2	Level 3
Assets				
Available-for-sale financial assets	2,734	2,734	0	0
Liabilities				
Borrowings	1,064,347	0	0	1,064,347

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

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

13. The consolidation group was extended in the first six months to include the newly established freenet Shopping GmbH, Hamburg.

14. On the basis of updated interest rates (programmes freenet, debitel: 2.19 per cent, programmes Media Broadcast Group: 1.73 per cent), the pension provisions have been revalued in conjunction with otherwise unchanged assumptions. The resulting actuarial profit of 1.2 million euros as well as the opposite reduction of 0.4 million euros in deferred tax assets has been recognised in the statement of comprehensive income. This has resulted in net positive comprehensive income of 0.8 million euros from items which do not have to be reclassified to the income statement.

15. As was the case in the consolidated financial statements 2017, an average tax rate of 30.40 per cent (previous year: 30.00 per cent) was used as the basis for calculating the current and deferred taxes on income.

16. The net debt increased from 596.7 million euros at the end of March 2018 to 657.6 million euros at the end of June 2018. The increase in net debt is mainly attributable to the dividend payment of 211.2 million euros made in the second quarter of 2018.

17. Apart from the issues described under points 4 and 7, there have been no other reportable events of major significance after 30 June 2018.

18. 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 2018:

- 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 32.9 million euros (previous year: 38.5 million euros) reported for the first six months of 2018 for the “Other/Holding” segment is attributable to operating activities (33.4 million euros; previous year: 39.0 million euros) and other business activities (-0.5 million euros; previous year: -0.5 million euros). Of the figure of 22.3 million euros (previous year: 24.9 million euros) reported for gross profit for the first six months of 2018 for the “Other/Holding” segment, 23.0 million euros (previous year: 25.7 million euros) is attributable to the operating activities and -0.7 million euros (previous year: -0.8 million euros) is attributable to the other business activities. The EBITDA of -5.1 million euros (previous year: -4.5 million euros) reported for the “Other/Holding” segment for the first six months of 2018 was accounted for by operating activities to the extent of 6.9 million euros (previous year: 6.8 million euros) and by other business activities (-12.0 million euros; previous year: -11.4 million euros).

Segment report for the period from 1 January to 30 June 2018

In EUR '000s	Mobile Communications	TV and Media	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**1,215,412**	**145,171**	**25,654**	**0**	**1,386,237**
Intersegment revenue	22,784	3,576	7,268	-33,628	0
Total revenue	1,238,196	148,747	32,922	-33,628	1,386,237
Cost of materials, third party	**-873,193**	**-59,304**	**-7,974**	**0**	**-940,471**
Intersegment cost of materials	-10,233	-17,292	-2,664	30,189	0
Total cost of material	-883,426	-76,596	-10,638	30,189	-940,471
Segment gross profit	**354,770**	**72,151**	**22,284**	**-3,439**	**445,766**
Other operating income	23,786	9,934	2,089	-1,414	34,395
Other own work capitalised	4,367	2,292	1,067	0	7,726
Personnel expenses	-60,584	-29,276	-16,760	0	-106,620
Other operating expenses	-140,538	-27,073	-13,596	4,853	-176,354
Thereof result from the allowance of financial assets	-25,420	-61	-128	0	-25,609
Thereof exclusive the result from the allowance of financial assets	-115,118	-27,012	-13,468	4,853	-150,745
Profit share of results of associates accounted for using the equity method	19,722	0	-205	0	19,517
Segment EBITDA	**201,523**	**28,028**	**-5,121**	**0**	**224,430**
Depreciation and impairment write-downs					-66,790
Subsequent accounting for associates accounted for using the equity method					-9,528
EBIT					**148,112**
Financial result					-23,062
Taxes on income					-17,006
Group result					**108,044**
Group result attributable to shareholders of freenet AG					114,165
Group result attributable to non-controlling interest					-6,121
Cash-effective net investments	**8,201**	**12,407**	**2,910**		**23,518**

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**	**0**	**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
Thereof result from the allowance of financial assets	-26,034	168	25	0	-25,841
Thereof exclusive the result from allowance of financial assets	-113,262	-43,309	-14,979	6,156	-165,394
Profit share of results of associates accounted for using the equity method	19,484	0	-45	0	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**
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**

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 2018
freenet AG
The Executive Board

Christoph Vilanek

Stephan Esch

Antonius Fromme

Joachim Preisig

Rickmann v. Platen

FURTHER INFORMATION

Financial calendar

09 August 2018

Publication of interim report as of 30.6.2108 – 2nd quarter 2018

30 August 2018[1]

TMT & Consumer Conference (Commerzbank) Frankfurt | Germany

06 September 2018[1]

dbAccess European TMT Conference (Deutsche Bank) London | Great Britain

24 September 2018[1]

7th German Corporate Conference (Berenberg/Goldman Sachs) Munich | Germany

09 November 2018[1]

Quarterly Statement as of 30 September 2018 – 3rd quarter 2018

15 and 16 November 2018[1]

TMT Conference 2018 (Morgan Stanley) Barcelona | Spain

1 All dates are subject to change.

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The annual report and our interim reports are also available at:
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*.

