ANNUAL REPORT 2018

freenet GROUP

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

OVERVIEW OF KEY FINANCIALS[1]

GROUP

OPERATIONS

In EUR million/as indicated	2018	2017	Q4/2018	Q3/2018	Q4/2017
Revenue without IFRS 15 effects	3,659.2	3,507.3	988.9	902.7	949.9
Revenue	2,897.5	3,507.3	794.2	717.0	949.9
Gross profit	903.7	949.8	235.1	222.9	251.6
EBITDA	485.5	541.2	128.0	133.0	118.2
EBIT	337.1	373.0	91.3	97.7	69.8
EBT	234.0	322.7	71.4	37.5	56.8
Consolidated profit	212.2	275.6	64.1	40.0	26.6
Earnings per share in EUR[2]	1.74	2.24	0.52	0.33	0.23
Dividend per share in EUR	1.65[3]	1.65	—	—	—

BALANCE SHEET

In EUR million/as indicated	31.12.2018	31.12.2017	31.12.2018	30.9.2018	31.12.2017
Total equity and liabilities	4,634.7	4,314.1	4,634.7	4,799.7	4,314.1
Equity	1,280.8	1,462.9	1,280.8	1,315.3	1,462.9
Equity ratio in %	27.6	33.9	27.6	27.4	33.9

FINANCES AND INVESTMENTS

In EUR million	2018	2017	Q4/2018	Q3/2018	Q4/2017
Free cash flow	326.1	342.8	72.6	87.7	74.4
Depreciation, amortisation and impairment	129.2	148.2	31.9	30.6	44.0
Net investments[4] (CAPEX)	43.3	42.5	9.7	10.1	–1.0
Net debt	644.1	510.0	644.1	571.4	510.0
Pro forma net debt	1,596.6	1,350.3	1,596.6	1,639.9	1,350.3

SHARE

	31.12.2018	31.12.2017	31.12.2018	30.9.2018	31.12.2017
Closing price Xetra in EUR	16.95	30.82	16.95	20.70	30.82
Number of issued shares in ’000s	128,061	128,061	128,061	128,061	128,061
Market capitalisation in EUR millions	2,170.6	3,946.8	2,170.6	2,650.9	3,946.8

EMPLOYEES

	31.12.2018	31.12.2017	31.12.2018	30.9.2018	31.12.2017
Employees	4,183	4,113	4,183	4,155	4,113

[1] Unless indicated otherwise, we refer to the section “Alternative performance measures” for the definition of the key figures.
[2] Basic and diluted.
[3] The dividend will be paid subject to a resolution at the Annual General Meeting in May 2019. Further information on the dividend, see the section “freenet AG and the capital markets”.
[4] Investments in property, plant and equipment and intangible assets, less the proceeds from the disposal of intangible assets and property, plant and equipment.
[5] At the end of the period.

OVERVIEW OF KEY FINANCIALS[1]
MOBILE COMMUNICATIONS SEGMENT

CUSTOMER FIGURES

In EUR million	2018	2017	Q4/2018	Q3/2018	Q4/2017
Mobile Communications customers/cards[5]	11.557	11.828	11.557	11.572	11.828
Thereof customer ownership	9.455	9.591	9.455	9.490	9.591
Thereof postpaid	6.896	6.711	6.896	6.869	6.711
Thereof no-frills	2.559	2.880	2.559	2.622	2.880
Thereof prepaid	2.102	2.237	2.102	2.082	2.237
Net change postpaid	0.185	0.198	0.027	0.041	0.065

OPERATIONS

In EUR million	2018	2017	Q4/2018	Q3/2018	Q4/2017
Revenue without IFRS 15 effects	3,368.4	3,198.9	909.0	839.8	875.3
Revenue	2,606.7	—	714.3	654.2	—
Gross profit	718.5	744.4	178.5	185.2	202.6
EBITDA	410.3	513.6	99.1	109.6	108.1

MONTHLY AVERAGE REVENUE PER USER (ARPU)

In EUR	2018	2017	Q4/2018	Q3/2018	Q4/2017
Postpaid without hardware (IFRS 15)	19.0	—	18.9	19.2	—
Postpaid	21.6	21.4	21.7	21.9	21.4
No-frills	3.6	2.8	4.0	3.8	3.0
Prepaid	3.4	3.1	3.5	3.5	3.2

OVERVIEW OF KEY FINANCIALS[1]
TV AND MEDIA SEGMENT

CUSTOMER FIGURES[5]

In '000s	2018	2017	Q4/2018	Q3/2018	Q4/2017
freenet TV subscribers (RGU)	1,014.2	902.1	1,014.2	901.5	902.1
waipu.tv registered customers	1,263.9	463.6	1,263.9	1,006.9	463.6
Thereof waipu.tv subscribers	251.8	102.3	251.8	202.4	102.3

OPERATIONS

In EUR million	2018	2017	Q4/2018	Q3/2018	Q4/2017
Revenue	282.6	294.8	71.3	62.5	75.6
Gross profit	147.4	166.4	46.7	28.6	40.5
EBITDA	86.3	40.2	32.8	25.5	15.7

CONTENTS

EASY

EXPERIENCE THE DIGITAL LIFESTYLE.

The freenet Group is the largest independent telecommunications provider in Germany. As a digital lifestyle provider, it offers its approximately 13.8 million customers products, services as well as hardware from the fields of mobile communications, TV and many other aspects of digital life.

In its core business of Mobile Communications, the activities of its main brand mobilcom-debitel are focused on acquiring high-quality postpaid contract relationships. The freenet Group also supplies the digital lifestyle growth market with innovative digital applications relating to home automation and security, health, data security, entertainment and infotainment – including the latest smartphones, tablets, laptops/PCs and accessories.

By adding the new TV and Media segment in 2016, the Group's product portfolio has been expanded to include modern high-definition digital TV in two technology variants – freenet TV for terrestrial TV and waipu.tv for IPTV entertainment.

The freenet Group has met its targets set for 2018: Revenue (without IFRS 15 effects) increased by 4.3 per cent to 3,659.2 million euros, while EBITDA exclusive of Sunrise grew by 33.2 million euros (8.1 per cent) year-on-year to 441.3 million euros. Free cash flow exclusive of Sunrise amounted to 289.2 million euros.

A 360-DEGREE VIEW OF THE FREENET GROUP

TV PORTFOLIO

SERVICES AND DEMAND CONTINUE TO GROW

FREENET VIDEO LAUNCHES!

INCLUDES OVER 1,000 FILMS AND TV SERIES

Since mid-2018, the freenet Group has offered its own online HD video service for 4.99 euros a month.

+112,000

FREENET TV SUBSCRIBERS (RGU)

In 2018, freenet TV increased the number of revenue-generating customers, i.e. freenet TV subscribers who not only purchased access but also activated it, to a total of more than 1 million.

100 CHANNELS WITH
WAIPU.TV

60 IN
HD QUALITY

+149,000
WAIPU.TV SUBSCRIBERS

In 2018, the customer base of the high-speed streaming service grew to a total of more than 250,000 subscribers. waipu.tv has filed a patent application for its low-latency service data transmission process.

+800,000
REGISTERED WAIPU.TV CUSTOMERS

With a TV platform based on its own fibre-optic network and a consistent focus on the customer, waipu.tv has acquired over one million registered customers in the space of just 2 years.

62.5
MILLION RESIDENTS

DISTRIBUTION VIA 63 TRANSMITTER SITES
Since launching in the spring of 2017, Media Broadcast has expanded the range of freenet TV. Around 62.5 million residents can receive freenet TV via antenna. Satellite users have also gained access to freenet TV.

EXPANSION OF SERVICES FOR THE TWO MAIN PRODUCTS FREENET TV AND WAIPU.TV

Over the course of 2018, the freenet Group and its respective operating units worked hard to expand the range of services for the two main products in the TV and Media segment: freenet TV und waipu.tv. This development encompassed the technical infrastructure, the available content and a variety of sales and marketing activities. These included TV spots and inserts, online advertising on the company's own websites, as well as installations in several hundred mobilcom-debitel shops. In addition, special promotions were conducted with large daily newspapers and with Samsung, a major producer of TV devices.

MEDIA BROADCAST DEVELOPS MORE REGIONS FOR FREENET TV

As the operator of the freenet TV platform, Media Broadcast continually expanded the range of DVB-T2 HD to a total of 63 transmission sites over the course of the year. This increased the number of residents who can receive freenet TV via a rooftop antenna to 62.5 million. Additionally, in the second quarter of 2018, satellite users gained access to freenet TV, broadcast via Astra for the same monthly price as terrestrial reception. At the same time, the freenet Group entered into a partnership with Deutsche Technikberatung. For a price of 49 euros, customers can take advantage of this provider's professional technical services, such as setting up components and maintaining all devices.

At the end of May, an online service was added to freenet TV. "freenet TV connect" is an Internet-based supplementary service offering a video-on-demand feature in addition to the linear TV channels. The innovative Dash Direct Play technology should considerably reduce the long switching time for HbbTV.

At the start of October, freenet TV launched an entertainment package in cooperation with maxdome. For a period of six months, it is offering a combination of traditional TV in HD quality as well as access to over 50,000 films and TV series from Germany's largest online video store – via DVB-T2 HD and satellite.

By the end of the year, freenet TV counted 1.01 million subscribers (RGU) who had not only purchased freenet TV access but also already activated it. The number of revenue-generating customers thus rose by 112,000 over the course of the year.

WAIPU.TV CELEBRATES ONE MILLIONTH CUSTOMER AND SETS SPEED STANDARD

XARING AG tackled financial year 2018 with the same sense of purpose. The recording capacity of the Comfort version increased from 10 to 25 hours; the price of the Perfect version fell from around 15 euros to 10 euros monthly, while the storage doubled to 100 hours.

In the middle of the year, the company fundamentally overhauled the waipu.tv app for Apple iOS for ease of use on the iPad. The product can now be used on ten types of devices, including Android and iOS smartphones, tablets, Amazon's Fire devices, Google Chromecast, Apple AirPlay and in browser-based environments.

At the same time, the programme portfolio expanded over the course of the year from around 80 to around 100 stations for the Perfect version, with over 60 stations available in HD quality. waipu.tv also scored points with a few customised special offers, such as the “fastest goal into your living room” for the FIFA World Cup. Based on its low-latency service – a fast, patent-pending data transmission process – fans using high-speed streaming could celebrate goals up to a minute sooner than audiences watching on cable TV. Since December 2018 it has also been possible to use Alexa voice commands to control waipu.tv.

As the range of services has grown, so have the user numbers for waipu.tv. The one millionth customer registered in mid-September (December 2018: 1.26 million). The number of subscribers reached around 252,000 by the end of December 2018. This means that over the course of the year, around 149,000 customers opted to subscribe to the innovative IPTV product.

FREENET VIDEO AND SHOPPING SUCCESSFULLY SUPPLEMENT THE TV PORTFOLIO

In mid-2018 the freenet Group launched freenet Video, an offer designed to address the attractive market for online video services. For 4.99 euros per month, freenet Video provides access to over 1,000 films and TV series in HD quality for viewing on up to five devices. More than 8,000 other productions can be purchased or rented. Users can also access a selection of top films with what are known as Movie Coins – the company’s own virtual currency that can be exchanged for blockbusters that change monthly.

At the end of the year, the freenet Group added its own channel to its TV range when freenet Shopping went live in late November. This new home shopping sales channel offers a variety of products in the fields of mobile communications, technology and digital lifestyle. At the same time, freenet Shopping entered into a partnership with the established home-shopping channel known as Channel21.

FREENET SHOPPING

SHOPPING MADE SIMPLE.
The new home shopping sales channel offers a variety of products in the fields of mobile communications, technology and digital lifestyle.

A 360-DEGREE VIEW OF THE FREENET GROUP

MOBILE COMMUNICATIONS BUSINESS

ATTRACTIVE OFFERS SUPPORT SUSTAINABLE MOBILE COMMUNICATIONS BUSINESS

21.6 €

POSTPAID ARPU

ARPU has been stable for the third year in a row. The freenet Group continues to focus on its profitable customer base.

+185,000

CUSTOMERS IN 2018

In 2018, the freenet Group increased the size of the strategically important customer group to a total of 6.896 million.

FOCUS ON THE PARTICULARLY VALUABLE POSTPAID CUSTOMER SEGMENT

In light of the highly competitive and largely saturated market environment, the freenet Group continued to focus on the particularly valuable segment of postpaid customers with two-year contracts in its core business of mobile communications. The company's individual brands regularly target the market with customer-focused offerings and tariffs as well as special services.

MOBILCOM-DEBITEL EXPANDS PORTFOLIO OF INNOVATIVE AND CUSTOMIZED MOBILE COMMUNICATIONS SOLUTIONS

In the fourth quarter, mobilcom-debitel became one of the first providers of the eSIM for the iPhone XS (Max) and iPhone XR in Germany. This main brand was also the launch partner for the WhatsApp Business service in November. Since March of this year, both mobilcom-debitel and the discount subsidiary klarmobil have also offered access to the fast LTE data network of Deutsche Telekom. At the same time, klarmobil presented its new Telekom LTE tariffs with a term of two years in four different sizes – with data volumes of 2 GB, 4 GB, 8 GB and 10 GB.

mobilcom-debitel, in turn, launched two exclusive e-sports tariffs in mid-April in cooperation with the e-sports community and the League of Legends team: No Limit and Level 8. Both of these SIM-only offers include a call and an SMS flat rate in all national networks, as well as the freenet Hotspot flat rate for surfing at more than 50 million hotspots around the world and the Basic mobilcom-debitel cloud package with 100 GB of storage. The individual brands of the freenet Group also conducted numerous time-limited special promotions during the year, generally offered via online platforms.

The majority holding Motion TM featured various special offers for the FIFA World Cup in June through the Modeo distribution channel. Parallel to an extensive World Cup prediction game there were eleven special offers, including reduced tariffs such as the Allnet Flat 4000 from klarmobil and the Vodafone Smart L+, as well as premium smartphones such as the HTC U12 Plus and Huawei P20. In the fourth quarter, Modeo offered various Magenta tariffs from Deutsche Telekom at a considerably reduced rate for the first two years through the main brand mobilcom-debitel. The individual brands thus once again secured top rankings in various tariff tests.

QUALITY OF CUSTOMER BASE CONTINUES TO IMPROVE

As a consequence, the number of strategically important postpaid customers with two-year contracts rose in 2018 by 185,000 to around 6.896 million. The freenet Group is therefore reporting growth for the seventh year in a row and reinforcing its strong competitive position in this particularly valuable customer segment. The overall customer ownership of a total of 9.455 million customers at end of December 2018 is therefore almost stable compared to the previous year. The same applies to the postpaid ARPU of 21.6 euros. In financial year 2017, this figure was 21.4 euros. Adjusted for hardware elements (IFRS 15 effect), the postpaid ARPU was 19.0 euros for 2018.

4 NEW LTE TARIFFS

KLARMOBIL WITH TELEKOM LTE TARIFF
No-frills brand presents new LTE tariff portfolio with data volumes of 2 GB, 4 GB, 8 GB and 10 GB.

A 360-DEGREE VIEW OF THE FREENET GROUP

DIGITAL LIFESTYLE BUSINESS

DIGITAL LIFESTYLE SEGMENT CONTINUES TO GROW ORGANICALLY

179.8
MILLION EUROS OF DIGITAL LIFESTYLE REVENUE

Up 9.5 per cent in 2018 – Revenue pillar of freenet Group continues to grow.

PRICE STUNNER APPLE IPHONE X

For Cyber Monday, mobilcom-debitel offers the iPhone X in combination with Beats X headphones and an Allnet flat rate for 830 euros.

15%
MARKET SHARE FAIRPHONE 2

mobilcom-debitel markets the especially socially and environmentally-conscious Fairphone 2.

SAMSUNG GALAXY S9+

mobilcom-debitel offers the flagship smartphone as a bundle with a mobile contract with Deutsche Telekom or Vodafone for 199 euros.

MARKET LAUNCH XIAOMI SMARTPHONES

freenet Group is first German telecommunications provider to sell devices from the Chinese manufacturer.

DIGITAL LIFESTYLE PRODUCTS ARE THIRD REVENUE STREAM

Alongside the Mobile Communications as well as TV and Media segments, the third organically growing revenue stream of the freenet Group comprises devices, products and services from the fields of entertainment, security, smart homes and e-health. These products and services are generally offered via the main brand mobilcom-debitel as well as the Group's subsidiaries – in the various shops, by way of online sales and via a wide range of special promotions and activities. These include the Sunday Stunners and Price Stunners, which have been successfully marketed for over two years now.

SPECIAL PROMOTIONS FOR APPLE AND SAMSUNG PRODUCTS

As in previous years, smartphones in a wide range of price classes from market leaders Apple and Samsung were the focus of special promotions in 2018, along with hardware and attractive offers from other manufacturers.

The highlights from Apple included the American manufacturer's current flagship smartphone, the iPhone X, which was offered at just under 1,000 euros – a savings of around 150 euros – and was available for Cyber Monday in combination with Beats X headphones and a mobilcom-debitel Allnet flat rate for 830 euros. The Price Stunner in the run-up to Christmas was, for the first time, not a smartphone or tablet, but rather the Apple Watch Series 3 with GPS, including a Sport Band, at prices starting at 275 euros.

There were similarly attractive offers for smartphones from the Korean premium manufacturer Samsung. In February, prices of the new flagship smartphones, the Galaxy S9 and S9+, were reduced in combination with a mobile contract in the D-networks of Deutsche Telekom or Vodafone, initially to 99 euros and 199 euros, respectively. In mid-October, a package was offered in cooperation with Media Markt consisting of the Galaxy S9, the Gear S3 smartwatch and the Allnet Comfort flat rate in the Deutsche Telekom network for a total of around 619 euros over two years. This represents savings of 140 euros for the devices alone – plus the Deutsche Telekom tariff on top for free.

FREENET SELLS DEVICES FROM MANUFACTURER XIAOMI IN THE GERMAN MARKET

In addition to its premium offers, mobilcom-debitel increasingly served the entry-level smartphone segment over the course of the year in the context of new collaboration agreements. The freenet Group is the first telecommunications provider in Germany to market devices from the rapidly expanding Chinese manufacturer Xiaomi. In mid-October the main brand mobilcom-debitel began offering four smartphones from Xiaomi in its shops and online at prices between 164 and 479 euros without a mobile contract. Furthermore, mobilcom-debitel joined its exclusive distribution partners Media Markt and Saturn to become one of the first providers of the Google Pixel 3 and Pixel 3 XL, the first smartphones developed entirely by Google. The smartphone portfolio of mobilcom-debitel is rounded off by the especially socially and environmentally-conscious Fairphone 2.

MOBILCOM-DEBITEL MARKETS SMARTWATCH FOR CHILDREN WITH GEOLOCATION FEATURE FOR PARENTS

For Christmas, the main mobile communications brand offered a compact smartwatch for children in its shops – at the attractive price of 6.99 euros monthly or a one-off price of 169 euros. With the MOVETIME Family Watch MT30 from TCL, parents and children can communicate with each other at any time, and GPS geofencing enables exclusively authorized people (such as parents) to see the child's current location. They also receive a message as soon as the child leaves the pre-defined "secure" location.

GRAVIS also regularly carried out special promotions. One of these was for the FIFA World Cup with the motto "This is what winners look like". In October, the freenet subsidiary supplemented its audio portfolio with high-end products from the manufacturer Devialet. Finally, in the middle of the year, the subsidiary Motion TM expanded its digital package for specialist dealers to include hardware-only offers.

As a result of these activities, the digital lifestyle business generated revenue of around 179.8 million euros in financial year 2018, an increase of 9.5 per cent compared to the year before.

DEVIALET

GRAVIS supplements portfolio with high-end products from audio manufacturer Devialet.

MOVETIME FAMILY WATCH MT30

mobilcom-debitel sells compact smartwatch from TLC in its shops. Parents and children can communicate at all times. GPS geofencing enables devices to be located.

A 360-DEGREE VIEW OF THE FREENET GROUP

BUNDLED ACTIVITIES

SUPPORT POSITIVE BUSINESS PERFORMANCE

PLUS X AWARD

IT/TELECOMMUNICATIONS CATEGORY
GRAVIS is recognized for its customer-centric services.

TOP 3

ONLINE MOBILE COMMUNICATIONS SHOPS 2018
modeo.de, a platform operated by Motion TM, placed in the top 3 in an analysis of the best online mobile communications shops by the German Association for Consumer Studies.

CUSTOMER CARE IS PARAMOUNT

As one of the best-digitalised companies in Germany, freenet has set standards over the past several years in the expansion, synchronisation and efficiency of its various sales and communication channels for the customer. The goal has always been to ideally address the customer's product desires and offer individual service regardless of how the customer contact takes place – in shops, online, in writing or on the phone.

FREENET GROUP DRIVES THE DIGITALISATION OF CUSTOMER CONTACTS AND PRODUCT OFFERS

The omnichannel project and various activities by the individual subsidiaries of the freenet Group are outstanding examples of this approach. These activities include the opening of the new logistics centre for Motion TM, which guarantees nationwide delivery within 24 hours for this distributor for freenet's specialist partners, and the development of Multi-Commerce, a cross-sector multi-channel solution for retail outlets under the MOON retail brand of Motion TM, which enables these outlets to benefit from high-value online traffic and draw customers from the Internet into shops.

Motion TM also launched a new partner programme for its retail partners at the end of the year. For a price of 99 euros monthly, the Moon Prime package offers an extended payment term of 45 days, the content of the Digital Package with social media support, online visibility, the activation of mobile contracts on the Internet and financing for mobile phones, as well as continued free shipment from one euro.

modeo.de, a platform operated by Motion TM, also placed in the top 3 in an analysis of the best online mobile communications shops in 2018 carried out by the German Association for Consumer Studies. And among readers of the journal Telecom Handel, Motion TM has ranked first for several years in the category of Delivery and Shipping Terms.

GRAVIS EXPANDS "PRODUCT AS A SERVICE" INITIATIVE

The subsidiary GRAVIS entered into a partnership with Grover in a few stores in financial year 2017, initially in the context of a pilot project. The company focuses on leasing digital lifestyle products instead of selling them. Customers benefit from the cash-conserving, customisable use of the latest devices as well as protection in the event of damage and complete flexibility.

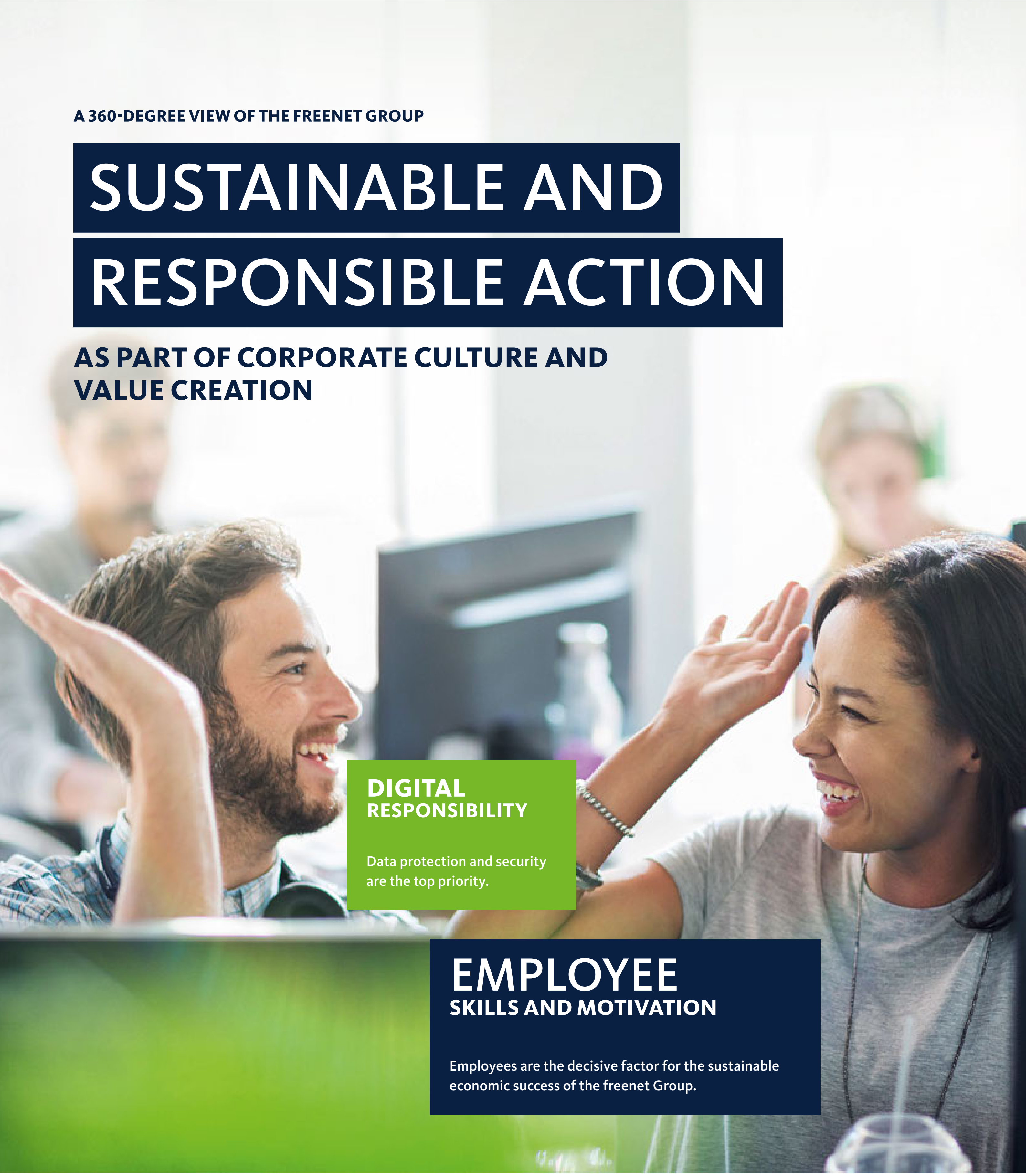
In the first half of 2018, GRAVIS expanded this fast, convenient "product as a service" model to cover all of Germany. The freenet subsidiary also began providing its own battery services as an authorised Apple service provider. For its diverse customer-centric services, GRAVIS received the Plus X Award in the IT/Telecommunications category in the first quarter of 2018. With its panel of international, independent judges, this is one of the world's largest innovation awards in the fields of technology, lifestyle and sports.

THAT COSTA NEXT TO NOTHING!

As in previous years, freenet supported its sales and service activities in 2018 with continuous and systematic marketing campaigns. The mobilcom-debitel campaign in early summer – once again featuring the popular character Costa – referenced the FIFA World Cup in Russia and was designed for range expansion and frequency activation in shops and online channels. The focus was on an extended selection of products from the core business of mobile communications, as well as the innovative opportunities for TV consumption at home and on the move. In addition to the main commercial stations such as ProSieben, RTL, Sat1 and Vox, the TV spots also involved the public broadcaster ZDF for the first time. The number of cities covered by the out-of-home measures doubled to over 40 – with the aim of improving the broad effect of the special offers.

In October the main freenet brand began a three-month tour through ten major German cities with a new mobile lounge concept, which features a large branding space and a "dialogue corner" for visitors to learn about and try out its services. The focus was on high-quality consultation and product diversity, as well as the functionality and image quality of freenet Video, freenet TV and waipu.tv., and the advantages of a fully networked living room using Google Home.

freenet TV was also the focus of the two-month Christmas campaign that started in mid-November. Two combination packages, among other things, were offered in the context of this national 360-degree campaign with TV spots, radio ads, and online and social media activities.



A 360-DEGREE VIEW OF THE FREENET GROUP

SUSTAINABLE AND RESPONSIBLE ACTION

AS PART OF CORPORATE CULTURE AND VALUE CREATION

DIGITAL RESPONSIBILITY

Data protection and security are the top priority.

EMPLOYEE SKILLS AND MOTIVATION

Employees are the decisive factor for the sustainable economic success of the freenet Group.

CORPORATE RESPONSIBILITY TO ALL STAKEHOLDERS

For the freenet Group, corporate responsibility means more than just a narrow focus on commercial and thus economic responsibility. The freenet Group is aware of its various roles, which is why its corporate culture is shaped by a philosophy that also focuses on the interests of its stakeholders. Sustainable and responsible action is thus a part of ensuring our company's business success and future, but it is based primarily on economic responsibility. This is because economic success is the fundamental requirement for us to be able to generate value for our various stakeholders.

The freenet Group feels that it has a direct responsibility to its employees, customers and shareholders, as well as to the ecological and social environment at each company location and in the context of society as a whole.

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

- As an employer, the freenet Group believes the skills and motivation of its employees are decisive factors for ensuring the company's long-term economic success.
- The freenet Group accepts digital responsibility: data protection and security are the top priority.
- In its responsibility to its customers, the freenet Group focusses on long-term customer relationships – based primarily on high-quality service and customer satisfaction.
- In the context of its environmental responsibility, the freenet Group explicitly endorses the most efficient use of resources and energy possible. This is not only important for the company's economic success', it is also critical to reducing carbon emissions.
- In terms of combatting corruption, the freenet Group is committed not only to all applicable laws and standards, but also to the underlying ethical principles.
- Regarding the design of its supply chain, the freenet Group is aware of its responsibility for protecting the environment and human rights. The relevant policies address the corresponding sustainability aspects.

NON-FINANCIAL STATEMENT

Detailed information about the aspects mentioned can be found in the non-financial statement on pages 73 – 83.

THE EXECUTIVE BOARD
OF FREENET AG

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

TO OUR SHAREHOLDERS

REPORT OF THE EXECUTIVE BOARD

How do you sum up a year that has mostly involved moving into new business areas and responding to the changes this brings? Time and time again, we as entrepreneurs have to ask ourselves and answer some fundamental questions such as: Do our strategic decisions match the objectives and path that freenet AG has chosen? Have we reached important milestones for new market segments and met our targets? In doing all this, are we fulfilling the most important mission for any company: to work as efficiently and sustainably as possible, to achieve presentable results and to strive afresh for continuous improvements in all of our operations every day? Last but not least, is this benefiting our shareholders and all of our other stakeholders – our employees, business partners and Group locations?

The latest studies and figures suggest that the decision we made more than two years ago to enter the Full HD TV and IPTV/Streaming markets by acquiring Media Broadcast and EXARING AG was both logical and forward-looking. According to the 2018 Video Digitalisation Report conducted by state media authorities, more than two out of three Germans still watch films and television series on 'traditional' linear TV; TVs and radios are switched on both inside and outside the home for an average of around seven hours a day; and approximately 29 million people – 42 per cent of the population – also use video-on-demand at least once a month, a figure that is rising, particularly among younger users. At the same time, the declining sales figures reported by major smartphone manufacturers indicate that the mobile communications market is now largely saturated. This is another reason why we have spent several years focusing on high-quality contractual relationships in this core segment.

Do our 2018 figures justify the challenges and risks associated with every strategic decision, and indeed with all commercial activity? I think the results speak for themselves:

"WE HAVE GOT A LOT OF THINGS RIGHT – AND WE WANT TO GET EVEN MORE THINGS RIGHT IN THE FUTURE!"

Christoph Vilanek,
Chief Executive Officer (CEO)

- We were able to expand our competitive positioning in several sections of the fiercely competitive mobile communications market in 2018. Our most important customer group, high-quality postpaid customers, grew for the seventh successive year by 185,000 to 6.896 million today. And the monthly average revenue generated with these customers (ARPU) remains stable at 21.6 euros, or 19.0 euros adjusted for hardware elements (IFRS 15).
- In the TV and Media segment, the number of registered users of EXARING's IPTV product waipu.tv surged past the one million mark in September last year. At the end of the year, this freenet majority equity investment boasted 1.26 million users and around 252,000 paying subscribers – a year-on-year increase of 146.0 per cent.
- freenet TV has also reported rising customer numbers since launching its commercial service in the summer of 2017. By the end of 2018, approximately 1.01 million households had chosen the DVB-T2 HD and Sat HD products offered by our Media Broadcast subsidiary, up 112,000 compared to the end of 2017.
- On this basis, and supplemented by the organic growth of our Digital Lifestyle business, we generated total revenue of 2.90 billion euros in accordance with IFRS 15 in 2018, resulting in EBITDA of 485.5 million euros (adjusted EBITDA of 402.1 million euros) and stable free cash flow of 326.1 million euros. As a result, we are once again operating in line with our guidance for the financial year ended. Without the effects of the mandatory transition to IFRS 15, revenue amounted to 3.66 billion euros, a slight increase of 4.3 per cent.
- Once again, our shareholders have been able to participate in freenet AG's success. In the spring of 2018, they received yet another increased dividend of 1.65 euros per eligible share.

And our success is not just measurable in figures. We have also received several small and larger awards that provide us with reassurance about our strategic direction and investments. mobilcom-debitel won the 2018 Mobilfunk-Award from consumer portal handytarife.de for being Provider of the Year, and also picked up the 2018 German Design Award for the clear artistic language and interactive elements of its new modular shop design. Discount subsidiary klarmobil took the top spot in awards, including 2018 Mobile Tariff of the Year and for its service featuring simple activation, transparency, marketing support and retailer training. As the platform operator of freenet TV, Media Broadcast won a Gold German Brand Award for its excellence in branding, as well as the renowned Red Dot Design Award for the design quality and creativity of its online customer accounts. Finally, subsidiary modeo was awarded a medal for being one of the best online mobile communications shops of 2018 in a DtGV (German Association of Consumer Studies) study. And in light of our tremendous efforts to train and develop our employees, we were proud to hear Schleswig-Holstein's Ministry of Economic Affairs, Bernd Buchholz, describe us as an extremely attractive employer for the state of Schleswig-Holstein and an exemplary workplace for training.

While there is no denying that we have got a lot of things right, it must be said that realignment and growth always come at a price, take time and have their limits – especially in the intensely competitive old and new market segments in which the freenet Group operates. Not every investment proves as successful as those in Media Broadcast, EXARING or – to go back a little further – Swiss company Sunrise, nor can the timing of every investment be described as ideal with the benefit of hindsight. Of course, we would also welcome an even stronger rise in customer numbers in the Mobile Communications and TV and Media segments.

However, every entrepreneur needs not only a coherent strategy, but also consistent implementation, patience and perseverance, as demonstrated by companies that have come through restructuring processes or radical changes successfully despite all of the problems that arose along the way.

At freenet, we possess the same kind of staying power. We focus not on short-term quarterly results, but on creating a prosperous future for our company in the medium to long term. What's more, we are in an excellent position to take freenet AG there, thanks to our enhanced Executive Board, whose members bring greater focus, expertise and experience to each of their areas of responsibility. We are stepping up efforts to improve our customer focus, sales activities, relationships with manufacturers, trading partners and network operators and, last but not least, increase the transparency of our capital market communications. Finally, we have unwaveringly dedicated and skilled employees who follow, shape and successfully implement our strategy in their day-to-day work.

Christoph Vilanek,
Chief Executive Officer (CEO)

"WE ARE INCREASING THE TRANSPARENCY AND INTEGRITY OF OUR CAPITAL MARKET COMMUNICATION!"

Ingo Arnold,
Chief Financial Officer (CFO)

The past financial year was far from encouraging on the financial markets. Interest rate hikes in the USA, the threat of a global trade war, uncertainly over Brexit and political turbulence in some neighbouring European countries all contributed to the sometimes significant losses on European stock exchanges after a long-running bull market. Even top quality blue-chip stocks were affected.

Unfortunately, freenet shareholders did not escape unscathed either. However, we are using all of our motivation, strength and expertise as a company to counteract this trend. We again generated solid results in our operating business and once more met our guidance. This was particularly true with regard to customer growth in the TV and Media segment.

In addition to staying in touch with investors and analysts on a daily basis, we maintained an active and intensive dialogue with our investors at 11 investor conferences in 2018. We also communicated our business performance and strategic direction to institutional investors and analysts at eight roadshows in Europe's key stock market locations as well as in New York.

Of course, we would have preferred to have timed our investment in CECONOMY better. While we expect our strategic investments to deliver additional important momentum for both our Mobile Communications and TV businesses, the CECONOMY example clearly demonstrates the importance of transparency with regard to both our operating business and capital market communications.

We have set ourselves the target of further improving this transparency for the freenet Group. As part of our IR communications, we want to improve confidence in our performance and integrity and create clarity in areas where misunderstandings have arisen in the past. For example, this includes providing clearer definitions of the Company's free cash flow and debt ratio.

We also want to present ourselves more effectively to analysts and investors as one cohesive unit from an Executive Board perspective. Our newly created Executive Board divisions give us additional resources and expertise when it comes to maintaining a dialogue with financial market players. Above all, however, our expanded leadership structure creates scope for me and Christoph Vilanek to make joint appearances and thus provide an even more complete picture of our strategic thinking and financial circumstances.

While it must be noted that we still cannot do anything about the overall trend in the financial markets, we will be even more decisive and transparent than before in doing everything we can to ensure that the freenet share price adequately reflects the fundamental value of our business and the attractive growth prospects of our company. We will do this with the utmost integrity, honesty and authority.

Ingo Arnold,
Chief Financial Officer (CFO)

freenet faced several important crossroads moments over the past financial year. In addition to making strategic decisions and investments in our current operating business, we also set our future competitive course as a service provider in the mobile communications and mobile Internet sectors.

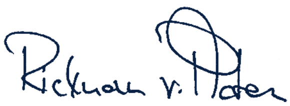
In my area of responsibility – which includes partner management relating to network operators, device manufacturers and high-street distribution partners – we significantly strengthened our partnership with freenet's key Media-Saturn sales channel by acquiring an interest in CECONOMY. In addition, we were once again able to place greater emphasis on supply and product management. We became the first company in Germany to add Xiaomi smartphones to our range. These devices from the highly internationally successful Chinese manufacturer offer excellent value for money, which enables us to focus on serving price-sensitive yet quality-conscious customer segments with suitable products. At the same time, this collaboration enables us to reduce our dependency on manufacturers Apple and Samsung, who have dominated the market to date.

We are addressing another attractive customer segment in the current year with our Mobile Device Management, an innovative service for small- and medium-sized enterprises that we are implementing with partners. It involves efficient management, control and risk reduction for mobile devices via a simple and intuitive administration console for businesses with 20 to 500 employees. This includes, for example, the automatic configuration of email, WiFi, VPN and settings, the separation of company and private data and apps, the integration of company infrastructure, the tracking or wiping of lost devices in compliance with the Works Council, and certified security in accordance with relevant company guidelines.

The publication of the final award conditions for the new 5G standard in late November 2018 marks another significant milestone, despite pending litigation by freenet and network operators over the 'removal of ambiguities'. We did our part in reaching this milestone with our intensive argumentation, communication and lobbying efforts. As a result, network operators are obliged to negotiate in a non-discriminatory and goal-oriented manner. This obligation relates to existing and future technology – 2G (GSM), 3G (UMTS), 4G (LTE) and 5G – and includes relevant sanctions for improperly conducted negotiations or those with unreasonable conditions.

This significantly improves our market and competitive positioning compared to the LTE award conditions in 2009 that failed to provide a foothold for service providers. In the past, we had to work hard to participate in this process via the rocky road of lengthy private law negotiations. By contrast, the new award conditions ensure that we can reliably plan and submit bids until 2040.

In the coming months, it will be important for us to breathe life into this new framework – network operators in particular will probably test out the scope and limits of the new regulations soon, regardless of legal developments. We will use all of our skill and experience to meet this challenge head on!



Rickmann v. Platen,
Chief Commercial Officer (CCO)

"WE ARE STRENGTHENING OUR COMPETITIVE POSITION!"

Rickmann v. Platen,
Chief Commercial Officer (CCO)

ANTONIUS FROMME ON… …THE CUSTOMER JOURNEY AND EXPERIENCE:

Our underlying concept is customer-centric – we want to focus all of our activities on our customers rather than individual products. One example of this is the tariff structure introduced by our discount subsidiary klarmobil at the end of 2018, in which the customer decides what they pay and how long they want to commit – without any hidden fees, traps or automatic data upgrades. At our company, going forward the focus will not be as much on a few individual processes, but rather on asking: 'How do our customers view our company as a whole, and how do they experience their customer journey with us?'

"BETWEEN CUSTOMER-CENTRIC AND HIGH-PERFORMANCE IT…

Antonius Fromme,
Chief Customer Experience Officer (CCE)

When asking this question, it is important to note that there is no such thing as a typical customer. Instead, we serve a wide variety of customer segments, from shop visitors requiring plenty of advice and hotline callers to price-sensitive 'digital natives' on the web portal. With the help of our omni-channel project, we are increasingly able to provide our customers with intensive support on their customer journey, irrespective of their choice and how they use different touchpoints at different times.

… DIGITAL GUIDANCE AND ARTIFICIAL INTELLIGENCE:

Ensuring the best possible customer journey means providing customers with consistent digital guidance and the clever use of artificial intelligence. For instance, we analyse the frequency of digital and non-digital contact with sales and services. Only one in five contacts with the Service team is currently made digitally. We want to increase this share to almost 50 per cent over the next few years with the help of a suitable digital strategy. We are striving for similar figures in Sales. To achieve these goals, we are keen to use the opportunities provided by artificial intelligence. For example, we developed a chatbot for klarmobil that went live in 2018 and uses logic programming to answer all relevant customer questions automatically.

… SEARCH ENGINE ADVERTISING AND DATA-DRIVEN MARKETING:

To reinforce our position as one of Germany's most digitalised companies, we are increasingly using insourcing to consolidate as many digital core competencies as possible within our company – one example being search engine advertising on Google, which we now manage using our own technology. We also automatically and constantly analyse large datasets, including around 1,000 results pages from major comparison portals every hour, to help us create attractive products. If our tariffs momentarily slip out of the top group on these portals, our service managers immediately receive the information necessary to upgrade and improve our tariffs accordingly.

A. Fromme

Antonius Fromme,
Chief Customer Experience Officer (CCE)

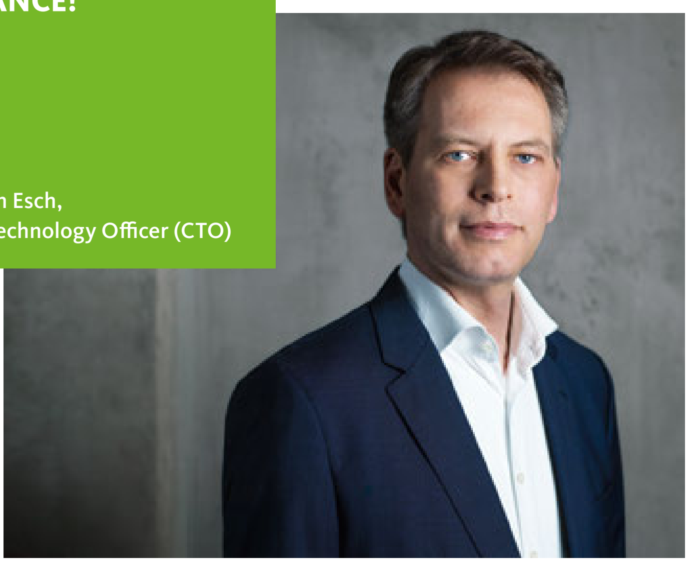
STEPHAN ESCH ON IT REQUIREMENTS FOR… …THE CUSTOMER JOURNEY:

Our success story stretches back over more than two-and-a-half decades and has also created our greatest challenge. Our IT system landscape – which was initially developed during the pioneering age of mobile communications in the early 1990s and which has grown with every subsequent merger and acquisition – now has to cover an ever-larger and continually expanding number of customers, products and services. It has been many years since we were purely a mobile provider.

When embarking on their journey, customers expect to get all of their products – including mobile and Internet access, video and cloud services, digital lifestyle accessories and TV/streaming services – in one place, ideally via one portal and a single account. As a result, we have to bring together a wide range of different offerings from individual companies in our Group in one system, which almost means providing a system of systems that can also repeatedly integrate new product groups, all while delivering completely seamless processes for our base of over 13.8 million customers. This requires plenty of care and time; after all, you cannot recreate or replace a system that has grown organically over more than 25 years within just a few months.

…WE MAINTAIN A CONSISTENT BALANCE!"

Stephan Esch,
Chief Technology Officer (CTO)



… THE DIGITAL TRANSFORMATION AND ARTIFICIAL INTELLIGENCE:

Millions of our customers' data accumulate at approximately 700 IT microlocations in Germany every day. We analyse and use this data to give our customers as practical and mutually productive a 'journey' as possible. One recent example is chatbots such as the one already used by our discount subsidiary klarmobil for its customer service. The chatbot uses available data to independently support the customer with whatever stage of the journey they are at, suggests the options and products they need and reacts to any critical issues with free rewards or 'next best offers'. What's more, as a core element of artificial intelligence, the chatbot works independently to continually improve its services and database.

… THE DATA DRIVEN ORGANISATION:

The company is only as good and efficient as the data on which it is based and on which it operates. As one of the most digitalised companies in Germany, freenet AG is clearly doing some things right. However, we must not allow ourselves to become complacent. We must continually ensure that our IT infrastructure performs as well as possible and place it on a firm footing for the future. We must also provide professional users with the right tools and ensure that every process is seamless. Last but not least, we must always be open to new products and developments so that we can integrate them into our systems where necessary. For example, we started working with Alexa in depth at a very early stage. By following this philosophy, we are constantly gaining fresh expertise and avoiding dependency on external providers.

Stephan Esch,
Chief Technology Officer (CTO)

TO OUR SHAREHOLDERS

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,
In this report, we would like to inform you about the Supervisory Board's main activities during the past financial year. In the 2018 financial year, the Supervisory Board of freenet AG kept itself continually and thoroughly informed about the development, situation and prospects of the freenet Group and diligently performed the monitoring and advisory duties incumbent upon it under the law and the articles of association. As well as numerous issues that were discussed and decided upon at the Supervisory Board's meetings, the full Supervisory Board's deliberations in the first half of 2018 were focused primarily on:

- extending the appointment of the Chief Executive Officer
- expanding the Executive Board to include two new areas of responsibility and
- acquiring an approximately 9.1 per cent equity interest in CECONOMY AG.

"COOPERATION BETWEEN THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD IS BASED ON CONTINUAL DIALOGUE."

Prof Dr Helmut Thoma,
Chairman of the Supervisory Board

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

- replacing the outgoing Chief Financial Officer and
- readjusting the financing structure of the Group.