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

GLOSSARY

ARPU (Mobile Communications)	Average Revenue Per User; i.e. the revenue for the specific customer groups (before application of IFRS 15) divided by the average number of customers as of the respective reference date.
Customer ownership	Customers of the freenet Group in the Mobile Communications segment who have concluded one of freenet's own tariffs or a tariff of the network operators in the form of a postpaid or no-frills agreement at the freenet Group. For its own existing customers, the freenet Group handles all major services of the network operators; i.e. particularly own account billing, contract renewal as well as customer service.
Debt ratio	Ratio between net debt (see "Net debt") and EBITDA achieved in the last 12 months (see "EBITDA")
Digital lifestyle	Describes simplification of everyday life via technical equipment based on Internet and/or smartphones.
EBIT	Earnings before interest and taxes, including the share of results of associates accounted for using the equity method.
EBITDA	EBIT (see "EBIT") excluding depreciation and amortisation and deferred taxes relating to the subsequent recognition of associates accounted for using the equity method, plus depreciation and amortisation.
EBITDA exclusive of Sunrise	See EBITDA, but without the profit share of the Sunrise shareholding accounted for using the equity method.
Equity ratio (in per cent)	The ratio between shareholders' equity and the balance sheet total.
Free cash flow	Free cash flow from operating activities, minus the investments in property, plant and equipment and intangible assets, plus proceeds from disposals of property, plant and equipment and intangible assets.
Free cash flow exclusive of Sunrise	See Free cash flow, but without the dividend from the Sunrise shareholding.
freenet TV ARPU	Average revenue per freenet TV subscriber; i.e. the freenet TV revenue divided by the average number of revenue generating freenet TV subscriber (see "freenet TV subscriber (RGU)") as of the respective reference date.
freenet TV subscribers	Customers who purchased a freenet TV access in the form of a voucher (prepaid card) or by means of a postpaid contract.

freenet TV subscribers (RGU)	RGU as the abbreviation for “Revenue Generating User” refers to freenet TV subscribers who purchased and also activated the freenet TV access.
Gross profit	Revenue less cost of materials.
Gross profit margin	Ratio between revenue and gross profit.
Interest cover	Ratio between EBITDA and interest result in the last 12 months.
Interest result	Balance of “interest and similar income” and “interest and similar expenses”.
IPTV	Internet Protocol Television (IPTV) describes the process of broadcasting TV programmes and films by means of the Internet protocol. As opposed to the transmission channels of cable TV, DVB-T or satellite.
Latency	Also defined as response time or latency (time); defined as the period between an action (or an event) and the occurrence of a delayed reaction.
Net debt	Long-term and short-term financial debt shown in the balance sheet, less cash and cash equivalents, less shareholdings (see “Shareholdings”).
Net investments (CAPEX)	Investments in property, plant and equipment and intangible assets, less proceeds from disposals of property, plant and equipment and intangible assets.
No-frills	Traditionally, no-frills describes the distribution of Mobile Communications agreements by direct means (e.g. online) and not via specialist outlets. The tariffs deliberately feature a simple structure, and in general do not comprise a subsidised device.
Out-of-home campaign	Concept for advertising in public spaces (outdoor advertising).
Point of Sale	Point at which sales are generated.
Postpaid	Mobile services billed at the end of the month (for 24 months).
Prepaid	Mobile communications services paid in advance.
Pro-forma debt ratio	Ratio between pro-forma net debt (see “Pro-forma net debt”) and EBITDA achieved in the last 12 months (see “EBITDA”).
Pro-forma net debt	Long-term and short-term financial debt recognised in the balance sheet, less cash and cash equivalents.

Shareholdings	Market value of the Sunrise Communications Group AG´s interest of the freenet Group as of the reference date. The market value of Sunrise Communications Group AG is calculated by multiplying the closing price of the Sunrise Communications Group AG share on the Swiss stock exchange by the number of shares held by the freenet Group (11,051,578) in Sunrise Communications Group AG as of the relevant reference date. Swiss francs are converted into euros using an officially defined reference date rate based on data of Bloomberg.
Social media	Generic concept for digital media and technologies which enable users to communicate with each other and to design media content individually or as part of groups. Users actively refer to the contents by means of comments, evaluations and recommendations, and establish social relations with each other in this way.
TV customer base	Customers of the freenet Group in the TV and Media segment who are either freenet TV subscribers (see “freenet TV subscriber”) or waipu.tv registered customers (see “waipu.tv registered customer”).
waipu.tv registered customers	Customers who use the service of waipu.tv free-of-charge or in a subscription model (see “waipu.tv subscribers”).
waipu.tv subscribers	Customers who use the service of waipu.tv in conjunction with one of the offered pay tariffs (e.g. Comfort or Perfect).