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

In particular, the Supervisory Board held detailed discussions with the Executive Board about divergences in the business performance compared to the plans and targets, and examined these with the help of the documents that it had received. In addition, the Executive Board continued the company's strategic alignment in close consultation with the Supervisory Board – with a focus on the Mobile Communications segment and simultaneous restructuring as a digital lifestyle provider, as well as its expansion of the business areas to include the TV and Media segment. All of the commercial transactions of significance for the company were discussed in detail on the basis of

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

Name of the Supervisory Board member	Attendance at Supervisory Board and committee meetings	Attendance rate in %
Claudia Anderleit	10/10	100
Bente Brandt (from 17 May 2018)	7/7	100
Theo-Benneke Bretsch (from 17 May 2018)	5/5	100
Sabine Christiansen	10/10	100
Gerhard Huck (from 17 May 2018)	8/8	100
Thorsten Kraemer	10/10	100
Fränzi Kühne	6/6	100
Knut Mackeprang	14/14	100
Ronny Minak (until 17 May 2018)	3/3	100
Thomas Reimann	8/8	100
Michael Stephan (until 17 May 2018)	3/3	100
Prof Dr Helmut Thoma	14/14	100
Gesine Thomas (until 17 May 2018)	2/2	100
Marc Tüngler	10/10	100
Robert Weidinger	10/10	100

the Executive Board's reports. Likewise, on the basis of the Executive Board's reports, the Supervisory Board made resolutions after examining the subject matter in question, and when required. Outside of the meetings, too, the Executive Board kept the Supervisory Board members informed about current business developments.

Furthermore, the chairman of the Supervisory Board held regular discussions with the Executive Board on the company's strategy, planning, business development, risk situation and management as well as compliance, and informed itself about current topics and events.

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

During the 2018 financial year, the Supervisory Board held four meetings requiring personal attendance and two telephone meetings. Attendance at Supervisory Board and committee meetings was 100 per cent. As a result, no member of the Supervisory Board participated in just half of the meetings or fewer. No circumstances that might constitute conflicts of interest involving Executive or Supervisory Board members which must be disclosed to the Supervisory Board and about which the Annual General Meeting must be informed were disclosed to the Supervisory Board.

SUPERVISORY BOARD MEETINGS

Regular topics for discussion by the full Supervisory Board were:

- current business performance,
- the market and competitive situation and
- the financial position and results of operations as well as the financing situation of the company.

At a meeting requiring personal attendance held on 20 March 2018, the main subject of the discussion was the annual and consolidated financial statements as at 31 December 2017. The findings of the annual financial statements audit and the effects of amended financial reporting standards were discussed together with representatives of the auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. After completing its own examination, the Supervisory Board raised no objections to the auditors' findings and followed the audit committee's recommendation by approving the annual and consolidated financial statements. The annual financial statements were thereby adopted. The Supervisory Board also discussed the review of the non-financial statement as at 31 December 2017. This review was conducted by Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (Mazars WPG), Hamburg, with the support of the audit committee. Based on the review procedures carried out and the evidence obtained, the auditor did not identify any issues which would lead him to conclude that the information in the non-financial statement was not prepared in all material respects in compliance with the legal requirements. The Supervisory Board agreed with the results of the review conducted by Mazars WPG on the recommendation of the audit committee.

In addition to preparing for the Annual General Meeting on 17 May 2018, another central point of this meeting was the expansion of the Executive Board. The Supervisory Board appointed Antonius Fromme as the Executive Board member responsible for customer relations and Rickmann v. Platen as the Executive Board member responsible for partner management. It also extended the appointment of Chief Executive Officer Christoph Vilanek for a further five years. At this meeting, the Supervisory Board also adopted a resolution regarding the targets agreed with members of the Executive Board for 2018.

At its meeting following the Annual General Meeting on 17 May 2018, the Supervisory Board appointed new persons to the committees after the end of the term of office of the previous employees' representatives on the Supervisory Board.

In a telephone meeting on 28 June 2018, the Supervisory Board members advised the Executive Board on holding an equity stake in CECONOMY AG and approved the acquisition of an equity interest of approximately 9.1 per cent in this company. The Supervisory Board informed itself of the latest subsequent developments concerning CECONOMY AG in an additional telephone meeting on 12 October 2018.

At its meeting on 25 September 2018, the Supervisory Board discussed the appointment of a new Chief Financial Officer in addition to fundamental strategic considerations. After Joachim Preisig informed the Supervisory Board that he did not wish to extend his existing Executive Board employment contract beyond 2019, the Supervisory Board selected Ingo Arnold as his successor and confirmed his appointment as Chief Financial Officer in writing on 24 October 2018 with effect from 1 January 2019.

On 21 November 2018, the Supervisory Board also adopted a written resolution to adjust the financing structure of the Company by increasing the existing syndicated loan agreement by 200 million euros and issuing a promissory note loan of 100 million euros.

In its meeting on 4 December 2018, the Supervisory Board discussed and noted with approval the planning for the 2019 financial year presented by the Executive Board. It also passed a resolution on the submission of the annual Declaration of Conformity with the German Corporate Governance Code. Finally, the Supervisory Board approved the acquisition of The Cloud Group, a provider of WiFi solutions.

After the financial year 2018 had come to an end, a Supervisory Board meeting was held on 19 March 2019, mainly for the purpose of discussing the annual and consolidated financial statements as at 31 December 2018. The details concerning this matter are the subject of the separate section "Audit of the annual and consolidated financial statements for financial year 2018" in this report. A further topic was the agenda for the 2019 Annual General Meeting, including the resolutions proposed to the Annual General Meeting by the Supervisory Board.

THE WORK OF THE SUPERVISORY BOARD'S COMMITTEES

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

STEERING COMMITTEE

In 2018, the steering committee held four meetings requiring personal attendance to discuss strategic considerations and, in particular, provided support for the acquisition of an equity interest in CECONOMY AG. In this context, the committee's members adopted a circular resolution to finance this transaction based on an authorisation granted by the Supervisory Board.

PERSONNEL COMMITTEE

The members of the personnel committee attended five meetings in 2018, including two meetings conducted by telephone. The committee prepared the Supervisory Board resolution to extend the appointment of Christoph Vilanek and appoint new Executive Board members Antonius Fromme, Rickmann v. Platen and Ingo Arnold and conducted employment contract negotiations with the Executive Board members. As part of these efforts, the committee developed the Executive Board remuneration system further and recommended it to the Supervisory Board for presentation at the Annual General Meeting. The committee also established whether and to what extent the parameters for the variable remuneration of the Executive Board members for 2017 were reached, set new parameters for the targets agreed for the 2018 financial year and proposed these to the Supervisory Board for a resolution.

AUDIT COMMITTEE

The audit committee regularly addressed the latest key audit areas and discussed them with the auditors in four meetings requiring personal attendance. The committee's members dealt intensively with the annual report, half-yearly report and quarterly management statements. One regular subject was the discussion of current accounting issues together with the auditor. The committee advised on the accounting impact of the new financial reporting standards IFRS 9 and IFRS 15. One highly significant topic in the committee in the first half of 2018 was providing support for the review of the non-financial statement conducted by Mazars WPG. The committee also informed itself about the effects on the Group of the General Data Protection Regulation (GDPR) which came into force during the year under review.

In the second half of 2018, the issues addressed by the committee included the carrying amount of the equity interest in CECONOMY AG, the non-audit services rendered by the auditor and ensuring the dividend distribution capability of freenet AG. Additional topics were the effects of the new IFRS 16 financial reporting standard coming into effect from 2019 onwards and the further development of non-financial reporting. For the review of the 2018 non-financial statement, it once again recommended to the Supervisory Board the appointment of Mazars WPG based on the experiences of the previous year. The committee obtained reports directly from the managers responsible in Compliance and Internal Audit as well as reports regarding risk management, fraud management and the status of the internal control system.

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

- the committee obtained the statement of independence of the auditor,
- the committee monitored the auditor's independence and the implementation of the audit assignment,
- the committee dealt with identifying the key areas for the audit of the financial statements, and
- the committee prepared the Supervisory Board's resolutions on the annual and consolidated financial statements, the proposal for the appropriation of profits and the agreements with the auditor.

MEDIATION COMMITTEE

As in the previous years, the mediation committee did not have to be convened in 2018.

NOMINATION COMMITTEE

The nomination committee did not convene in 2018.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2018

The annual financial statements prepared by the Executive Board in accordance with the provisions of the German Commercial Code (HGB) for the financial year from 1 January 2018 to 31 December 2018 and the freenet AG management report were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. The audit assignment had been awarded by the chairman of the audit committee in accordance with the resolution adopted by the Annual General Meeting on 17 May 2018. The auditor issued an unqualified auditor's report. The consolidated financial statements of freenet AG as at 31 December 2018 were prepared in accordance with section 315e HGB on the basis of the international financial reporting standards (IFRSs). The auditor issued an unqualified auditor's report for these consolidated financial statements and the Group management report.

The auditor's report of the auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, has been signed by Niklas Wilke in his capacity as the responsible auditor. Niklas Wilke has been responsible for the audit of the company and of the Group for the first time since the audit of financial year 2011. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft has been acting as the auditor of the company without interruption since auditing the annual financial statements for financial year 2014.

The audit was reported on and discussed in the audit committee on 26 February 2019 and at the Supervisory Board meeting on 19 March 2019. The auditors took part in the Supervisory Board's and the committee's deliberations on the annual and consolidated financial statements. They reported on the key findings of the audits and were at the disposal of the audit committee and the Supervisory Board for supplementary questions and information. As a result of its own final examination of the annual and consolidated financial statements, the management report and the Group management report, the Supervisory Board raised no objections and approved the result of the audit conducted by the auditor.

The Supervisory Board followed the audit committee's recommendation and approved the annual and consolidated financial statements at its meeting on 19 March 2019. The annual financial statements are thus adopted. At its meeting on 19 March 2019, the Supervisory Board also examined the Executive Board's proposal for the appropriation of net retained profits and discussed it with the auditor. Subsequent to this, the Supervisory Board – following the audit committee's recommendation – gave its consent to the Executive Board's proposal.

REVIEW OF THE NON-FINANCIAL STATEMENT FOR THE FINANCIAL YEAR 2018

The non-financial statement for the financial year from 1 January to 31 December 2018, which was prepared by the Executive Board as part of the management report, of freenet AG and the group management report was reviewed by Mazars WPG, Hamburg. The limited assurance engagement was awarded on the basis of the Supervisory Board resolution of 4 December 2018. After reviewing the non-financial statement, the auditor concluded that he had not identified any issues which would cause him to believe that the disclosures in the non-financial statement have not been prepared. in all material respects, in compliance with the legal requirements (limited assurance engagement). The auditor reported on the limited assurance engagement procedures and results in the audit committee meeting on 26 February 2019. The Supervisory Board agreed with the findings of the auditor following a corresponding recommendation by the audit committee.

CHANGES TO THE EXECUTIVE BOARD AND SUPERVISORY BOARD

SUPERVISORY BOARD

The terms of office of the employees' representatives on the Supervisory Board ended at the conclusion of the Annual General Meeting on 17 May 2018. The Group's workforce re-elected the existing members Claudia Anderleit, Knut Mackeprang and Thomas Reimann to the Supervisory Board. Employee' representatives Ronny Minak, Michael Stephan and Gesine Thomas stepped down from the Supervisory Board at the end of the Annual General Meeting. Bente Brandt, Theo-Benneke Bretsch and Gerhard Huck were elected to the Supervisory Board in their place.

EXECUTIVE BOARD

The Executive Board was expanded to include two new areas of responsibility with effect from 1 June 2018. Antonius Fromme assumed responsibility for customer relations at Executive Board level and Rickmann v. Platen was placed in charge of partner management.

After more than ten years, Joachim Preisig stepped down from the Executive Board of freenet AG at his own request on 31 December 2018. The Supervisory Board appointed Ingo Arnold as his successor as Chief Financial Officer with effect from 1 January 2019.

The Supervisory Board would like to thank Joachim Preisig for his service and significant achievements over the past ten years. It would also like to thank the outgoing members of the Supervisory Board for their commitment to the company, their constructive and informed contributions to the Supervisory Board as well as their loyal cooperation.

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

Büdelsdorf, 19 March 2019

For the Supervisory Board

Prof Dr Helmut Thoma
Chairman of the Supervisory Board

TO OUR SHAREHOLDERS

FREENET AG AND THE CAPITAL MARKETS

- 2018 at the stock markets – turbulent twelve months come to a close
- Dividend payment of 1.65 euros in May 2018 for financial year 2017
- Optimised maturity structure of debt financing creates long-term financing security

CAPITAL MARKET ENVIRONMENT

2018 was not a good year for the stock markets, which turned in an extremely mixed performance for the year as a whole and were clearly negative in the second half of the year. A successful 2017 and optimistic prospects for robust economic growth as well as the expectation that political crises would ease had a positive effect on the equity market at the start of 2018. On 23 January, the DAX even rose to the highest level in its history. As the year went on, however, trade conflicts involving the USA, with a steady flow of new threats and punitive tariffs, clearly dominated trading activity. In addition, there were persistent concerns about recession.

Most indices were unable to escape the general negative sentiment and were already trending downward in the first half of the year. As a consequence, the DAX recorded a 25-month low of 10,381 on 27 December 2018. Both the highs at the beginning of the year and the lows shortly before the end of the year clearly reflect the turbulence on the stock markets during the year. Overall, the DAX fell by 18.3 per cent for the year.

The general uncertainty of market participants is also reflected in the VDAX New volatility index. The index, which provides an objective measurement of the expected range of volatility for the DAX, rose to 25.3 points on 27 December 2018. This represents an increase of 83.8 per cent since the beginning of the year and points to a rather turbulent market.

The telecommunications sector was also unable to escape the general trend. In addition, the performance of (German) mobile communications companies suffered disproportionately, particularly as a result of the debate on the new 5G mobile communications standard. In particular, the structuring of licensing conditions, the associated costs and investments in a state-of-the-art mobile communications network caused prices to fall. The SXKP, a European share index for companies in the telecommunications industry, subsequently recorded a decline of around 13.1 per cent to 245 points during the year (29 December 2017: 282 points).

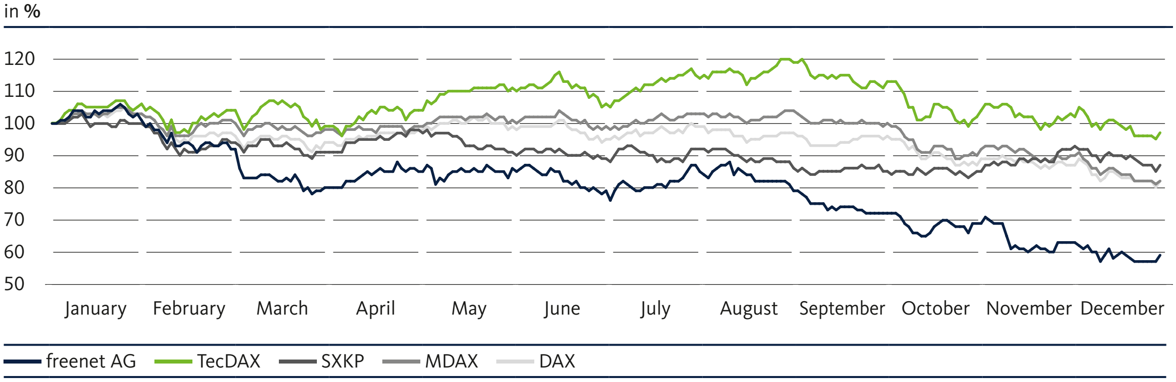
THE FREENET SHARE

In line with the entire telecommunications industry and all relevant benchmark indices, the freenet AG share recorded a significant decline in the reporting period. Despite a positive start in the first three weeks of the year, during which the freenet share rose to its high for the year of 30.52 euros on 22 January 2018, the share price fell by 20 per cent to 23.17 euros in the first quarter. While some markets stabilised at a lower level and recovered to some extent, the freenet AG share continued to tumble. While the DAX gained 1 per cent between April and June and the TecDAX gained 7 per cent, the freenet share lost 2.1 per cent in the same period and closed at 22.69 euros on the last trading day of the first half of the year. Even the solid figures for the first quarter of 2018, which were published on 5 May, could not stop the trend in the second half of the year. Finally, the high dividend of 1.65 euros per share also caused a decline in the share price (stock exchange trading ex dividend on 18 May 2018).

In the third quarter, freenet AG acquired an approximately 9.1 per cent stake in CECONOMY AG, a listed company that is the parent company of Media-Saturn-Holding GmbH, at a price of 8.50 euros per CECONOMY share. With over 400 consumer electronics stores in Germany, CECONOMY operates one of the most important sales channels for the freenet Group. However, this acquisition was not as well received by the capital markets as expected. The freenet share then fell to 20.70 euros by the end of the quarter, marking a new low for the year. The two profit warnings issued by CECONOMY shortly after the acquisition of the shares

Figure 1: Performance of the freenet share in 2018

(indexed; 100 = Xetra closing price on 31 December 2017)



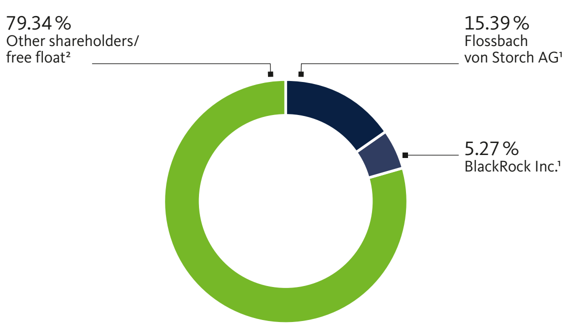
probably also had an influence on this development. While freenet AG's inclusion in the MDAX on 24 September 2018 was positive news underscoring the quality of the stock, it was unable not counteract this trend. As was the case throughout the year, the good business figures for the third quarter and positive one-time effects from the sale of the analogue radio business and the confirmed outlook for 2018 as a whole did not have a positive impact on the share price.

The last months of the 2018 reporting period were dominated by discussions between industry associations, companies, politicians and the Federal Network Agency on the structure of licences for the new 5G mobile communications standard. The uncertainties associated with this – particularly with regard to non-discriminatory access to the networks, which is important for service providers such as freenet AG – continued to put pressure on the share price in the fourth quarter. Even the optimisation of the financing structure achieved in December and the associated creation of long-term financing security did not bring about any improvement. Overall, the freenet share fell by around 41 per cent in 2018, from 28.90 euros to 16.95 euros. On 31 December 2018, freenet AG's market capitalisation amounted to just under 2,170.6 million euros (2017: 3,946.8 million euros).

SHAREHOLDER STRUCTURE AND GEOGRAPHICAL DISTRIBUTION

With over 77,000 shareholders, freenet AG has a broad shareholder structure. In the 2018 financial year, institutional investors again held the majority of the issued shares, accounting for just under 68 per cent (previous year: 72 per cent). As of the reporting date, the blocks of shares held by institutional investors were pure financial investments – as was the case in the previous year. Over half (53 per cent) of all invested financial institutions followed a value-oriented investment approach. The remaining investor groups were index- and/or returns-oriented or pursued specialised investment strategies. The percentage distribution largely corresponded to the previous year's ratio and thus remains unchanged.

Figure 2: Shareholder structure of freenet AG on 31 December 2018

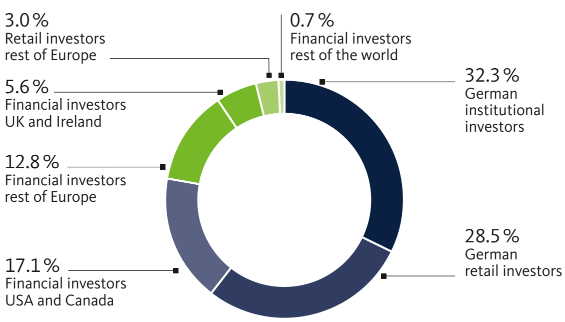


[1] incl. attributions according to the German Securities Trading Act (Wertpapierhandelsgesetz–WpHG).
[2] The free float according to Deutsche Börse AG amounts to 79.34 per cent.

Based on an analysis carried out in October 2018, as was the case in the previous year, Germany represents the largest regional group of investors with a share of just under 61 per cent (2017: 54 per cent). Half of these are institutional investors, the other half are private shareholders. Institutional financial investors from the USA and Canada account for the second largest percentage of issued shares (17 per cent), followed by institutional investors from the rest of Europe (12 per cent). The remaining portion is accounted for by institutional investors from Great Britain and Ireland (6 per cent), private shareholders from the rest of Europe (3 per cent) and financial investors from other countries (0.7 per cent).

Figure 3: Geographical distribution of the shareholder structure of freenet AG on 31 December 2018

in %



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

DIRECTORS' DEALINGS

A total of three members of the Executive Board acquired shares in freenet AG during the financial year. Joachim Preisig acquired a total of 16,250 shares worth around 400,000 euros on 18 May. In addition, Ingo Arnold bought 7,500 shares worth around 140,000 euros in November following the announcement of his appointment as Chief Financial Officer. Stephan Esch also acquired 5,000 shares worth almost 90,000 euros in November.

VOTING RIGHTS NOTIFICATIONS

Equity interests of more than 3, 5 or 10 per cent were held by Flossbach von Storch AG and BlackRock Inc. at the end of the year. In March, BlackRock Inc. notified us that it had exceeded the 5 per cent reporting threshold for the first time. Later in the year, these and other reporting thresholds were exceeded or fallen below several times. Deutsche Asset Management Investment GmbH (Germany), BNP Paribas Asset Management France S.A.S. (France) and Polaris Capital Management, LLC (USA) notified us during the year that they fell below the 3 per cent threshold.

The aforementioned and other voting rights notifications pursuant to Section 21 of the German Securities Trading Act for the 2018 financial year have been published at www. freenet-group.de/investor-relations.

EARNINGS PER SHARE

The basic/diluted earnings per share of 1.74 euros in the 2018 reporting year were lower than in the previous year (2.24 euros). The basis for calculating the earnings per share is the weighted average of shares outstanding.

Table 2: Earnings per share

In EUR/as indicated	2018	2017
Basic earnings per share	**1.74**	**2.24**
Diluted earnings per share	**1.74**	**2.24**
Weighted average number of shares outstanding in thousands (basic)	128,011	128,011
Weighted average number of shares outstanding in thousands (diluted)	128,011	128,011

DIVIDEND

On 17 May 2018, freenet AG's Annual General Meeting adopted a resolution to pay a dividend of 1.65 euros per eligible no par value share for financial year 2017, representing a pay-out ratio of 61.6 per cent of free cash flow. The dividend was distributed to the shareholders on 23 May 2018 through Clearstream Banking AG, Frankfurt am Main, by way of the respective custodian banks and financial institutions. The distribution was made from the tax-specific deposit account in accordance with section 27 of the German Corporation Tax Act (Körperschaftsteuergesetz–KStG). This means that the dividend was again paid out without any deduction of withholding tax and the solidarity surcharge.

The Executive Board and Supervisory Board are standing by their current dividend policy and intend to propose to the Annual General Meeting on 16 May 2019 to pay a dividend for the 2018 financial year in the amount of 1.65 euros per no par value share from net retained profits.

TAX TREATMENT OF THE DIVIDEND

The upcoming dividend distribution of freenet AG will be made from the tax-specific deposit account, so the payment will be made without deduction of withholding tax and solidarity surcharge. freenet AG assumes that this will continue to be the case in the coming financial years.

Domestic investors who acquired freenet AG shares after 31 December 2008 will realise a profit subject to withholding tax in the event of a sale. In the opinion of the German tax authorities, in this case the distributions reduce the taxable purchase costs of the shares and thus lead to a profit on sale – and therefore to an implicit subsequent taxation of the dividends.

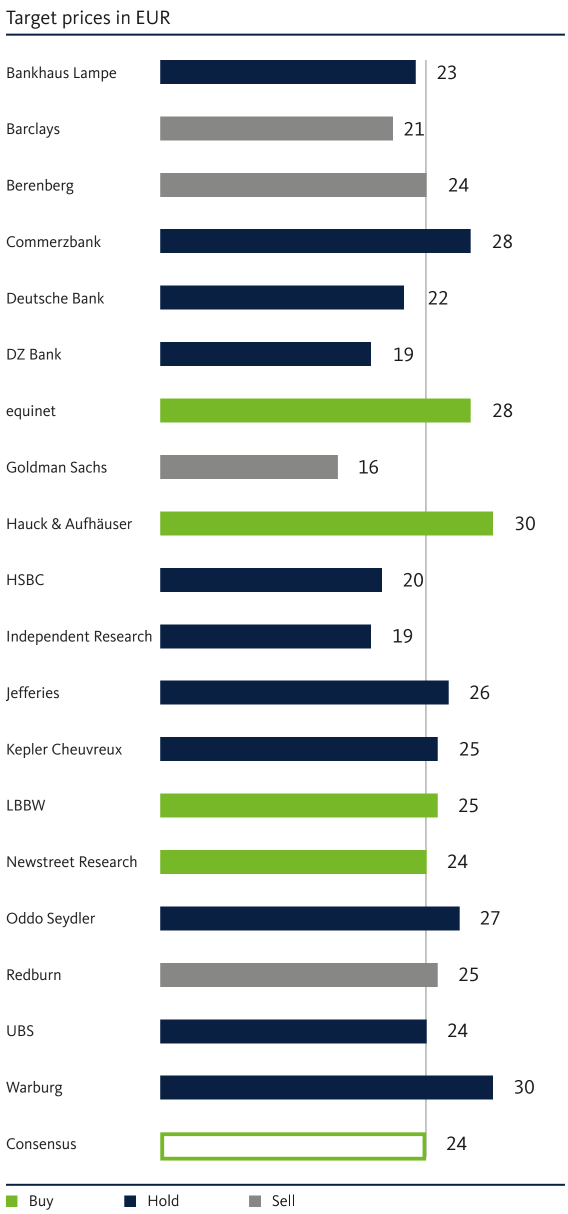
ANALYSTS' RECOMMENDATIONS

A total of 19 (2017: 21) international investment firms regularly published studies and recommendations regarding the current performance of freenet AG in financial year 2018. During the year, analysts published around 58 comments and recommendations on the freenet share, representing a significant decline compared with the previous year (80 comments and recommendations). The decrease is attributable in particular to the introduction of the European Financial Markets Directive MiFID II at the beginning of 2018.

Analysts' assessments of freenet AG were often negative during 2018. At the end of 2018, just under 21 per cent recommended buying the share (2017: 30 per cent). Well over half, 11 out of 19 analysts (58 per cent) (2017: 55 per cent), were in favour of "holding" the freenet share at the end of the year. The remaining 21 per cent advised selling the share (2017: 10 per cent).

The average target price of the analysts as at 31 December 2018 amounted to 24.58 euros (2017: 29.44 euros). With a year-end closing price of 16.95 euros, the freenet share thus has an upside potential of around 45 per cent.

Figure 4: Current recommendations for the freenet share



As per 31 December 2018

INVESTOR RELATIONS: CONFERENCES & ROADSHOWS

The investor relations activity of freenet AG aims to ensure that institutional investors, private shareholders, financial analysts, business partners, employees as well as all other interested stakeholders are continuously provided with comprehensive information about the company.

At conferences and roadshows in international financial centres, the Executive Board and the Investor Relations team once again held numerous discussions with investors in financial year 2018. Furthermore, following the publication of quarterly and annual reports, telephone conferences with a large number of analysts, brokers and investors were organised, providing detailed information on the performance of freenet AG. A total of almost 380 investor meetings were held during the year (2017: 200). The focus of the meetings was on timely and transparent communication on business development, current topics relating to freenet AG and an assessment of the German telecommunications industry.

The wide variety of investor relations activities will also be of great relevance in 2019. Management and the Investor Relations team intend to further intensify communication, with a special focus on the transparency and integrity of capital market communications. The aim is to provide an even more complete picture of strategic considerations and financial conditions in order to strengthen confidence in the performance of freenet AG and provide clarity in areas in which there have recently been misunderstandings.

Table 3: Information on the freenet share

WKN/ISIN:	A0Z2ZZ/DE000A0Z2ZZ5
Sector:	DAXsector Telecommunication, DAXsubsector Wireless Communication
Class of shares:	No par value registered ordinary shares
Index memberships:	MDAX, TecDAX, Midcap Market Index, CDAX, HDAX,STOXX Europe 600 Telecommunications (SXKP), Prime All Share, Technology All Share
Share capital/number of shares:	128,061,016 euros/ 128,061,016 shares
Official trading:	Regulated Market/Prime Standard: Frankfurt OTC market: Berlin, Hamburg, Stuttgart, Düsseldorf, Hanover, Munich
Symbol/ Reuters instrument code:	FNTN/FNTGn.DE

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

SYNDICATED BANK LOAN INCREASED AND EXTENDED BY FIVE YEARS

In the reporting period, freenet AG successfully extended the syndicated bank loan originally signed in March 2016 until November 2023 at the same terms, and increased the loan volume from 710 million euros to 910 million euros.

Following the extension in 2017, the syndicated bank loan was thus extended for a further five years in November 2018 by way of another “Amend & Extend” transaction. With two extension options of one year each, the term could ideally even be extended to seven years. The increased volume consists of an unchanged bullet loan of 610 million euros and a revolving credit line of 300 million euros (previously 100 million euros) not drawn at the end of 2018. Both tranches are still floating-rate tranches. There were no changes in interest rates or covenants. The maximum margin over the term is 1.90 per cent p. a. The transaction was arranged by Bayerische Landesbank, Commerzbank AG, Landesbank Baden-Württemberg as well as UniCredit Bank, and was placed entirely within the existing bank syndicate.

EARLY REPAYMENT OF PROMISSORY NOTE LOAN FROM 2012

In December 2012, freenet AG took out a promissory note loan of 120 million euros, of which 54.5 million euros was still outstanding at the beginning of 2018. In December 2018, freenet prematurely repaid the entire outstanding amount of 54.5 million euros, so that this promissory note loan no longer existed at the end of 2018.

RAISING AND REPAYMENT OF BRIDGE FINANCING FOR CECONOMY

In July 2018, freenet AG took out a bank loan of 277.8 million euros with a term until January 2020 to finance its investment in CECONOMY. This loan was repaid in full in December 2018, so that it no longer existed at the end of 2018.

RAISING OF A PROMISSORY NOTE LOAN OF 100 MILLION EUROS

In December 2018, freenet AG raised a promissory note loan of 100 million euros. The transaction, which was carried out at normal market conditions, was supported by DZ-Bank, Hessische Landesbank, Landesbank Baden-Württemberg and UniCredit Bank. The subscription was made with an initial margin of 1.20 per cent p.a. for the 5-year tranches and an initial margin of 1.30 per cent p.a. for the 7-year tranches. The initial margin could decrease over time based on a step-down mechanism.

FINANCIAL INFORMATION ONLINE

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

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

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

2018

GROUP MANAGEMENT REPORT

OF FREENET AG

GROUP MANAGEMENT REPORT

FUNDAMENTAL INFORMATION ABOUT THE GROUP

- **Digital lifestyle provider with approximately 13.8 million customers**
- **Long-term customer contracts with constant value added generate stability and predictability in the Mobile Communications segment**
- **TV products as a key growth driver in its corporate strategy**

BUSINESS MODEL

FREENET GROUP AT A GLANCE

As a digital lifestyle provider, the freenet Group offers its approximately 13.8 million customers innovative products for digital living. The Group's operations can be split into two basic segments: Mobile Communications, and TV and Media. In the Mobile Communications segment, the freenet Group markets mobile communications products and services relating to mobile contracts. In the TV and Media segment, the business model consists of providing and broadcasting media content, particularly the transmission of TV and radio signals.

MOBILE COMMUNICATIONS SEGMENT

The freenet Group's core business is mobile communications. It offers mobile telecommunications and mobile Internet products, services and hardware. The portfolio is also being expanded to encompass a diverse range of digital lifestyle products, including mobile phone accessories, home entertainment (music and video offerings) and smart home applications. The Group uses a multi-brand strategy ranging from discount to premium brands to meet the needs of almost every customer group.

The freenet Group's unique selling proposition in the German market is the fact that its tariff portfolio includes the original tariffs of the three German network operators – Telekom, Vodafone and Telefónica Deutschland – while also marketing its own tariffs without operating its own mobile network. These tariffs are sold both online and/or offline via an extensive network of high-street branches depending on the brand strategy. Under its main brand, mobilcom-debitel, the freenet Group operates both an online shop and a branch network consisting of more than 550 stores. mobilcom-debitel also holds exclusive marketing rights for mobile communication services on the Telekom and Vodafone networks in more than 400 electronics stores operated by Media-Saturn-Deutschland GmbH (Media Markt and Saturn).

TV AND MEDIA SEGMENT

For more than 25 years, customer experience management, i.e. creating positive experiences that enable the customer to form an emotional bond with mobile communications products, has been the freenet Group's most important core expertise. This expertise is also being transferred to the comparatively young TV and Media segment. The freenet Group has been active in the TV and Media segment via Media Broadcast GmbH (Cologne) and a majority holding in EXARING AG (Munich) since 2016. Media Broadcast GmbH designs, sets up and operates multimedia broadcast infrastructure for TV and radio based on state-of-the-art digital transmitter technology. Media Broadcast GmbH, and thus the freenet Group, is the sole provider of digital antenna TV (DVB-T2 HD) in the German market. The Group distributes TV content from public and private broadcasters to private end customers via the freenet TV brand.

The business model of EXARING AG is also based on the transmission of TV content from public and private broadcasters. The company broadcasts and sells video content via internet-based technology (IPTV) with an innovative app and exclusive access to a modern fibre-optic network stretching over approximately 12,000 km. The IPTV product is purchased and marketed to private users in a subscription model via the freenet Group's distribution channels, among others. More than 100 TV stations are broadcast up to a minute faster than on traditional cable TV thanks to the rapid 'low latency service' data transmission process. High-speed streaming on a smartphone, tablet, laptop or home television makes it easy to receive this content. Fast, stable transmission combined with exceptional picture quality and an intuitive user interface has enabled waipu.tv to gain a relevant market position in the growing German IPTV market within just a few years.

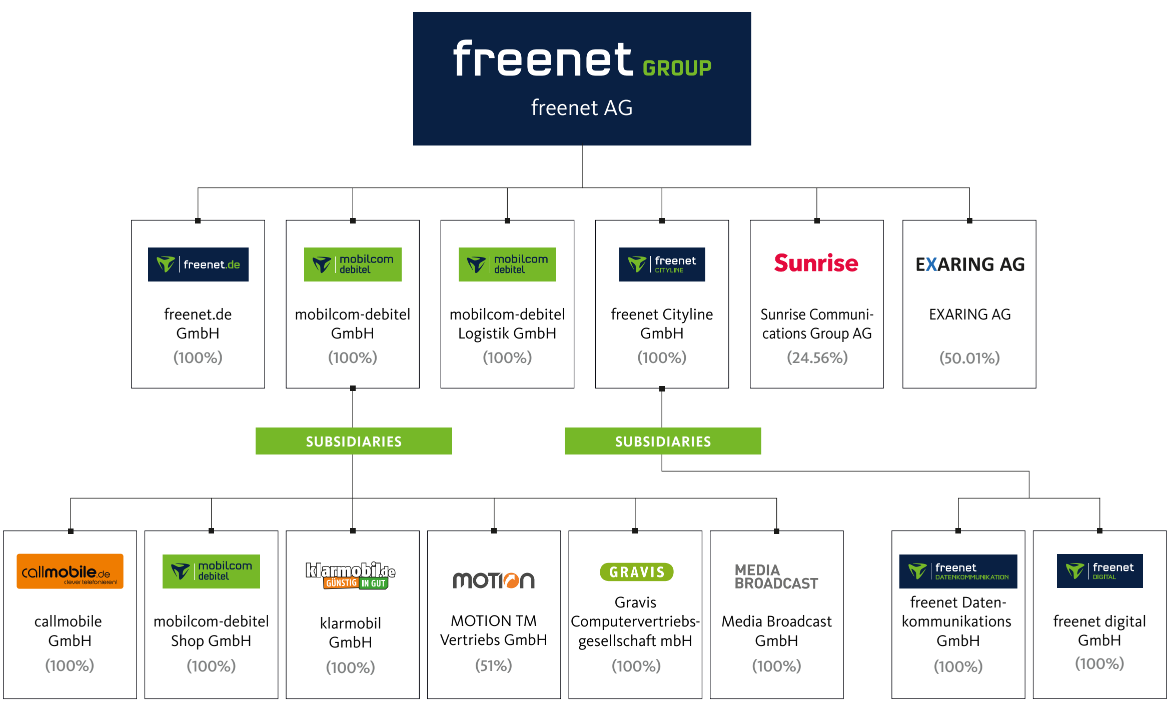
GROUP STRUCTURE AND ACQUISITIONS

The main Group companies as of 31 December 2018, measured in terms of their contribution to the main financial performance indicators of the Group, are set out in the following figure:

SEGMENT-SPECIFIC DISCLOSURES

freenet AG organises and manages its operating activities in the Mobile Communications, TV and Media and Other/Holding segments. This distinction corresponds with internal management. The segments are divided by products and not by customer segment or geographical areas.

Figure 5: Material Group companies of freenet AG as of 31 December 2018



The mobile communications business and the growth sector of Internet-based mobile applications (digital lifestyle products and services) are allocated to the Mobile Communications segment. The TV and Media segment comprises all activities in the DVB-T2 and IPTV fields. In particular, this includes the transmission of TV signals in the retail business, and the planning, project management, installation, operation, service and marketing of broadcast-related solutions for business clients.

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

CORPORATE STRATEGY

As a digital lifestyle provider, service quality and lasting customer satisfaction and loyalty are vitally important to the freenet Group. As service quality is considered to be a strategic asset in the freenet Group, the company has spent years intensifying its focus on improving the customer experience. The freenet Group believes that responsible interactions with customers that take into account their individual needs provide a basis for long-term commercial success.

MOBILE COMMUNICATIONS SEGMENT

Mobile communications remain the mainstay of the freenet Group. As a result, maintaining market share in the saturated German mobile communications market is a priority. The freenet Group relies on a unique business model in the mobile communications business. Unlike mobile network operators (MNOs), the Group does not run its own expensive and capital-intensive mobile network. Compared to other competitors, the freenet Group does not have any binding agreements with network operators to acquire (network) capacity (which would make it a mobile virtual network operator or MVNO), thus avoiding resale risk. Instead, the Group has a reselling model in which the mobile customer remains a customer of the freenet Group rather than being transferred to the network operator.

The freenet Group deploys an asset-light strategy to harness strategically important customer development potential via up-selling and cross-selling measures. Active customer management, a consistent multi-brand strategy and a focus on long-term 24-month contracts (postpaid customers) should help to considerably increase customer loyalty, optimise customer base quality and consequently stabilise monthly revenues per customer. Continuously optimising the customer experience and interconnecting the multi-channel distribution network (offline and online sales channels) is expected to contribute further to these efforts.

Long-term customer contracts that make consistent value contributions and are almost free of seasonal effects require stable business performance and reliable forward planning of revenue, EBITDA and free cash flows.

TV AND MEDIA SEGMENT

To ensure further value-oriented organic growth, the Group will transfer its existing sales strength, service orientation and long-standing experience in subscription business to the TV and Media segment. The resulting business potential will primarily be put to strategic use by means of direct customer contact to ensure the steady and stable development of the operating business.

As a result, the freenet Group's TV products are a key growth driver in its corporate strategy. After implementing consistently innovative developments as well as digitalising and optimising its broadcasting methods, the freenet Group is now marketing its subscription services – freenet TV and waipu.tv – in order to establish profitable long-term customer relationships. Given that there are more than 62 million households, the TV business in Germany serves a market with around 200 million mobile and fixed playback devices. The freenet Group can use this attractive scope and its existing subscription expertise to open up and develop profitable new segments with strong cash flows.

OTHER STRATEGIC ASPECTS

In addition to organic growth, the freenet Group continuously monitors the market for acquisitions, investments and other collaborations to expand its digital lifestyle portfolio and reinforce its market position. These efforts are primarily focused on the Group's home market of Germany.

When implementing its corporate strategy, the freenet Group takes into account the different needs and expectations of all freenet-specific interest groups, including shareholders, lenders and employees. Overall, the strategic focus of the Group is based on sustainable and responsible action and management. Likewise, all interest groups can benefit from value-oriented and profitable operations.

INTERNAL MANAGEMENT SYSTEM

To implement the operations and strategic objectives of the Group, a standardised and reliable management system is used at the highest Group level and in the freenet Group's individual companies. Performance is measured using both financial and non-financial performance indicators.

In order to align the management system more strongly with the strategic focus and management of the freenet Group, the financial and non-financial performance indicators are being revised and refocused for the 2019 financial year (see also the "Alternative performance measures" section). The management system defined in the 2017 financial year and used for the 2018 outlook remains valid for assessing the year under review, particularly with regard to the comparison of planned and actual results in the report on economic position. Both management systems are compared in tabular form below.

Internal management system 2018	Internal management system from 2019
Financial performance indicators	**Financial performance indicators**
Revenue	Revenue
EBITDA exclusive of Sunrise	EBITDA
Free cash flow exclusive of Sunrise	Free cash flow
Postpaid ARPU	Postpaid ARPU
freenet TV ARPU	
Non-financial performance indicators	**Non-financial performance indicators**
Customer ownership (postpaid + no-frills customers)	Postpaid customers
TV customers:	TV customers:
freenet TV subscribers	freenet TV subscribers (RGU)
waipu.tv registered customers	waipu.tv subscribers
waipu.tv subscribers	

freenet TV ARPU will no longer be part of the financial performance indicators in the future due to the simplicity of the pricing model and the subsequent lack of relevance for management purposes. Within the non-financial performance indicators, there is a focus on the most relevant customer groups for earnings and liquidity.

The future performance indicators are outlined below. Please refer to the 2017 annual report for details of the management system used until 2018.

If a further need for adjustment is identified in the future, we reserve the right to adjust the management system accordingly.

FINANCIAL PERFORMANCE INDICATORS

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

- Revenue
- EBITDA
- Free cash flow
- Postpaid 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 only used in the Mobile Communications segment.

A reconciliation for non-GAAP financial measures (also: alternative performance measures) such as EBITDA and free cash flow are presented in the section "Alternative performance measures".

Revenue

Revenue is equivalent to the value of our operating activities and is therefore a key measure of the company's success. Revenue in the freenet Group's core business depends on the sale of products and services related to mobile communications and the mobile Internet, and is reported in the Mobile Communications segment. It is in the strategic interest of the Executive Board to develop additional revenue sources that complement the Mobile Communications segment. This includes, among other things, business activities in the digital lifestyle business as well as the establishment and expansion of the TV business. The success of the sales efforts is primarily reflected in the future revenue performance of the companies.

EBITDA

EBITDA reflects the short-term operating performance of a company in total and in part, and is generally regarded as a key financial performance indicator, both when assessing corporate trends over past periods and companies in the same market segment. Since EBITDA focuses on operating efficiency, this performance indicator also enables comparability irrespective of the different capital costs and capital expenditures caused by the respective business model. Accordingly, EBITDA is also used for valuation purposes in connection with company acquisitions and sales.

EBITDA also includes special factors, giving a holistic view of income and expenses. However, comparability with previous years is only possible to a limited extent as a result. In order to increase transparency, the freenet Group reports EBITDA, adjusted for one-time effects (adjusted EBITDA), for information purposes and to assess the development of operating earnings, in addition to EBITDA as a financial control parameter. One-time effects can represent both expenses and income. They relate to significant non-recurring, one-time and/or regulatory effects (e. g. restructuring expenses) which, based on the Executive Board's assessment, could impair the transparent presentation of the freenet Group's operating results.

Adjusted EBITDA will thus supplement management-relevant EBITDA as an additional information indicator in the future. Please refer to the section entitled "Alternative performance measures" for the definition of EBITDA and the one-time effects in adjusted EBITDA recognised in 2018.

Free cash flow

Free cash flow as a Group-wide liquidity-based indicator is an important supplement to the earnings-oriented performance assessment of the freenet Group and is of equal importance for equity and debt investors. Free cash flow is a key measure of the freenet Group's ability to grow from its own resources, to ensure stable dividend payments, to meet all operating payment obligations of the freenet Group, and thus serves as a measure for assessing potential payments of principal.

Free cash flow and in particular net working capital are managed operationally by the Treasury department based on established controlling structures. In addition to the continuous optimisation of payment terms for our liabilities, the control measures also include efficient receivables management, including factoring.

Please refer to the section entitled "Alternative performance measures" for a definition of free cash flow.

Postpaid ARPU

Postpaid ARPU is the monthly average revenue per customer in the Mobile Communications segment generated by selling 24-month contracts. For the freenet Group as a whole, the postpaid ARPU serves as an indicator of the willingness of customers to pay corresponding monthly fees for mobile communications services. Consequently, postpaid ARPU is an indicator of the quality of the customer base. Therefore, securing and improving quality is in the strategic interest of management. Changes in the market and competitive situation in Germany can have a significant impact on the development of postpaid ARPU. Regulatory requirements can also influence the level of postpaid ARPU.

As a result of IFRS 15, Revenue from Contracts with Customers, which had to be applied for the first time from 1 January 2018, the postpaid ARPU will in future be calculated without factoring in account hardware revenue (subsidy portion) included in the basic fee. The freenet Group thus creates transparency with regard to the ability to reconcile revenue from services and the development of postpaid ARPU and customer numbers.

The revenue generated from the sale of mobile devices via the mobile phone upgrade option is still not included in the calculation.

NON-FINANCIAL PERFORMANCE INDICATORS

The development of the freenet Group's operating performance is closely linked to the development of customer numbers. Customer acquisition and retention are therefore essential for the freenet Group. The strategically relevant customer groups vary depending on the operating segment. In this year's annual report they have been adjusted and restricted to the postpaid customer group as a performance indicator for the Mobile Communications segment, and the revenue-generating TV customers as a performance indicator for the TV and Media segment.

The change provides a more transparent view of the strategic orientation of the freenet Group and reflects the perception of the relevant customer groups on the capital market.

The following non-financial performance indicators will be relevant in the future:

- Postpaid customers
- TV customers

Postpaid customers

The measurement of the valuable postpaid customers, which comprises strategically important customers with two-year contracts, is particularly useful for medium- and long-term corporate management. In conjunction with postpaid ARPU, this control parameter, which is relevant exclusively in the Mobile Communications segment, represents a key indicator of the medium- and long-term earnings and liquidity potential of the mobile communications business.

TV customers

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

OTHER MEASURES FOR THE COMPANY'S SUCCESS

To manage the Group, the freenet Group uses financial and non-financial performance indicators, as well as other measures indicating the company's success. These comprise:

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

Product brands, new products

In addition to its traditional mobile communications and mobile Internet segments, freenet AG is increasingly addressing the digital lifestyle growth market and the TV and Media segment. The company adopts a multi-brand strategy in its traditional segment, enabling it to serve each individual target group in the market. Under its main brand, mobilcom-debitel, the company focuses on high-calibre contractual relationships with a 24-month term (postpaid customers). The strategic core competencies of this brand are providing demand-oriented and network-independent customer advice as well as maintaining maximum proximity to customers. This is achieved via a variety of high-street sales outlets and retail partners and as by the networking of these channels with the various online platforms (omni-channel approach). In addition, the discount brands of the Group – klarmobil, freenetmobile, callmobile and debitel light – address the so-called no-frills segment. Discount tariffs are sold largely via the company's own e-commerce platforms.

Relationship management becoming increasingly important

Continually monitoring and adjusting the product and tariff portfolio to the needs of our customers and new competitive situations is vital to the commercial success of our business. In light of this, the freenet Group has expanded its Executive Board with effect from 1 June 2018. As the Executive Board member responsible for customer experience, Antonius Fromme now oversees direct customer activities in the core mobile communications business, as well as all online and offline marketing activities and the digitalisation of all customer interactions and transactions. As the Executive Board member responsible for partner management, Rickmann v. Platen manages the Group's relationships with all major business partners such as network operators, hardware suppliers and major distribution partners as well as specialist retailers.

Continuous development of new product worlds

In the TV and Media segment, Media Broadcast, the freenet TV platform operator, has been continuously expanding the range of DVB-T2 HD to a total of 63 transmitter sites in Germany. As a result, the number of citizens who can receive freenet TV via a roof antenna rose to 62.5 million. In addition, satellite users also gained access to freenet TV via the Astra satellite system in the second quarter, while in May freenet TV's offering expanded to include the "freenet TV connect" online service.

EXARING AG also continued to enhance its waipu.tv product during the course of 2018. The company completely overhauled the waipu.tv app in the middle of the year and expanded its portfolio of programmes to around 100 stations for the Perfect version, including more than 60 in HD. In mid-2018, the freenet Group launched freenet Video, an offering designed to address the attractive market for online video services. At the end of the year, the freenet Group rounded off its TV offering to include its own content as freenet Shopping went live in late November.

In the middle of the fourth quarter, freenet.de launched Carmada.de, a proprietary cloud-based fleet management platform that enables small- and medium-sized companies to make quick and effective use of corporate carsharing and carpooling.

Partnerships

At the start of the year, freenet.de GmbH began a collaboration on the freenet.de portal with leading German bookmaker Tipico. During the course of the year, the freenet Group also launched a TV and Media partnership with Deutsche Technikberatung to provide its customers with an additional service. freenet customers can use the service offered by this professional technical support company to install and maintain all of their devices for 49 euros, including travel expenses and up to one hour of service time.

In the fourth quarter, a partnership with maxdome provided the basis for a new entertainment package offering six months of traditional HD-quality TV combined with access to more than 50,000 films and TV series from Germany's largest online video library via both DVB-T2 HD and satellite.

Sales activities

In August, freenet AG acquired a stake of approximately 9.1 per cent in CECONOMY, the parent company of Media Markt and Saturn, as part of a capital increase. These two chains of electronics stores have been among the most important distribution channels for the main mobilcom-debitel brand for around 25 years. The investment provides the freenet Group with an opportunity to protect this long-standing partnership in the long term and use additional touchpoints to deepen the relationship. As a result, the Group could possibly market more additional services such as TV products that have not yet been exhausted.

At the end of 2018, the subsidiary Motion TM launched Moon Prime, a new partner programme for its retail partners. This programme includes an extended payment term of 45 days, a "digital package" including social media support, online visibility, online mobile contract switching and mobile phone financing, as well as delivery free of shipping costs from 1 euro.

GRAVIS expands "product as a service" initiative

Subsidiary GRAVIS initially entered into a partnership with Grover as part of a pilot project in several stores back in 2017. Grover offers customers the opportunity to hire products instead of buying them. This offering covers all digital lifestyle product lines, including smartphones and tablets, computers and wearables, gaming and home entertainment, audio and music as well as e-mobility and smart home applications. In the first half of 2018, GRAVIS expanded the rollout of this fast, uncomplicated "product as a service" offering across all of its stores in Germany.

freenet's main brand, mobilcom-debitel, also began a three-month tour through ten major German cities with a new mobile lounge concept in October. In addition to showcasing the brand's high-quality advice and product variety, the tour highlighted the functionalities and picture quality of freenet Video, freenet TV and waipu.tv, as well as demonstrated the benefits of a fully-networked lounge via Google Home.

Research and development

The freenet Group does not have its own research and development department. As a result, the income statement was not significantly affected by research and development costs during the year under review and the previous year.

In view of the rapid technological progress being made in the telecommunications sector, however, the company is dealing intensively with current developments in this area. The primary aim of these efforts is to reinforce the Group's long-term competitive positioning in this dynamic market environment. Most of the development work being undertaken at the freenet Group forms part of IT, strategic and product development projects. In 2018, cash investments totalling 18.1 million euros were made in these projects (2017: 18.5 million euros).

Employees

In 2018, the freenet Group employed 4,183 people at 10 locations, as well as in mobilcom-debitel shops and GRAVIS stores. Each year, the Group makes more than 100 training positions available on vocational training and work/study ("dual study") courses; these are broken down into a total of twelve training courses at more than 150 training locations. At the end of 2018, the number of apprentices in the freenet Group was 325 (2017: 322).

In a dynamic digital environment, it is essential for the freenet Group to maintain and adapt the skills of its employees and bring them into line with current market and technology developments. In this regard, 439 qualification activities were held for employees in 2018 in the form of specialist, method and skills training (2017: 403). Employees at mobilcom-debitel shops and GRAVIS stores are supervised and instructed by an independent training unit.

More information about employee issues can be found on pages 73–83 of the non-financial statement.

ALTERNATIVE PERFORMANCE MEASURES

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

FINANCIAL YEAR 2018

The alternative performance measures used by the freenet Group are as follows:

- EBIT
- EBITDA and EBITDA exclusive of Sunrise
- Gross profit and gross profit margin
- Net debt, pro forma net debt and debt ratios derived from these
- 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 accounting for acquired operations.

EBIT

EBIT is defined as earnings before interest, other net finance costs including the shares of the profit or loss of equity-accounted investments.

Table 4: Calculation of EBIT

In EUR '000s	1.1.2018 – 31.12.2018	1.1.2017 – 31.12.2017
Operating result	311,988	260,831
Profit or loss of equity-accounted investments	25,110	112,161
EBIT	**337,098**	**372,992**

EBITDA and EBITDA exclusive of Sunrise

EBITDA is a financial performance indicator of the freenet Group and is defined as earnings before interest and taxes, including shares of the profit or loss of equity-accounted investments (EBIT) and excludive of write-downs and deferred taxes resulting from the subsequent accounting for equity-accounted investments, plus depreciation, amortisation and impairment. The write-downs resulting from the subsequent accounting for the shadow purchase price allocation do not affect EBITDA. In this connection, please also refer to note 17 of the notes to the consolidated financial statements.

EBITDA 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	1.1.2018 – 31.12.2018	1.1.2017 – 31.12.2017
EBIT	337,098	372,992
Depreciation, amortisation and impairment	129,196	148,234
Subsequent accounting from purchase price allocation	19,233	19,969
EBITDA	**485,527**	**541,195**
Thereof Sunrise profit share	–44,260	–133,167
EBITDA exclusive of Sunrise	**441,267**	**408,028**

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

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

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 gross profit and revenue.

Table 6: Calculation of gross profit

In EUR '000s/as indicated	1.1.2018 – 31.12.2018	1.1.2017 – 31.12.2017
Revenue	2,897,466	3,507,263
Cost of materials	–1,993,739	–2,557,501
Gross profit	**903,727**	**949,762**
Gross profit margin (in per cent)	**31.2**	**27.1**

Net debt, pro forma net debt and debt ratios derived

Net debt are defined as long-term and short-term debt shown in the balance sheet, less liquid assets, less the interest of the freenet Group in the market value of Sunrise and CECONOMY as of the reference date. The latter adjustments have been made because the acquisition of the interest in Sunrise ("Sunrise acquisition") in financial year 2016 and the acquisition of the interest in CECONOMY ("CECONOMY acquisition") in financial year 2018 were financed entirely via new borrowings. Accordingly, after the Sunrise and CECONOMY acquisitions, it would not have made much economic sense to detail net debt without including the interests held in Sunrise and CECONOMY.

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 translated into euros using an officially defined reference date rate based on Bloomberg date. The market value of CECONOMY is calculated by multiplying the closing price of CECONOMY's ordinary shares on the Frankfurt stock exchange by the number of shares held by the freenet Group (32,633,555) as of the relevant reference date.

Table 7: Calculation of net debt

In EUR '000s	31.12.2018	31.12.2017
Non-current borrowings	1,699,424	1,666,001
Current borrowings	23,476	7,145
Liquid assets	–126,332	–322,816
Market value of Sunrise and CECONOMY	–952,498	–840,344
Net debt	**644,070**	**509,986**

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

Table 8: Calculation of pro forma net financial debt

In EUR '000s	31.12.2018	31.12.2017
Non-current borrowings	1,699,424	1,666,001
Current borrowings	23,476	7,145
Liquid assets	–126,332	–322,816
Pro forma net debt	**1,596,568**	**1,350,330**

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

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

Interest cover

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

Table 9: Calculation of interest result

In EUR ‘000s	1.1.2018 – 31.12.2018	1.1.2017 – 31.12.2017
Interest and similar expenses	56,042	51,132
Interest and similar income	–164	–830
Interest result	**55,878**	**50,302**

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

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 10: Calculation of free cash flow and free cash flow exclusive of Sunrise

In EUR ‘000s	1.1.2018 – 31.12.2018	1.1.2017 – 31.12.2017
Cash flows from operating activities	369,477	385,356
Payments to acquire property, plant and equipment and intangible assets	–57,193	–61,118
Proceeds from disposal of intangible assets and property, plant and equipment	13,850	18,597
Free cash flow	**326,134**	**342,835**
Sunrise dividend	–36,912	–34,409
Free cash flow exclusive of Sunrise	**289,222**	**308,426**

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

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

Equity ratio

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

Table 11: Calculation of the equity ratio

In EUR ‘000s/as indicated	31.12.2018	31.12.2017
Equity	1,280,753	1,462,901
Total equity and liabilities	4,634,652	4,314,123
Equity ratio (in per cent)	**27.6**	**33.9**

2019 FINANCIAL YEAR

In order to align the management system more closely with the strategic orientation and management of the freenet Group, various performance indicators will be revised and refocused for the 2019 financial year, which will also affect the Group's alternative performance measures. In this context, we also refer to the comments on the internal management system in the Group management report.

Financial result

As of the 2019 financial year, the items profit or loss of equity-accounted investments, interest and similar income, interest and similar expenses and other financial result are reported in a separate subtotal called financial result.

EBIT

EBIT is defined as earnings before interest and taxes and will in the future no longer include the profit or loss of equity-accounted investments.

EBITDA and Adjusted EBITDA

Starting in the financial year, 2019 the freenet Group will report both EBIT and EBITDA without the (shares of) the profit or loss of equity-accounted investments. In order to increase transparency, the freenet Group will report EBITDA, adjusted for one-off effects (adjusted EBITDA), for international purposes and to assess the development of operating earnings, in addition to EBITDA as a financial performance indicator from the 2019 financial year onwards. For the 2018 financial year, one-off effects from the sale of analogue radio infrastructure will be eliminated. Based on the new definition of EBIT and EBITDA less the one-off effects from the sale of analogue radio infrastructure, the adjusted EBITDA for 2018 amounts to 402,102 thousand euros.

Table 12: Calculation of EBITDA and Adjusted EBITDA

In EUR '000s	1.1.2018 – 31.12.2018	1.1.2017 – 31.12.2017
EBIT (= operating result)	311,988	n/a
Depreciation, amortisation and impairment	129,196	n/a
EBITDA	**441,184**	**n/a**
One-off effects from sale of analogue radio infrastructure	–39,082	n/a
Adjusted EBITDA	**402,102**	**n/a**

Free cash flow

Starting in financial year 2019, the freenet Group will use free cash flow more than before to show the amount of cash generated that can be used to pay dividends or repay borrowings. As a result, interest paid, interest received, proceeds from the extinguishment of financial assets under leases and payments to extinguish lease liabilities will be included in the calculation of free cash flow in the future. No free cash flow exclusive of Sunrise will be reported going forward.

Table 13: Calculation of free cash flow

In EUR '000s	1.1.2018 – 31.12.2018	1.1.2017 – 31.12.2017
Cash flows from operating activities	369,477	385,356
Payments to acquire property, plant and equipment and intangible assets	–57,193	–61,118
Proceeds from disposal of intangible assets and property, plant and equipment	13,850	18,597
Free cash flow (until 2018)	**326,134**	**342,835**
Interest paid (in the future: cash flows from operating activities)	–40,813	–42,883
Interest received (in the future: cash flows from operating activities)	206	811
Proceeds from the cash repayment of financial assets under leases (in the future: cash flows from operating activities)	0	0
Cash repayments of liabilities from leases	–21,754	–24,380
Free cash flow (from 2019)	**263,773**	**276,383**

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 a comprehensive treasury management system based on established controlling structures.

The capital structure is managed primarily through debt ratio, interest cover and equity ratio.

For all period-related figures such as EBITDA and net interest expense, the relevant period is the previous 12 months (i.e. January 2018 to December 2018; January 2017 to December 2017 for the previous year).

Table 14: Key figures of financial management

	2017	2018	Target
Debt ratio	0.9	1.3	1.0 – 2.5
Pro forma debt ratio	2.5	3.3	—
Interest cover	10.8	8.7	>5
Equity ratio (in per cent)	33.9	27.6	>50

The debt ratio as at 31 December 2018 was 1.3 (previous year: 0.9) and thus within the strategic range of 1.0 to 2.5. The increase in the debt factor results mainly from a lower EBITDA than in the previous year and an increase in net debt by a nominal 277.8 million euros triggered by the acquisition of the interest in CECONOMY. The borrowings primarily comprise promissory note loans with a total nominal value of 1,110.0 million euros, which come due upon final maturity between 2019 and 2026, as well as the syndicated loan with a nominal value of 610.0 million euros entered into in the previous year.

The pro forma debt ratio is 3.3, due to the acquisitions and investments made.

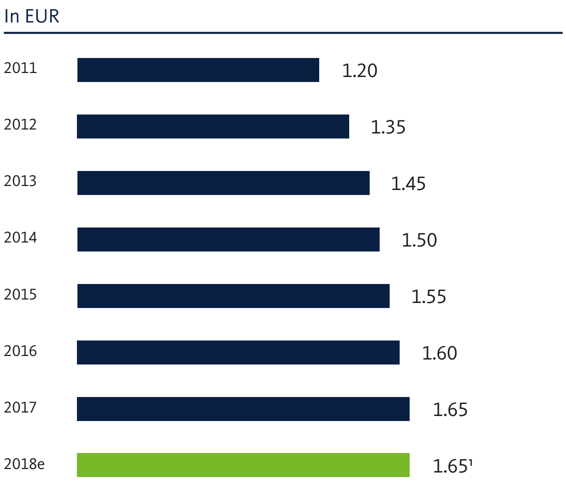
At 8.7, the interest cover is below the level of the previous year (10.8) and thus still above the target level of 5.0. The change is mainly due to the higher unwinding of discounts on non-current liabilities, which increased interest expenses, and to a year-on-year decrease in EBITDA.

As at 31 December 2018, the equity ratio was below the target of 50 per cent; this is connected with acquisitions and investments.

The Executive Board reserves the right to make changes to its financial strategy and thus also to its targets.

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

Figure 6: Historic development of dividend per share



[1] The dividend will be paid out subject to the resolution of the Annual General Meeting in May 2019. Further information on the dividend can be found in the section "freenet AG and the capital markets".

On 17 May 2018, the Annual General Meeting of freenet AG adopted a resolution to pay a dividend of 1.65 euros per eligible no par value share for the 2017 financial year. A total of 211.2 million euros, or 61.6 per cent of free cash flow, was distributed to shareholders. The distribution was made from the tax-specific deposit account in accordance with section 27 of the German Corporation Tax Act (Körperschaftsteuergesetz–KStG) again this year.

The Executive Board and Supervisory Board continue to pursue a reliable and stable dividend policy and intend to propose to the Annual General Meeting on 16 May 2019 that 1.65 euros per no par value share be paid out again for the 2018 financial year.

GROUP MANAGEMENT REPORT

REPORT ON ECONOMIC POSITION

- GDP forecast for 2018 revised downwards – German population's propensity to consume providing support
- Revenue stable in the German telecommunications sector and mobile communications market
- Share of households using IPTV in Germany rising

MACROECONOMIC ENVIRONMENT

GLOBAL ECONOMY AND EUROPE

The International Monetary Fund (IMF) maintained its 2017 growth expectation for global gross domestic product (GDP) at 3.7 per cent in 2018. In particular, this growth expectation benefits from a significant rise in growth rates in the US economy driven mainly by increased private consumer spending. Financial policy in developed economies is also expected to have a stimulating effect, even in the years ahead.

Experts anticipate that the eurozone will suffer a slight drop in economic momentum. The Kiel Institute for the World Economy (IfW) expects economic output to experience weaker growth of 1.8 per cent in 2018 after a 2.5 per cent increase in 2017. The pace of growth has particularly decelerated in the three largest EU countries: Germany, France and Italy. Political tensions and trade conflicts could also prevent continued expansion, while trading relationships between the EU and the USA could deteriorate due to the economic policy tensions currently being observed.

GERMANY

The economic boom in Germany ground to a halt during the course of 2018, prompting the German Institute for Economic Research (DIW) to revise its estimates. GDP is now expected to grow by just 1.5 per cent instead of the 1.8 per cent forecast in late summer. The Federation of German Industries (BDI) made a similar adjustment, lowering its growth outlook for 2018 from 2.0 to 1.5 per cent. The International Monetary Fund (IMF) expects Germany to record 1.9 per cent growth in 2018, a figure which was also adjusted downwards slightly by 0.3 percentage points. This development can be explained by difficulties in the German automotive sector in particular. As a result, German economic output declined in the second half of the year for the first time in three years. Generally speaking, the overall pace of economic growth will normalise once again due to lower foreign demand after years of high capacity utilisation.

In contrast, domestic demand in Germany is providing economic momentum. The German labour market continues to benefit from the economic developments of recent years. In October 2018, the unemployment rate dropped from 5.3 per cent at the previous year-end to below the five-per-cent mark for the first time since reunification. Record employment and rising income boosted consumer sentiment and triggered an increase in private consumer spending. As a result, retail sales between January and October 2018 also rose by 1.4 per cent in real terms compared to the same period in the previous year. The non-food sector climbed even further by 5.1 per cent on a price-adjusted basis. The fact remains that the German population's propensity to consume so far appears unaffected by external influences.

TELECOMMUNICATIONS MARKET IN 2018

REVENUE DEVELOPMENT REMAINS STABLE IN THE TELECOMMUNICATIONS SECTOR AND MOBILE COMMUNICATIONS MARKET

Revenue in the German telecommunications sector is likely to reach a similar level of 59.4 billion euros in 2018 as it did in the previous year 2017 (59.3 billion euros). Revenue distribution by network type also appears stable: the landline sector is set to generate an identical 32.8 billion euros in 2018, while mobile networks are expected to grow by 0.1 billion euros compared to 2017 with an estimated 26.6 billion euros. The stagnation in **total revenue** is primarily based on the following trends:

- Price reductions for customers as a result of sustained competition,
- Price increases for using data services cannot always be completely passed on to end consumers.

Over time, mobile revenues have risen by a factor of 2.8 compared with 1998, while landline revenues have fallen by 16 per cent over the same period; however, these revenues have remained relatively stable for the last three years.

Price reductions are particularly evident in the mobile communications market. Whereas the average revenue per SIM card (ARPU) was approximately 57.26 euros in 1998, today it is only around 16.68 euros (2017: 16.69 euros). User behaviour has also changed in the last 20 years: While consumers spent 495 million minutes per day on landlines in 1998, that figure has since dropped to 325 million minutes per day. By contrast, daily call minutes on mobile communications networks have risen from 22 million minutes to 306 million minutes over the same period. Software-based OTT (over-the-top) telephone calls were first included in the analysis in 2006. In the subsequent period to 2018, the call volume in this category has increased significantly from 201 million minutes per day to 265 million minutes per day. However, a continued trend towards less telephony is noticeable.

The distribution of mobile revenues among different providers also remains relatively stable, with network-independent service providers growing their share by around two percentage points in 2018. The VATM (German Association of Providers of Telecommunications and Value-Added Services) anticipates a consistent market share of around 12.4 per cent for the freenet Group. According to the VATM study, data revenue made up more than 50 per cent of total revenue by revenue type for the first time in 2018. This takes its share of revenues to 14.1 billion euros (2017: 13.2 billion euros), while call and connection revenue is set to fall to an estimated 9.3 billion euros (2017: 9.6 billion euros). Other devices and content are expected to generate around 3.2 billion euros by the end of the year (2017: 3.7 billion euros).

Figure 7: Total market by network type

in EUR billion or in %

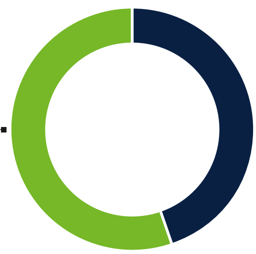
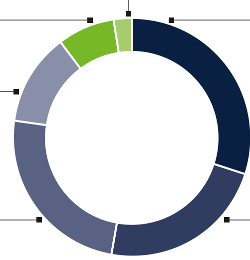


Figure 8: Mobile revenue by operator and provider

in %



Group management report

Group management report

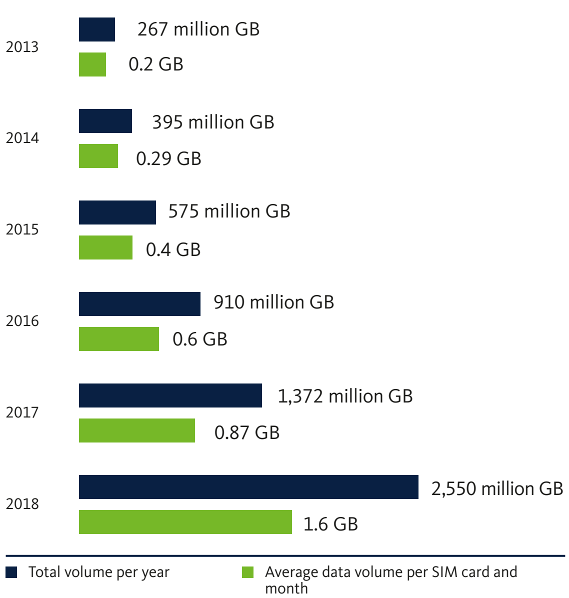
DATA OVER VOICE IS THE DOMINANT TREND IN THE MOBILE COMMUNICATIONS MARKET

Less voice telephony, more hunger for data – that is the trend in the German mobile communications market. This development is a continuation of increasing digitalisation, as the original core business of landline and mobile services has been stagnating for years. Competitors outside the industry – so-called OTT players such as Facebook or Google and digital applications such as iTunes – are becoming increasingly prominent. By the end of 2018, 2.5 billion gigabytes are likely to have been sent or downloaded via mobile networks, an increase of 86 per cent on the previous year. As a result, average monthly data consumption in Germany rose from 0.87 GB to an estimated 1.6 GB in the last 12 months. Despite this trend, Germany remains well below the global monthly average of around 3.4 GB (2017). According to the Ericsson Mobility Report, monthly data consumption could reach as much as 17 GB by 2023.

Telecommunications providers fear they will only be able to harness a portion of the value increasingly being created via their networks. Easily accessible services such as voice, video calls or even cloud services, as well as the distribution of what is known as wholesale connectivity, offer the greatest revenue growth potential in this regard.

Figure 9: Data traffic volumes from mobile networks

in GB/in million GB



THE 5G MOBILE STANDARD IS THE KEY TECHNOLOGY FOR THE DIGITAL REVOLUTION

The discussion about 5G networks and their development is becoming increasingly significant around the world. Industrial users in particular anticipate tangible benefits such as the further development of autonomous driving and the networking of production processes. In Germany, there is widespread agreement that 5G is a key technology for digitalisation, and is thus crucial to the country's future success as an economic stronghold. However, there are disagreements about the process and content required to allocate frequency for 5G technology, which will be carried out by the Federal Network Agency (BNetzA) in the spring of 2019. These issues were the subject of lively debates between different stakeholders both before and after the BNetzA published the final draft of its spectrum award rules on 16 November 2018. Specifically, these issues included:

- the scope of coverage requirements,
- a service provider obligation, i. e. non-discriminatory competition, and
- national roaming, i. e. the obligation to grant third parties access to their own infrastructure for a fee.

As a result of the unclear provisions and formulations in the draft award conditions, nine telecommunications companies, including the freenet Group, subsequently filed complaints with the Cologne Administrative Court.

TV/VIDEO MARKET 2018

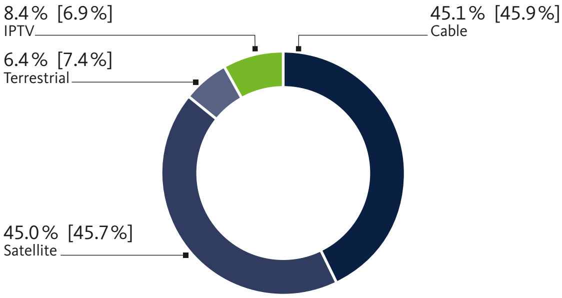
REVENUE AND BROADCASTING METHODS IN GERMANY

In the past year, Germany's 38.7 million TV households spent approximately 11.8 billion euros on TV and home cinema. Of this total, almost 45 per cent was attributable to mandatory TV and radio license fees, 20 per cent to subscription-based pay-TV channels and around 9 per cent to DVDs and Blu-ray discs. The remaining 27 per cent was spent on other services and also includes connection fees for cable, satellite, IPTV and terrestrial that are charged for using the relevant broadcasting method regardless of the content received. These fees rose slightly by 0.1 billion euros, or 2.4 per cent year-on-year to 3.2 billion euros.

Cable and satellite remain the dominant broadcasting methods in Germany. At present, almost 17.5 million or 45.1 per cent of households use cable TV (previous year: 45.9 per cent), while 17.4 million or 45.0 per cent of households prefer satellite (previous year: 45.7 per cent). Antenna TV's market share fell slightly compared to the previous year; around 2.5 million households or 6.4 per cent (previous year: 7.4 per cent) use DVB-T2. The only broadcasting method to increase its market share was IPTV, which grew from 6.9 per cent of the market to 8.4 per cent, equivalent to around 3.3 million households.

Figure 10: Market share of broadcasting methods in 2018[1]

in %



[1] Information in square brackets represents previous year's figures. Total >100% due to multiple reception.
Source: Kantar TNS; based on 38.697 million TV households in Germany (2017: 38.306 million)

FOCUS ON TERRESTRIAL AND IPTV

The recent shutdown of DVB-T1 and the switch to the new DVB-T2 HD antenna TV was the biggest technical change in the German TV market in recent years. After the "hard" switch to the new DVB-T signal on 29 March 2017, the reception range of the new standard was extended to include a total of 63 transmitter sites in the spring and late autumn of 2018. As a result, the number of citizens who can receive the new antenna TV signal rose from 58.6 million (74 per cent) to 62.5 million (78 per cent) during the course of the year. Overall terrestrial TV coverage has risen compared to the previous standard. The sole provider of this broadcasting method in Germany is the Media Broadcast Group, a wholly owned subsidiary of the freenet Group.

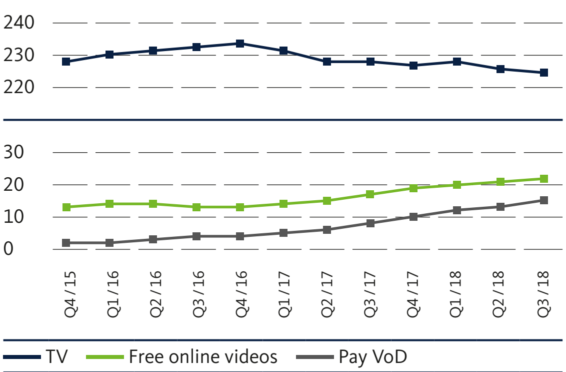
Compared to terrestrial, the proportion of households using IPTV as a method of reception is increasing. For the first time this year, more German households were served by IPTV than by antenna TV. This share has been steadily rising from 4.3 per cent back in 2012 to 8.4 per cent now. However, a comparison at the European level shows that Germany still lags behind the average for the region. At the end of 2017, IPTV's European market share was almost 14 per cent (including Germany). This means that around 36.8 million of the continent's 256.3 million households use IPTV as their primary method of video reception. One provider of this broadcasting method is EXARING AG, in which the freenet Group holds a majority stake.

VIDEO CONSUMPTION AND 'CORD-CUTTING'

Seemingly unaffected by these different broadcasting methods, linear television – that is, the direct reception of the TV programme being transmitted – remains Germany's most popular form of video consumption. At 225 minutes per day, linear TV consumption represented around 86 per cent of the total average television consumption of 263 minutes per day in 2018, and thus did not change significantly compared to the previous year (an average of 227 minutes per day). It is important to note that linear television consumption is being supplemented rather than displaced by other formats such as video-on-demand (VoD). In 2018, Germans spent an additional 22 minutes per day on video platforms (2017: 19 minutes per day) and a further 16 minutes consuming VoD services (2017: 11 minutes per day).

Figure 11: Time spent using video offerings

in minutes (rolling)



Source: ViewTime Report 2018, SevenOne Media/forsa

What is striking is the change in device usage. Mobile devices such as tablets and smartphones, but also smart TVs, are seeing a rise in popularity when it comes to video consumption. In light of this, a phenomenon known as 'cord-cutting' is becoming increasingly common in the USA. The term refers to television households that do not use any 'traditional' physically connected broadcasting methods such as cable or satellite, but instead receive TV content exclusively via the open Internet. Among the platforms used for this purpose in Germany are Zattoo and waipu.tv, which bundle TV programmes and broadcast them via the Internet (referred to as 'OTT broadcast'). Statistically, these platforms are counted as IPTV providers.

When it comes to German TV households, the proportion of cord-cutters was comparatively low at 0.5 per cent in 2018, although this figure could rise in the future. According to a survey, approximately 11.7 per cent of households envisage using OTT services and giving up their traditional broadcasting method in the future. This is particularly true of video consumers under 30.

BUSINESS PERFORMANCE

The 2018 financial year was a positive one for the freenet Group, as we were overall able to meet the targets that we set ourselves at the start of the year with regard to our key performance indicators.

GROUP

Without the transition effect from the initial application of the new IFRS 15 financial reporting standard, revenue increased by 152.0 million euros to 3,659.2 million euros compared with the previous year (3,507.3 million euros). As a result, the Group exceeded its forecast of stable revenue, primarily due to the performance of the Mobile Communications segment. Reported revenue was lower at 2,897.5 million euros during the year under review, exclusively in connection with IFRS 15.

EBITDA amounted to 485.5 million euros in 2018. After deducting the 44.3 million euro share of the profit of Sunrise, EBITDA exclusive of Sunrise was 441.3 million euros, above the previous year's figure of 408.0 million euros. This increase was primarily due to the positive one-off effect of 39.1 million euros connected with the sale of the Media Broadcast Group's analogue radio infrastructure. When adjusted for this one-off effect, EBITDA exclusive of Sunrise and less the share of the profit of other associates (adjusted EBITDA) at the year-end was 402.1 million euros, below the previous year's figure. In this context, it is important to note that the analogue radio operating business is only included in adjusted EBITDA for one quarter and not for the full year, as was the case in 2017. The EBITDA contribution lost as a result of discontinuing the analogue radio operating business amounted to around 8.0 million euros compared to 2017. Despite this, the Group not only met or exceeded its EBITDA forecast – based on EBITDA exclusive of Sunrise – of 410 to 430 million euros. The top end of the target range corresponded with the analogue radio sale scenario and was exceeded by the aforementioned EBITDA exclusive of Sunrise of 441.3 million euros. By contrast, the lower end of the target range would have applied had the Group continued its analogue radio operations.

At the end of 2018, free cash flow totalled 326.1 million euros. Exclusive of the Sunrise dividend (free cash flow exclusive of Sunrise), free cash flow amounted to 289.2 million euros, equivalent to a decline of 19.2 million euros compared to the previous year. The decline is mainly attributable to higher investments in working capital. Free cash flow exclusive of Sunrise, one of the most important performance indicators (so far) for management purposes, was thus at the lower end of the forecast range of 290 to 310 million euros. This is due to the fact that the cash realisation of the analogue radio sale will be spread over the next eight financial years.

SEGMENTS

In the Mobile Communications segment, revenue without IFRS 15 would have risen by 169.5 million euros compared with the previous year to 3,368.4 million euros, thus exceeding the forecast of stable segment revenue, primarily as a result of higher hardware revenue. When taking IFRS 15 into account, revenue in this segment amounted to 2,606.7 million euros. The number of strategically important postpaid customers with two-year contracts increased from 6.711 million customers in December 2017 to 6.896 million customers by the end of December 2018. At the end of 2018, customer ownership was at a similar level to the previous year at 9.455 million customers (2017: 9.591 million customers), enabling us to almost reach our target of stable customer ownership. Postpaid ARPU also remained stable during the year under review at 21.6 euros (previous year: 21.4 euros) and was in line with our expectations. Segment EBITDA exclusive of Sunrise fell slightly by 14.4 million euros to 366.0 million euros compared with the previous year (380.4 million euros), close to our target of stable EBITDA.

Revenues declined by 12.2 million euros to 282.6 million euros in the TV and Media segment, primarily due to the sale of the analogue radio infrastructure during the year. As a result, we achieved our target of keeping revenue stable. EBITDA in this segment totalled 86.3 million euros for the 2018 financial year (previous year: 40.2 million euros), in line with our forecast of a significant increase in EBITDA and largely as a result of the one-off effect of the sale of analogue radio infrastructure (39.1 million euros).

With regard to the non-financial performance indicators in the TV and Media segment, freenet TV reported approximately 1.142 million freenet TV subscribers as of the end of December 2018. This figure was close to our target of more than 1.200 million users planned for the end of the year. The freenet TV subscribers' (RGU), which reflects the number of actual active (revenue-generating) users as opposed to freenet subscribers, was introduced during the year. At 1.014 million customers, it increased by around 12 per cent compared to the previous year's figure (around 0.902 million customers), slightly above the subsequently announced RGU target of 1.000 million users. freenet TV ARPU amounted to 4.4 euros, roughly in line with our published forecast (around 4.5 euros).

With regard to the waipu.tv IPTV product, the actual number of approximately 1.264 million registered users met the target (a significant increase), while the actual number of subscribers (approximately 0.252 million) was in line with the expected figure of more than 0.250 million.

These results confirm the strategic focus of the freenet Group and provide a good starting point for the coming months and years.

Table 15: Comparison of forecast and actual business performance 2018

In EUR million/as indicated	Actual, 2017	Forecast for financial year 2018	Q3/2018 Confirmation/ extension of forecast[1]	Actual, 2018
Financial performance indicators				
Revenue (without IFRS 15 effects)	3,507.3	stable	stable	3,659.2
EBITDA exclusive of Sunrise	408.0	410 – 430	410 – 430	441.3
Free cash flow exclusive of Sunrise	308.4	290 – 310	290 – 310	289.2
Postpaid ARPU (in EUR)	21.4	stable	stable	21.6
freenet TV ARPU (in EUR)	4.3	approx. 4.5	approx. 4.5	4.4
Non-financial performance indicators				
Customer ownership (in millions)	9.591	stable	stable	9.455
freenet TV subscribers (in millions)	0.975	>1.200	>1.200	1.142
freenet TV subscribers (RGU) (in millions)	—	—	1.000	1.014
waipu.tv registered customers (in millions)	0.464	significant increase	significant increase	1.264
waipu.tv subscribers (in millions)	0.102	>0.250	>0.250	0.252

[1] During the third quarter of 2018, the freenet Group changed the way it reports freenet TV subscribers to improve transparency and measurability. Previously, the number of customer cards sold was equated with the number of freenet TV subscribers. However, some of these customers regularly purchased their prepaid cards in advance without immediately activating them and generating the corresponding revenue. The RGU target figure is comparable with the freenet TV subscriber target of 1.2 million.

SEGMENT-SPECIFIC PERFORMANCE

MOBILE COMMUNICATIONS

Postpaid customers

The focus of our core mobile communications business continues to be on improving the quality of our customer base when it comes to acquiring new customers and managing existing customers. This is particularly true of the strategically important postpaid customer group, which includes all customers with a two-year contract.

The freenet Group can also report success in this area for the 2018 financial year. The number of customers in this particularly valuable segment rose by around 185,000 users during the course of the year to a total of 6.896 million (previous year: 6.711 million). This is equivalent to growth of approximately 2.8 per cent, and means that the growth trend witnessed in recent years continued during the year under review.

Once again, this also showed that the customer-focused offers, tariffs and special services in the freenet Group's multi-brand strategy are meeting the needs of its customers. Continuous expansion, synchronisation and efficient management of the Group's online and offline sales and communication channels provide additional support.

Table 16: Development Postpaid customers

In millions	31.12. 2018	31.12. 2017	Change in %
Postpaid customers	6.896	6.711	+2.8

Postpaid ARPU and service revenue

The Group's strategic focus on valuable customer relationships is also reflected in the development of postpaid ARPU. In the 2018 financial year, we stabilised postpaid ARPU at the same level as in recent years at 21.6 euros (previous year: 21.4 euros). This is ultimately due to the consistently high quality of postpaid customers.

Taking into account the IFRS 15 financial reporting standard effective from 1 January 2018, it is now also possible to report postpaid ARPU without factoring in hardware revenue (subsidy portion) included in the basic fee. As a result, postpaid ARPU without hardware is lower and totalled 19.0 euros for the 2018 financial year. Instead of indicating a decline in quality, this reduction provides an undistorted view of the profitability of the postpaid customer group.

Taking IFRS 15 into account, the corresponding postpaid service revenue amounted to 1,555.4 million euros for the year under review. Service revenue in the no-frills/prepaid segment was approximately 142.0 million euros for 2018. As a result, the most strategically important customer group accounts for around 91.6 per cent of service revenues in the Mobile Communications segment.

Table 17: Postpaid ARPU and service revenue

In EUR millions/as indicated	2018	2017
Postpaid ARPU (in EUR)	21.6	21.4
Postpaid ARPU without hardware (IFRS 15) (in EUR)	19.0	–
Service revenues, postpaid (IFRS 15)	1,555.4	–
Service revenues, no-frills/prepaid (IFRS 15)	142.0	–

Digital lifestyle

Devices, products and services in the areas of entertainment, security, smart home and e-health have complemented our offering in the Mobile Communications segment for several years. During the past financial year, numerous new products and services were once again added to our portfolio in order to drive organic growth in this area. The revenue trend shows that the digital lifestyle business also continues to grow. In 2018, revenue in this area increased by 15.5 million euros to 179.8 million euros (previous year: 164.2 million euros). This is equivalent to growth of 9.5 per cent.

Table 18: Digital lifestyle revenue (organic)

In EUR millions	2018	2017
Digital lifestyle revenue (organic)	179.8	164.2

TV and Media

During the 2018 financial year, activities in the TV and Media segment primarily focused on expanding the offering for both of its main products, freenet TV and waipu.tv. This involved both expanding the technical infrastructure and continuously adding to the range of available content.

Approximately 62.5 million Germans can now receive freenet TV via roof antennae. It has also been possible to receive the service via satellite since the second quarter of 2018. As the provider of the Internet-based TV product waipu.tv, EXARING AG also worked to improve the quality and quantity of its product range during the course of the year.

The measures introduced during the year under review resulted in a positive performance for TV customer figures. The number of revenue-generating freenet TV subscribers (RGU) rose from 0.902 million to around 1.014 million as at 31 December 2018. This is equivalent to an increase of 12.4 per cent or approximately 112,000 customers.

The development of waipu.tv's customer figures was also encouraging. At the end of 2018, approximately 1.264 million users had opted for the waipu.tv product and had registered (previous year: approximately 0.464 million). The number of subscribers is approximately 251,800 (previous year: approx. 102,300), thus meeting the target of more than 250,000 subscribers for 2018.

Table 19: TV customers

In thousands/as indicated	31.12. 2018	31.12. 2017	Change in %
freenet TV subscribers (RGU)	1,014.2	902.1	+12.4
waipu.tv registered customers	1,263.9	463.6	+172.6
Thereof waipu.tv subscribers	251.8	102.3	+146.1

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

REVENUE AND RESULTS OF OPERATIONS

Table 20: Key performance indicators for the Group

In EUR '000s	2018	2017	Change
Revenue without IFRS 15	3,659,245	3,507,263	151,982
Revenue	2,897,466	3,507,263	–609,797
Gross profit	903,727	949,762	–46,035
EBITDA	485,527	541,195	–55,668
EBITDA exclusive of Sunrise	441,267	408,028	33,239
EBIT	337,098	372,992	–35,894
EBT	234,002	322,690	–88,688
Consolidated profit	**212,163**	**275,574**	**–63,411**

Consolidated revenue before application of the new revenue recognition standard (IFRS 15) increased from 3,507.3 million euros in 2017 to 3,659.2 million euros in the current reporting period. Due entirely to IFRS 15, reported revenue was 609.8 million euros lower than in the previous year at 2,897.5 million euros. IFRS 15 reduced revenue by 761.7 million euros in 2018. Adjusted for all effects of IFRS 15, consolidated revenue rose by 152.0 million euros compared with the previous year.

In the **Mobile Communications segment**, there was a year-on-year increase in the number of strategically important postpaid customers with a two-year contract (6.896 million customers at the end of December 2018 compared with 6.771 million customers at the end of December 2017), and postpaid ARPU continued to hold steady at 21.6 euros against 21.4 euros in the previous year. Without the effects of the transition to IFRS 15, revenue in the Mobile Communications segment would have increased by 169.5 million euros to 3,368.4 million euros. The increase is mainly attributable to higher hardware revenue. Reported mobile communications revenue came to 2,606.7 million euros in financial year 2018. Revenue in the **TV and Media segment** declined by 12.2 million euros year-on-year to 282.6 million euros.

Due to the transition to IFRS 15, the reported **cost of materials** was likewise 563.8 million euros lower than in the previous year at 1,993.7 million euros in total. Before recognition of the effects of the initial application of IFRS 15, the Group and the Mobile Communications segment would have reported a cost of materials higher by a similar amount as the aforementioned effect on revenue of 761.7 million euros.

Gross profit was 46.0 million euros, down on the prior-year figure to 903.7 million euros. By contrast, the gross profit margin rose by 4.1 percentage points to 31.2 per cent due predominantly to the transition to IFRS 15.

Other operating income increased by 45.8 million euros compared with the prior-year period to 100.7 million euros. This rise is mainly attributable to the gains of 25.8 million euros generated on asset disposals during the sale of the analogue radio infrastructure and revenue of 14.6 million euros related to rights of recourse under subleases, also as a result of the sale of analogue radio infrastructure.

The **other own work capitalised** relates to internally generated software, and at 18.1 million euros is roughly in line with the corresponding previous-year figure (18.5 million euros).

Personnel expenses fell by 6.0 million euros, from 225.7 million euros in the previous year to 219.7 million euros in the current reporting period. This change relates to lower expenses for employee incentive programmes in the Other/Holding segment and the fact that Capita Customer Services (Germany) GmbH, Berlin (Capita) took over customer service for mobilcom-debitel GmbH, as a result of which the 2017 figure included two months (2018: 0 months) of personnel expenses for customer service staff.

Other operating expenses decreased by 26.8 million euros compared with 2017 to 361.7 million euros. This decline is mainly attributable to marketing activities stepped up in the previous year in connection with the introduction of the DVB-T2 HD transmission standard. Besides marketing and outsourcing expenses, other operating expenses largely comprise administrative expenses (e. g. rent and incidental costs of the shops and administration buildings), expenses for loss allowances and defaults on receivables, legal/consultancy fees and billing expenses.

The **profit or loss of equity-accounted investments** in the amount of 25.1 million euros (previous year: 112.2 million euros) is almost entirely attributable to Sunrise. A share of profit or loss of 25.0 million euros was reported as at 31 December 2018 (previous year: 113.2 million euros), of which 44.3 million euros stem from shares in Sunrise's consolidated profit after tax (previous year: 133.2 million euros) and –19.2 million euros from subsequent accounting in relation to the shadow purchase price allocation (previous year: –20.0 million euros). The decrease in the share of profit from Sunrise is mainly attributable to the one-off effect of the Tower deal in the previous year.

EBITDA in financial year 2018 is reported at 485.5 million euros, which is 55.7 million euros lower than the corresponding previous-year figure. Without including the profit share of the equity investment in Sunrise of 44.3 million euros, EBITDA is reported at 441.3 million euros (previous year: 408.0 million euros). In the reporting year, the Mobile Communications segment contributed 410.3 million euros to EBITDA (including 44.3 million euros relating to the equity investment in Sunrise; previous year: 513.6 million euros, including 133.2 million euros relating to the equity investment in Sunrise); the TV and Media segment contributed 86.3 million euros (previous year: 40.2 million euros) and the Other/Holding segment contributed –11.0 million euros (previous year: –12.6 million euros). With regard to the segment EBITDA of TV and Media, it should be noted that this figure includes the positive one-off effect of 39.1 million euros from the sale of analogue radio infrastructure.

Depreciation, amortisation and impairment losses declined by 19.0 million euros year-on-year to 129.2 million euros, due predominantly to the reduction of the useful lives of property, plant and equipment in the TV and Media segment carried out in the previous year because of the impending sale of analogue radio infrastructure.

Interest result i. e. the balance of interest income and interest expenses, widened from –50.3 million euros in the previous year to –55.9 million euros, primarily as a result of the increased unwinding of the discount on non-current liabilities, in particular provisions for the dismantling and removal of radio infrastructure.

Other financial result of –47.2 million euros as at the end of 2018 comprised expenses (including acquisition-related costs) from the measurement of a derivative in connection with the acquisition of the interest in CECONOMY on 12 July 2018.

This has resulted in **earnings before tax** of 234.0 million euros in 2018 – representing a decrease of 88.7 million euros compared with 2017 (322.7 million euros).

Income taxes decreased by 25.3 million euros compared with 2017 to 21.8 million euros. Current tax expenses rose by 2.2 million euros compared with the previous year to 29.5 million euros. Income of 7.7 million euros from deferred taxes has also been netted in this item (previous year: expenses of 19.8 million euros). The improvement in deferred taxes is essentially attributable to higher write-ups recognised in relation to deferred income tax assets as well as temporary differences between the carrying amount of assets under IFRS and tax law.

As a result, **consolidated profit** decreased by 63.4 million euros, from 275.6 million euros in the previous year to 212.2 million euros in 2018.

NET ASSETS AND FINANCIAL POSITION

Table 21: Selected balance sheet figures of the Group

Assets

In EUR millions	31.12.2018
Non-current assets	3,885.1
Current assets	749.6
Total assets	**4,634.7**

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

Equity and liabilities

In EUR millions	31.12.2018
Equity	1,280.8
Non-current and current liabilities	3,353.9
Total equity and liabilities	**4,634.7**

In EUR millions	31.12.2017
Equity	1,462.9
Non-current and current liabilities	2,851.2
Total equity and liabilities	**4,314.1**

Total assets/total equity and liabilities amounted to 4,634.7 million euros as at 31 December 2018, an increase of 320.5 million euros, or 7.4 per cent, compared with the previous year (4,314.1 million euros).

The sharp rise in various items within **current and non-current assets** is primarily the result of the transition to the financial reporting standards IFRS 15 and IFRS 9 as at 1 January 2018. In this context, please refer to the explanatory notes in 1.1, Business activity and accounting standards, in the notes to the consolidated financial statements. Consequently, customer acquisition costs are for the first time recognised as **contract acquisition costs**. They are reported in the amount of 304.2 million euros as at the end of December 2018. The significant increase in **other receivables and other assets** by 340.3 million euros to 354.4 million euros and in **other financial assets** by 138.9 million euros to 161.1 million euros is mainly due to the transition effects relating to IFRS 15 and IFRS 9; in addition, the equity investment in CECONOMY acquired in July 2018 with a carrying amount of 104.4 million euros is shown under other financial assets. In this regard, please refer to note 21, Receivables, other assets and other financial assets, in the notes to the consolidated financial statements.

Finally, the change in **trade accounts receivable** from 532.8 million euros in the previous year to 306.4 million euros is also due to the transition to IFRS 15 and IFRS 9. Again, please refer to note 21 in the notes to the consolidated financial statements.

Intangible assets declined by 38.2 million euros to 525.4 million euros due predominantly to amortisation charges on the exclusive distribution right with Media-Saturn Deutschland GmbH.

Liquid assets are reported at 126.3 million euros as of 31 December 2018 (31 December 2017: 322.8 million euros). The Group's net cash inflow from operating activities of 369.5 million euros in 2018 contrasted with a net cash outflow from investing activities of 332.9 million euros and a net cash outflow from financing activities of 233.1 million euros.

On the **equity and liabilities** side, **equity** decreased by 182.1 million euros to 1,280.8 million euros (31 December 2017: 1,462.9 million euros). The change is primarily attributable to the consolidated profit for the year generated in 2018 (212.2 million euros), the dividend paid for financial year 2017 (–211.2 million euros), the change in the fair value of the interest in CECONOMY recognised thorough other comprehensive income (–125.2 million euros), and the transition to the new financial reporting standards IFRS 9 and IFRS 15 as of 1 January 2018, reflected in the amount of –63.2 million euros in consolidated net retained profits. The equity ratio therefore fell from 33.9 per cent as at the prior-year reporting date to 27.6 per cent as at 31 December 2018.

Total **current and non-current liabilities** rose by 502.7 million euros to 3,353.9 million euros.

This is due mainly to the increase in **other liabilities and deferred income** by 470.4 million euros to 552.3 million euros as a result of the initial application of IFRS 15. For further details on this point, please refer to note 1.1, Business activity and accounting standards, in the notes to the consolidated financial statements.

Borrowings, still the largest item within current and non-current liabilities, rose from 1,673.1 million euros in the previous year to 1,722.9 million euros as at 31 December 2018. The rise is predominantly attributable to the placement in December 2018 of a borrower's note loan with a nominal value of 100.0 million euros that falls due at maturity. It was counteracted mainly by the early repayment of the borrower's note loan from 2012 with a nominal value of 54.5 million euros. In this regard, please refer to note 28, Borrowings, in the notes to the consolidated financial statements.

Net debt amounted to 644.1 million euros as at 31 December 2018 (31 December 2017: 510.0 million euros). The increase in net debt is mainly due to the decline in the stock market price of CECONOMY after its acquisition and the increase in the balance of the promissory note loans. The debt ratio therefore rose from 0.9 in the previous year to 1.3 in the reporting period and the pro forma debt ratio from 2.5 to 3.3. In this context, please refer to the comments in the "Financial management" chapter of this Group management report.

Trade accounts payable held quite steady, rising by 5.9 million euros to 523.2 million euros. While contract liabilities to distribution partners under contracts with customers showed a sharp rise of 84.5 million euros following the application of IFRS 15, liabilities to network operators, dealers, distributors and hardware manufacturers in the Mobile Communications segment decreased by 76.1 million euros due, firstly, to IFRS 15 and, secondly, to the reporting date.

CASH FLOWS

Table 22: Key cash flow indicators of the Group

In EUR millions	2018	2017	Change
Cash flows from operating activities	369.5	385.4	–15.9
Cash flows from investing activities	–332.9	–42.1	–290.8
Cash flows from financing activities	–233.1	–338.6	105.6
Net change in cash funds	**–196.5**	**4.6**	**–201.1**
Free cash flow	**326.1**	**342.8**	**–16.7**

The **cash flows from operating activities** decreased by 15.9 million euros to 369.5 million euros year-on-year. Without including the non-cash share of the profit of the associate Sunrise (44.3 million euros), EBITDA exclusive of Sunrise increased by 33.2 million euros compared with the previous year. Non-cash gains on the disposal of non-current assets rose by 23.1 million euros to 25.5 million euros, mainly as a result of the sale of the analogue radio infrastructure, as the corresponding financial assets (receivables due from buyers) will only be recognised as cash items in future periods. In financial year 2018, freenet AG received a dividend payment of 36.9 million euros (previous year: 34.4 million euros) as a result of the dividend payment of 4.00 CHF per share adopted by the annual general meeting of Sunrise on 11 April 2018. Net working capital increased in 2018 by 38.9 million euros, compared with an increase of 25.6 million euros in the previous year. The increase of 38.9 million euros can be attributed mainly to the regular cash reduction in liabilities and deferrals vis-à-vis distribution partners arising from distribution rights as well as the increase in inventories. The capitalisation and amortisation of contract acquisition costs (IFRS 15) depressed cash flows from operating activities by 14.6 million euros in 2018 (previous year: 0).

In addition, there were cash outflows in financial year 2018 amounting to 29.5 million euros (previous year: 30.1 million euros) that resulted from income tax payments and refunds.

In financial year 2018, the **cash flows from investing activities** developed from –42.1 million euros in the previous year to –332.9 million euros. This was primarily due to the outflow of funds amounting to 277.4 million euros for the acquisition of a 9.1 per cent equity interest in CECONOMY in July 2018.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets, increased in 2018 by 0.8 million euros compared with the previous year from 42.5 million euros to 43.3 million euros. The cash investments were financed entirely out of the company's retained earnings, and mainly related to property, plant and equipment of the Media Broadcast Group. Proceeds from asset disposals changed from 18.6 million euros in the previous year to 13.9 million euros in the reporting period, and in each case resulted from the sale of the analogue radio infrastructure. In this context, it should be noted that payment for the majority of the analogue radio systems sold in 2018 was agreed to be spread over the next eight financial years.

With effect from 1 January 2019, the freenet Group acquired 100 per cent of the shares in The Cloud Networks Germany GmbH, Munich and The Cloud Networks Nordics AB, Stockholm, Sweden. The resulting payments to acquire subsidiaries amounted to 12.4 million euros in the past financial year. In this context, please refer to note 35, Acquisitions, in the notes to the consolidated financial statements.

Cash flows from financing activities changed from –338.6 million euros in the prior-year period to –233.1 million euros. In total, the cash inflow to the Group from the bridge loan for the acquisition of the shares in CECONOMY and from raising a borrower's note loan amounted to 376.3 million euros in the reporting period. For further details on this point, please refer to the explanatory notes in 28, Borrowings, in the notes to the consolidated financial statements.

Repayments on borrowings of 332.3 million euros relate mainly to the early repayment of the bridge loan raised in July 2018 in the amount of 277.8 million euros and the repayment of the borrower's note loan from 2012 with a nominal value of 54.5 million euros. There were also repayments of 21.8 million euros relating to the master lease agreement of the Media Broadcast Group classified as a finance lease. Please refer to note 26 of the notes to the consolidated financial statements, Trade accounts payable, other liabilities and deferrals and other financial liabilities.

Higher dividend payments had a negative impact on cash flows from financing activities in the financial year ended in the amount of 211.2 million euros (previous year: 204.8 million euros).

Free cash flow amounted to 326.1 million euros in financial year 2018 – a decrease of 16.7 million euros compared with 2017. Without the dividend payment from Sunrise, free cash flow amounted to 289.2 million euros (previous year: 308.4 million euros).

REPORT ON POST-BALANCE SHEET DATE EVENTS

Regarding the acquisition of The Cloud Group, please refer to note 37 of the notes to the consolidated financial statements. There were no other events of material importance for the freenet Group after the reporting date.

GROUP MANAGEMENT REPORT

REPORT ON OPPORTUNITIES AND RISKS

OPPORTUNITIES

In order to manage and monitor ongoing business activities, the Executive Board has established an extensive monthly reporting system that covers both financial and non-financial performance indicators. In regular meetings with all of the relevant business 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 opportunities, as well as their exploitation, is a corporate (management) task that is performed by the Executive Board, the responsible managers in the individual business units, and the relevant decision-makers in a process of permanent communication.

freenet AG and its subsidiaries strive to offer their customers high-quality and attractively priced products combined with excellent customer service. In addition, the company is focused on expanding the TV and Media segment. Together with its subsidiary Media Broadcast and its majority holding EXARING AG, freenet AG's terrestrial and Internet-based television business offers the company the opportunity to diversify and tap new growth potential. The company views this as an opportunity to establish a further mainstay, in addition to its core business of Mobile Communications. The expansion of content, for example using "freenet TV connect", therefore offers opportunities to increase the number of users in the terrestrial TV business. The expansion of the possibilities of using waipu.tv as well as the extension of the station and content offerings are further important steps along the way towards a steady increase in market penetration.

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

- Increasing willingness of customers to pay for mobile communication devices
- Trend towards ever more powerful devices with extended or new usage options
- Trend towards networking of products in both a private and commercial context
- Continuation of the increasing trend towards mobile Internet and data use via smartphones, tablets and laptops
- Continuation of e-commerce growth, especially for consumer electronics
- Changes in the way multimedia content is consumed and a trend towards customised TV programmes via streaming services
- Increasing demand for bundled products (e.g. mobile communications and TV)
- Potential from combining customer groups from the individual segments (cross-selling)

In addition to the further development of the TV and Media segment, the effects of the increase in mobile, networked Internet and data usage, and the associated trend towards higher-priced products could lead to a stronger increase in customer numbers than expected, although this is not regarded as very likely to occur.

All this could have a positive effect on the expected development of the financial performance indicators revenue, EBITDA and free cash flow.

Internal opportunities for freenet AG could emerge in particular from:

- assessing and implementing strategic options in mobile communications, digital lifestyle, and TV and media,
- continuously strengthening business relationships with suppliers to stabilise existing and develop new and improved condition models,
- consolidating and consistently enhancing IT applications and IT systems to further improve customer satisfaction,
- enhancing our selling power by expanding existing sales channels and opening up new ones both online and offline (ominichannel) and utilising existing and new sales collaborations and partnerships,
- further boosting overall distribution performance by way of marketing additional products, as well as implementing and marketing new digital lifestyle and TV products,
- continuously strengthening the brands klarmobil, freenetmobile and callmobile in the steadily growing discount market, with the aim of participating even more actively in their growth,
- developing our own products, combined with vertical growth in the entire product portfolio,
- maintaining a local presence with our shops and stores as well as our solid service focus at all customer touch points,
- continuously improving processes and quality to ensure a sustainable rise in productivity – including the increasing digitalisation of business processes and corporate management,
- prioritising the empowerment and development of employees to boost staff loyalty and increase the attractiveness of the workplace.

The assessment and implementation of strategic options in mobile communications, digital lifestyle and TV, 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. Stronger selling power and customer satisfaction could, as it were, lead to a more positive trend in customer figures than had been forecast. The likelihood of this happening is regarded as rather low.

in addition to network operator tariffs, mobilcom-debitel and klarmobil have been offering their own tariffs with access to Deutsche Telekom’s LTE data network since spring 2018. In this context, klarmobil expanded its Telekom tariffs to include LTE tariffs with different data volumes and terms. mobilcom-debitel is also one of the first providers of eSiM for the iPhone XS and IPhone XR in Germany. Technical innovations and strong partnerships in all business areas will continue to create opportunities for further market penetration in the future. If the brands perform better than expected in the discount market, this could lead to higher revenue, earnings contributions and free cash flow than 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 digitalisation and interconnection of products and services will continue. Against this backdrop, we continue to see growth opportunities, potential synergies and opportunities for new strategic partnerships in this area.

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

In the financial year 2018, freenet AG acquired a stake of approximately 9.1 per cent in the ordinary shares of CECONOMY AG. In addition to strengthening the long-standing successful partnership in mobile communications, this strategic investment offers further opportunities through synergy effects due to a number of shared business processes. For all segments, this could also result in opportunities for more intensive cooperation or, for example, in the development of further business areas.

The continued positive performance of the Sunrise Communications Group could have a positive effect on the results of the operations of our Group.

OVERALL ASSESSMENT OF OPPORTUNITIES

Regular monitoring of internal and external opportunities by way of the monthly reporting system and discussions in meetings enable management to perform the corporate (management) task that is incumbent upon it, and therefore to make a positive contribution to safeguarding the company's success in the long term operationally and strategically by taking advantage of opportunities.

Both external and internal opportunities, which 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.

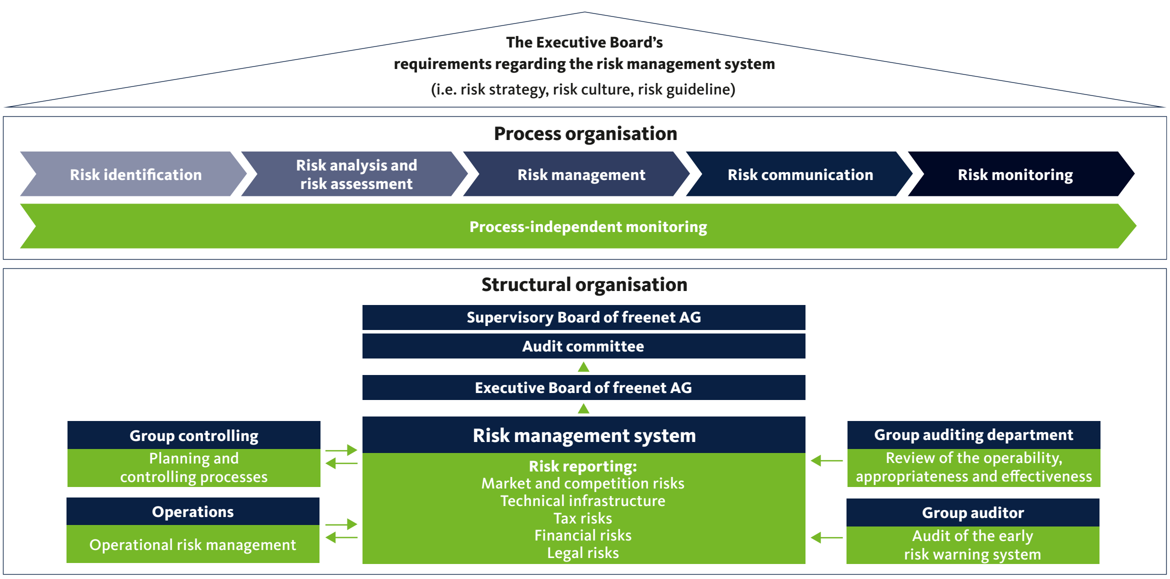
Management therefore expects business to develop as forecast.

RISK MANAGEMENT SYSTEM

An effective risk management system is considered essential for safeguarding the continued existence of freenet AG as a going concern 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 as a going concern. 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.

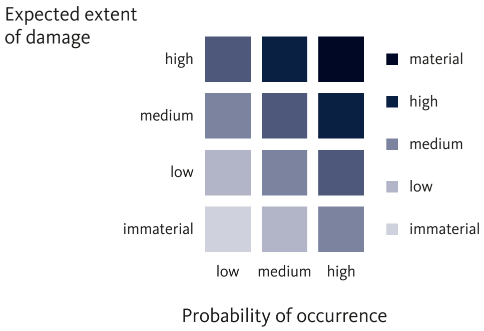
Figure 12: Process and structural organisation of freenet AG's risk management system



At least every six months, freenet AG's individual departments and subsidiaries identify or update new and existing 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 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 damage. 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 13: Risk matrix at freenet AG



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

In its guidelines, which are continuously being extended and improved, the Executive Board has defined the significant risk categories for the Group, prepared 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 serve to enhance their risk awareness (part of risk communication).

The methods and systems of risk management are continuously being examined, enhanced and adjusted. In the process, freenet AG's internal auditing department plays a supporting role, with the regular audits of the risk reports being the main focus. The internal control system (ICS) of freenet AG also provides further support for the risk management system. Formally documented controls are used to provide protection against internal risks. The Supervisory Board, in particular freenet AG's audit committee, monitors the effectiveness of the risk management system and the internal control system from the standpoint of German stock corporation law. The Supervisory Board is involved 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 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 meetings (part of risk communication).

RISK REPORT

This section presents 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 assessment of risk for the other categories basically applies for all segments. Material differences between the segments in relation to the risk assessment 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 share and pressure on margins in the respective business areas and/or can make it more difficult to gain market share.

Vigorous competition could also lead to higher costs for acquiring new customers, accompanied by falling revenue and a significant willingness of customers to switch providers. 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 previously 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 loyalty activities. In addition, freenet AG must respond flexibly to the development of the competition's business and anticipate new customer requirements. This involves a medium risk for the achievement of the company's goals.

Network operators

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

The margins in the 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 overall.

The reduced competition between the remaining mobile network operators (MNOs) following the merger of Telefónica and E-Plus could lead to a weakening of the service provider model. This might be reflected in various ways, including a reduction in the margin. There is also the risk of coordinated behaviour of network operators to the detriment of all service providers. Any coordinated action of the 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 is marketed quite aggressively. freenet AG has gained a certain amount of protection as a result of the term of its own agreements with Telefónica running up to 2025. If conditions were to be reduced across the market, the conditions for the distribution partners would be adjusted. The risk has been classified as low by freenet AG.

The network operator risks, either individually or in combinations, could affect the forecast earnings metrics 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 enters into long-term contracts with its main distribution partners and offers them attractive incentive systems (e.g. Airtime models). As a result of its cooperation with the Media-Saturn Deutschland which was prolonged in 2017, freenet AG has been able to secure a strong position in high-street distribution for the next few years. An additional possibility of maintaining and expanding existing distribution channels is to be seen in the acquisition of further franchise partners and collaborations. The risk of losing distribution channels has been classified as immaterial by freenet.

Laws and regulation

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

The new and increasingly complex legislation on data protection, in particular the General Data Protection Regulation (GDPR), which came into force in May 2018, imposes new, more far-reaching requirements for the handling of personal data, among other things. This could result in business processes within freenet AG no longer being able to be executed as in the past and/or high fines being imposed on the company. The risk has been classified as low by freenet AG.

Risks in TV and Media

In connection with the Media Broadcast Group, the company is facing the risk that customer demand for the product freenet TV might be weaker than originally anticipated. This represents a medium risk for freenet AG overall.

The majority interest in EXARING AG could trigger the risk that costs, particularly in the field of content (TV stations) and acquisition (distribution partners/marketing partners), might turn out to be higher than originally anticipated or that it might not be possible for the planned number of customers to be met. freenet AG classifies this risk as medium. In addition, limited functionalities in the product portfolio might have a negative impact. On the part of freenet AG, 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 material importance for the company's successful operation and continued existence as a going concern. There is a minor risk that network failures or service problems as a result of system errors or failures resulting from the absence of opportunities for providing customer support might lead to losses of customers, or that the TV segment might be affected by problems in the broadcasting of TV and radio signals. Apart from the decline in revenue that results from a loss of customers, a system breakdown means that freenet AG might not be able to provide any services and is therefore unable to generate any revenue or make any positive contribution to the anticipated earnings or free cash flow. Technical early warning systems are used to prevent such breakdown and failure risks. Continuous maintenance and updates keep the security precautions up to date at all times. A backup is created in a 24-hour cycle in order to avoid the loss of sensitive data.

Data theft and hacker attack

Successful attacks carried out by malware or cyberattacks might, in a worst case scenario, result in the theft of customer data, particularly in mobile communications. 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 the 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 privileges

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

TAX RISKS

Loss carryforwards

If, within five years, over 50 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 carryforwards) of the company not settled or deducted by the time of the harmful acquisition could be lost in accordance with section 8c of the German Corporation Tax Act (Körperschaftsteuergesetz–KStG).

The company has no influence on the occurrence of this risk, as the elimination of any negative income (corporation and trade tax loss carryforwards) not settled or deducted by the time of the harmful acquisition is brought about by measures and transactions at the 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; that more than 50 per cent of the shares could be united under a single shareholder. The same medium risk exists if more than 50 per cent of the shares or voting rights are first united through other measures under a single shareholder or several shareholders with parallel interests. The legal consequences described above apply mutatis mutandis.

VAT risk on "remuneration from third party"

In a letter from the Federal Ministry of Finance dated 4 December 2014 and a simultaneous addendum to the VAT application decree, the financial authority issued the following ruling: If the intermediary in a mobile communications contract supplies the customer in the intermediary's own name with a mobile communications device or some other electronic article, and if the mobile communications company grants the intermediary a commission dependent on the supply of the mobile communications device or other electronic articles on the basis of a contractual agreement, or part of a commission dependent on the above, such a commission or part of a commission shall not be regarded as remuneration for an intermediary brokering role vis-à-vis the mobile communications company, but rather as remuneration from a third party as defined by section 10 (1) sentence 3 of the German VAT Act (Umsatzsteuergestz–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 does not involve any reportable risks for the company. As for the revenue reported before 1 January 2015, the company regards it as very likely that the rule specified above will have no material negative effects on 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 carryforwards 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 processes, new capital injections and changes in the shareholding structure, the corporate income and trade tax carryforwards 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 with respect to 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 low 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 minimising default risk in our Group. An ongoing reminder and debt collection process is likewise used for receivables owed by dealers and franchise partners. Credit limits are also established and monitored. Commercial credit insurance, moreover, safeguards us against significant default risks vis-à-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 materialise. Finally, the appropriate recognition of loss allowances takes the risks of bad debt losses 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 in place between the Group and a bank on the sale of receivables from the mobile upgrade option. The relevant risks (in particular the risk of bad debt losses) and opportunities are transferred to the bank under this arrangement. Although of minor significance, the late payment risk completely remains with the freenet Group.

Impairment of assets
In freenet AG's consolidated balance sheet, both goodwill and intangible assets such as customer relationships, trademark rights and usage rights are reported in their intrinsic amounts. There is a medium risk that significant impairments might occur in future. Possible triggering events are identified in the course of impairment tests.

freenet AG's assets are checked both regularly and on an ad-hoc basis otherwise as and when appropriate if there are potential indicators of lasting impairment. Such an indicator may be changes in the economic or regulatory environment. Any resultant impairment is not cash-effective, and therefore does not have any impact on free cash flow. 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 borrowings, the payment of purchasing obligations and obligations under leases.

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 assets 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 general liquidity risk. The liabilities due to banks shown under borrowings relate to the promissory note loans entered into in May 2015, February 2016, October 2016 and December 2018 (recognised at 1,114.2 million euros, including interest accruals, as of 31 December 2018) as well as the loan tranche in the syndicated facility agreement of November 2018 for a total of 610.0 million euros (recognised at 608.7 million euros, including interest accruals, as of 31 December 2018). The second tranche for 300.0 million euros (previous year: 100 million euros) – in the form of a revolving credit line – had not been drawn as of 31 December 2018.

The credit agreements that were entered into entail another 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 equity interests. Within narrow limits, the company may borrow outside of the loan agreements in order to finance future strategic investments, for example. In view of the aforementioned liquidity reserves, however, freenet AG classifies the existing risk of a constraint of financial leeway as low.

A medium liquidity risk arises from the fact that banks no longer service credit or factoring lines that have not been firmly committed (as is the case, for example, with a factoring agreement for the sale of mobile phone option receivables) and that therefore possible liquidity cushions are no longer available.

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

Capital risk

The Group's capital risk management is related to the equity as shown in the consolidated balance sheet and to ratios derived therefrom. The foremost objective of the Group's capital risk management is to ensure compliance with the financial covenants specified in the loan agreements. The main financial covenants are defined in relation to the Group's equity (equity ratio) and 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 declaring the loans due and payable. freenet AG minimises the risk by monitoring the financial ratios continuously.

Interest rate risk

As regards variable-interest borrowings, freenet AG 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 borrowings. Although the interest rate risks are not explicitly hedged, the cash holdings, which are invested mainly at variable interest rates based on EONIA or EURIBOR, serve as a natural hedge and accordingly mitigate interest rate risks arising from the variable-interest borrowings.

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

The company continuously monitors the various opportunities available for investing the liquid assets on the basis of the day-to-day liquidity planning at its disposal as well as the various options available for scheduling borrowings. Changes in market interest rates could have an impact on net interest expense from originally variable-interest financial instruments and are included in the calculation process for earnings-related sensitivities. The risk has been classified as low by freenet AG.

Other financial risks

Other financial risks might occur in the form of foreign currency and exchange rate 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 determining both elements of the position of our consolidated income statement “Profit or loss of equity-accounted investments”, namely the share in the current profit or loss of Sunrise and also the write-downs resulting from the shadow purchase price allocation regarding Sunrise. Accordingly, this exchange rate also has an influence on the results of operations of the freenet Group; however, this is considered to be minor at present.

STRATEGIC RISKS

Acquisition of companies

freenet AG has acquired companies in the past. 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 earnings 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.

Equity investment in Sunrise

freenet AG holds several equity investments, including a 24.56 per cent interest in Sunrise. It is possible that the business of Sunrise might perform worse than originally anticipated; this in turn might have a negative impact on the results of operations of freenet. The risk has been classified as low by freenet.

Takeover of customer service of mobilcom-debitel by Capita Customer Services (Germany) GmbH, Berlin

Since March 2017, Capita has been handling the entire customer service of mobilcom-debitel as a strategic partner. If the operations are unexpectedly discontinued by Capita, there is the risk of additional costs as a result of the need to implement the retransfer 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

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

OVERVIEW OF THE RISK SITUATION

The risks for freenet AG outlined above are summarised 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	▶
Reduced competition	medium	low	low	▲
Distribution	low	immaterial	immaterial	▶
Laws and regulation	low	medium	low	▶
Customer demand freenet TV	medium	medium	medium	▶
IT risks				
System malfunctions/errors	low	medium	low	▶
Data theft and hacker attack	low	low	low	▶
Management of employee privileges	low	high	medium	▶
Tax risks				
Loss carryforwards	low	high	medium	▶
VAT risk on “remuneration 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	▶
Mobile phone upgrade option factoring	low	high	medium	NEW
Dividend payment	low	high	medium	▶
Capital risk management	low	high	medium	▶
Interest rate risk	medium	medium	medium	▶
Other financial risks	low	medium	low	▶
Strategic risks				
Acquisition of companies	medium	medium	medium	▶
Equity investment in Sunrise	low	medium	low	▶
Takeover customer service by Capita	low	medium	low	▶
Operational risks				
Service prices for customers in default	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

OVERALL ASSESSMENT OF THE RISK POSITION

Thanks to the risk management process that has been implemented and the monthly reporting system, the Executive Board has a good overall view of the risk position presented here. Market, IT, tax, financial, strategic as well as operational risks were identified as of 31 December 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 general future development of freenet AG and its financial and non-financial performance indicators continue to be classified as low overall by management. 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 continued existence of freenet AG. The Executive Board is convinced that if the risk management approach used to date is continued, freenet AG will again be in a position to identify relevant risks in a timely manner and initiate suitable countermeasures in the next financial year.

DESCRIPTION OF THE MATERIAL CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELEVANT FOR THE CONSOLIDATED FINANCIAL REPORTING PROCESS (SECTION 315 (2) NO. 4 HGB)

DEFINITION AND ELEMENTS OF THE FREENET GROUP INTERNAL CONTROL SYSTEM

freenet AG's internal control system follows the internationally recognised Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework. It comprises all processes and measures to secure 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 business units 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.

Process-integrated and process-independent monitoring measures comprise the core elements of freenet AG's internal monitoring system. These include automated IT controls and standardised, manual control actions in business processes. As a process-independent, internal monitoring body, freenet AG's Group Internal Audit unit conducts regular order-based, risk-oriented audits and, where necessary, 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 FINANCIAL REPORTING PROCESS

The accounting processes for the single-entity financial statements of freenet AG's subsidiaries are usually recorded in 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 capital, liabilities, and expenses and income, etc., the data reported by the subsidiaries is entered into the consolidation system in a variety of ways. This is typically done integrated in the SAP module "FI" (SAP-FI), or manually by entering the reported financial data. The individual disclosures in the Group management report and the notes to the consolidated financial statements are each generated from standardised reporting packages and institutionalised coordination processes as part of the internal control system.

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.

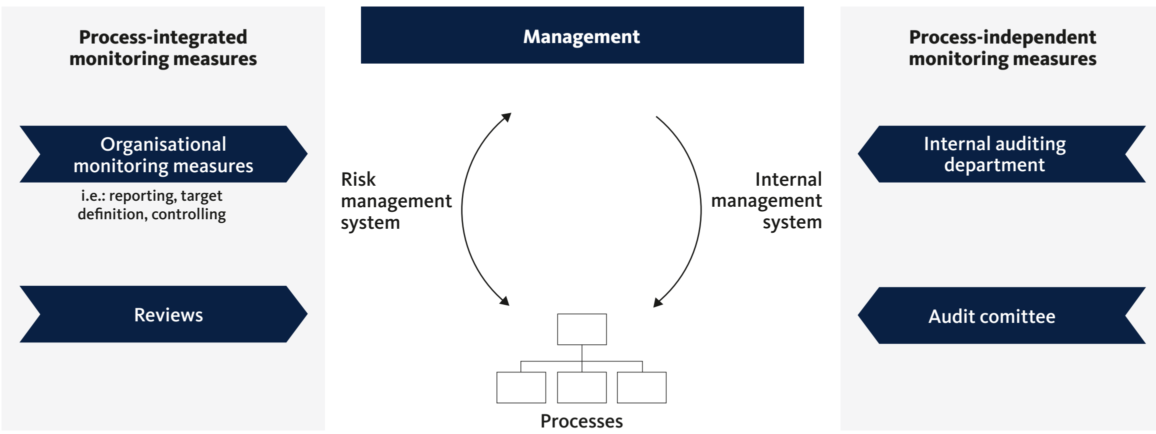
SIGNIFICANT REGULATORY AND CONTROLLING ACTIVITIES TO ENSURE PROPER AND RELIABLE GROUP FINANCIAL REPORTING

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

The processes established in the accounting department of the freenet Group aim at a largely automated creation and control of all essential data, starting with the underlying raw data and ending with the information reported in the balance sheet. The process-integrated, automated monitoring measures are supplemented by manual plausibility checks of the relevant interim results and random checks, for example, by management or Controlling.

In addition to the process-integrated monitoring measures, the Group auditor and the Group Internal Audit unit carry out process-independent auditing activities. Group Internal Audit continually analyses and improves the controls and the management and monitoring processes of freenet AG. Furthermore, the audit of the consolidated financial statements by the Group auditor and the audit of the single-entity financial statements from Group companies included in the consolidated financial statements are a significant non-process-related monitoring measure with regard to the Group's financial reporting.

Figure 14: Key features of the internal control system of freenet AG



GROUP MANAGEMENT REPORT

NON-FINANCIAL STATEMENT

ABOUT THIS REPORT

BUSINESS MODEL AND GENERAL ENVIRONMENT[1]

The freenet Group is the largest network-independent dealer for telecommunications and offers its approximately 13.8 million customers products and services for mobile communications, TV and media as well as all other areas of digital life. Mobile communications and the mobile Internet are a key element of our business activities. Operating as a service provider without its own network infrastructure, the company sells mobile communications tariffs and options on a subscription basis throughout Germany with a multiple brand strategy, as well as the latest devices such as smartphones, tablets and laptops/PCs including accessories. A further key element is the company's positioning as a digital lifestyle provider by marketing innovative digital applications relating to home automation and security, health, data security, entertainment and infotainment. The freenet Group also expanded its business activities in the TV and Media segment, in particular by acquiring the Media Broadcast Group in 2016. This broadens the product portfolio to include modern, high-definition digital television in two technological variants. The Media Broadcast Group is the largest service provider in the radio and media sector in Germany: in its core business, the company designs, sets up and operates multimedia broadcasting platforms for TV and radio based on modern transmitter and line networks. Accordingly, the Media Broadcast Group has a business area-specific structure which differs from the remainder of the freenet Group and which is therefore to a certain extent considered separately in the following chapters. The group of consolidated companies of the non-financial statement – unless otherwise stated – corresponds to the group of fully consolidated companies included in the consolidated financial statements (see section 1.2 in the notes to the consolidated financial statements).

The identified issues reflect the current specific understanding of the freenet Group regarding sustainability. An external framework has therefore not been used for drawing up the non-financial statement. A future alignment of reporting with recognised standards (e. g. the Global Reporting Initiative) is currently being evaluated.

Responsibility for the content of the various sustainability aspects lies with the respective departments, and with central coordination done by the Finance & Controlling department of the Executive Board.

PROCESS OF THE MATERIALITY ANALYSIS

The freenet Group is characterised by entrepreneurial diversity and independence; however, this also represents a challenge for preparing the non-financial statement. When preparing the first non-financial statement for 2017, we identified potential issues of the non-financial statement based on a sector/peer review and based on the materiality assessment of the Global e-Sustainability Initiative (GeSI) for the information and communication technology sector. This was followed by the determination of the material issues in a two-stage procedure comprising individual interviews and a materiality workshop involving internal experts from the corresponding specialist areas. Key factors for the assessment were the relevance of the issues for understanding the business performance, earnings and position, as well as the impact of the activities on the aspects specified in the law.

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

The following chapters describe the key issues identified and outline developments relating to sustainability in the 2018 financial year. They concern the following: employees, digital responsibility, customer matters, corporate environmental protection, anti-corruption and supply chain. The following overview shows which aspects of the CSR Guideline Implementation Act (CSR-RUG) can be allocated to the specified issues. Unless stated otherwise, all disclosures in the non-financial statement apply in equal measure to the Group and the parent company.

Table 23: Material issues allocated to the aspects of the CSR-RUG

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

A materiality review should be conducted at regular intervals (approximately every 3 – 5 years) as part of the aforementioned process. Within this period of time, the parties involved are asked whether their materiality assessment has fundamentally changed.

The Supervisory Board of freenet AG has reviewed the content of the non-financial statement with the support of Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (independent auditor) in the form of a limited assurance engagement. This engagement was conducted based on the International Standard on Assurance Engagements ISAE 3000 (revised). The report for this engagement can be found in the chapter entitled “Other information”.

MATERIAL NON-FINANCIAL ISSUES

EMPLOYEES

In the highly competitive mobile communications, mobile Internet, TV and media industry, recruiting and retaining highly qualified employees and training them is a key success factor for the company. At the same time, the freenet Group in this way also discharges its social and economic responsibility as an employer – regarding the young generation as well as the social community at the respective locations. Occupational health and safety considerations for employees complement this mission.

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

Employee attraction and retention

In 2018, the freenet Group employed 4,183 persons (2017: 4,113) at 10 locations, as well as in mobilcom-debitel shops and GRAVIS stores. Employee turnover[2] at the freenet Group level amounted to 14.0 per cent in 2018 (2017: 19.0 per cent). During the year under review, mobilcom-debitel and GRAVIS reported employee turnover of 30.0 per cent in their shops and stores (2017: 36.0 per cent). Strengthening staff retention and attracting qualified employees thus provides an important foundation for the freenet Group’s success.

Employee satisfaction is crucial to retention. The freenet Group’s managers play a major role in this regard. The company also works continuously to further develop and establish a modern leadership culture and develop its senior management. In 2018, a group-wide employee survey was conducted which, in addition to questions about job satisfaction, also focused on the issue of leadership. Approximately 59.0 per cent of the workforce participated, a slightly higher rate than in the last survey (approximately 57.0 per cent).

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

As a follow-up, members of the Executive Board and divisional managers comprehensively analysed and processed the survey responses. The results were published across the Group and analysed in department-specific workshops, and individual action plans were devised. In addition, all freenet Group managers were invited to a series of events entitled 'Campus Zukunft Führung' ('Future Leadership Campus') in autumn 2018. The events focused on group discussions about the survey results as well as modern and forward-looking styles of leadership and employee development. One particular highlight was the podium discussion between Executive Board members and former football coach Holger Stanislawski on the topic "What company managers can learn from elite sport". Following the event, a separate digital communication and collaboration channel for this group was introduced to encourage further dialogue. Leadership development requirements were also evaluated and a customised range of development measures was devised. The overall management participation rate for this event was 93.0 per cent.

In order to enhance the company's internal and external appeal as an employer, the freenet Group continues to focus on expanding its strategic recruitment efforts. Specific measures are being identified for each target group and are aimed at vacancies in digital roles and sales in particular. The following measures have been introduced to enhance the company's employer branding:

- Redesigning job advertisements that particularly highlight relevant subsidiaries and emphasise the company's benefits (first published in 2019).
- Relaunching the careers section for trainees, including designing and publishing a trainee blog as a project for the 2017/2018 trainee intake, and relaunching the careers section for apprentices, including a dedicated promotional film and the implementation of a specific onboarding process for each target group.
- klarmobil GmbH's participation in the Digital Challenge 2018, where 26 students took part in "Disrupt my business" – an event hosted by Kiel University, Kiel University of Applied Sciences, Flensburg University of Applied Sciences and Dicide GmbH.
- Using new, creative formats such as holding the first freenet hackathon and establishing the "Wissen in 30 Minuten" ("Knowledge in 30 minutes") format as a platform for sharing the company's expertise (e.g. freenet Shopping, Investor Relations and Business Intelligence).

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

Training and continued professional development (CPD)

In a dynamic sector characterised by digital transformation, employee development plays an important role in enabling the freenet Group to continually adapt to the latest market and technological trends. As a result, senior management is centrally responsible for developing the freenet Group's employees in cooperation with the human resources development team.

At the start of 2018, the Weiterentwicklung@freenet campus portal was launched across the freenet Group (with the exception of Media Broadcast) with the aim of sharing the expertise, skills, innovation and inspiration needed within the Group. The online portal is a platform that helps management to develop employees and managers appropriately. Its training formats include both classroom sessions and digital learning formats (such as live webinars or e-learning). The Group plans to expand the latter format in particular in the future and enrich it with so-called "learning nuggets", for example. A total of 439 qualification activities were held for employees in 2018 in the form of specialist, method and skills training (2017: 403). Of these, 21.0 per cent were conducted in a digital format. A total of 119 qualification activities such as product, sales and system training as well as welcome camps were held for employees at mobilcom-debitel shops and GRAVIS stores, who were supervised by an independent training unit. In addition, 38 digital qualification activities were carried out, with each employee completing an average of 17 e-learning courses.

In the field of vocational training and studies combining theory and practise ("dual studies"), the freenet Group makes available more than 100 training places every year; these consist of a total of 12 training courses at more than 150 training locations. At the end of the year, the number of apprentices in the freenet Group was 325 (2017: 322).

The specific employee development measures carried out in 2018 were:

- The opening of the modern and technically complex “freenet Campus” as a central training and CPD hub for freenet Group employees, as well as shop and store staff and franchisees.
- The start of the fourth round of the “freenet entrepreneur” programme. In addition to the personal development of eight employees who have been identified as high achievers, the aim of this programme is to establish “entrepreneurs within the company” who will drive a start-up culture as influencers. One key factor in the success of this programme is the continuous further development of its content. For example, the first company tour of Hamburg-based entrepreneurs took place in December 2018.
- At the end of January 2018, Media Broadcast launched their own “Extra Mile” development programme aimed at employees with a personal interest in methodological, professional and personal development and who have a track record of initiative and outstanding performance.
- The “freenet WOMEN DAY” initiative (a project by participants in the 2017/2018 freenet entrepreneur programme) is about to get underway. This discussion forum will be held in March 2019, with experts providing various perspectives on diversity and women in leadership. All freenet Group employees can take part.

Occupational health and safety

In a health management context, occupational safety committees have been established across the Group companies as prescribed by law[3]. These have a duty of care to employees based on legal requirements. They provide managers at every site with occupational safety training and hold them accountable for these issues. The occupational safety committees are supported by healthcare and safety technology service providers. They meet four times a year, monitor and analyse measures implemented in relation to the physical and mental health and safety of the company’s employees, and develop further concepts for continuous improvement in this field. For example, regular first aid and fire protection training sessions are held. Since 2018, management has also been offered health-related training courses (dealing with employee illness and absence and leading healthy teams) as part of the Group’s human resources development efforts. Occupational safety training is constantly revised each year and the topics kept up-to-date prior to implementation.

In addition to health symposia, target-group-specific campaigns were held at Group locations in 2018. For example, employees who spend most of their working day sitting down are offered activities focusing on back health (such as lunchtime movement sessions, back checks and massage offers). These activities are primarily preventative measures. The aim is to raise awareness among employees and provide options that they can apply independently. The Group’s health management efforts are also supported by occupational health examinations. Moreover, persons responsible for the various locations can independently access a separate heading in the Intranet concerning the subject of health, with current health tips. In 2018, the freenet Group reported an absentee rate[4] of 4.8 per cent (2017: 4.7 per cent). Monthly reporting to the freenet Group’s Executive Board members shows the average sick days across the Group.

The subject of safety at work is particularly relevant at the Media Broadcast Group. This is because approximately 145 of the total of 673 employees are involved with the maintenance and possible repair of transmission masts and antennas, some of which are several hundred metres high, for broadcasting TV and radio signals. Accordingly, precautions have been taken to comply with the stringent safety requirements in these particular areas: The employees are equipped with appropriate safety equipment, are subject to regular check-ups carried out by occupational doctors and, once every year, take part in the prescribed climbing and rescue exercises. Every three years, they attend follow-up seminars concerning the subjects of fall protection and rescue measures. The activities and the associated increased levels of risk and requirements is the reason why the ratio of occupational injuries and commuting accidents at the Media Broadcast Group is higher than the ratio for the overall Group[5].

[3] See in detail section 11 Law on Company Doctors, Safety Engineers and Other Occupational Safety Specialists (Gesetz über Betriebsärzte, Sicherheitsingenieure und andere Fachkräfte für Arbeitssicherheit).
[4] Share of labour capacity lost because of health issues [(Sick days per calendar day * 100)/calendar days]. The figure was calculated exclusive of EXARING AG. This data is expected to be included in future reporting.
[5] Frequency of accidents per 1,000 full-time employees [((occupational injuries + commuting accidents) * 1,000)/Number of full time employees]. The figure was calculated exclusive of EXARING AG and Motion TM Vertriebs GmbH. This data is expected to be included in future reporting.

Table 24: Occupational injuries and commuting accidents

Per 1,000 employees	2018	2017
Group	**31.4**	**25.3**
Thereof occupational accidents (accident reports/notes)	19.5	13.3
Thereof commuting accidents	11.9	12.0
Media Broadcast Group	**41.3**	**35.0**
Thereof occupational accidents (accident reports/notes)	24.5	19.0
Thereof commuting accidents	16.8	16.0

DIGITAL RESPONSIBILITY

As the freenet Group, we are aware that our customers are concerned about the increasing volume of reporting on cyberattacks and data abuse. Accordingly, a transparent and secure method of handling the sensitive personal data which are provided to the company in the context of its telecommunication services is becoming more and more important. The freenet Group therefore considers data protection and data security to be the basis and essential requirement for its business operations. Regulation and the high degree of digitalisation of business processes in the telecommunications sector brought this particular issue into focus in the past.

Led by the Chief Technology Officer (CTO), the freenet Group IT department provides IT services for the freenet Group's telecommunications operations. Data protection and data security are one of the five fundamental principles of the freenet Group's IT strategy. As a result, the information security guidelines were revised in 2018 and adopted by the Executive Board of the freenet Group. Several action points derived from these guidelines were implemented in 2018, including the creation of a security organisation with defined roles and the introduction of a dedicated security incident management process. Security incidents are visualised by a dashboard, analysed by a core security team and coordinated by security incident managers. The key roles within the security organisation are the Security Board as a decision-making body, the IT Security Coordinator, who centrally coordinates all security measures, and decentralised security officers in each individual IT department. An external cybersecurity assessment was also conducted. In addition, the freenet Group IT department also has a regularly updated crisis and emergency plan and a recovery plan for the Company's IT infrastructure and software applications.

IT Management and the management levels of the freenet Group consider data security a central task. All issues and projects which are relevant for data protection purposes are agreed beforehand with the data protection officer of the Group. For all IT measures relating to employee data, the IT control committee of the works council is consulted. The Executive Board and Supervisory Board or the latter's committees are regularly informed of the relevant developments and requirements in the field of data protection.

At the same time, customers should experience a high degree of transparency with regard to the processing of their personal data. The freenet Group guarantees this by providing comprehensive information on this topic on the "Data protection" section of its website. This content is regularly evaluated, taking into account customer enquiries from the Customer Care Center for improved comprehensibility. In addition, every customer can request information regarding the data stored about them and exercise their right to correct or erase this data. This enables customers to take a responsible decision as to what should happen with their data. And in the customer section of the freenet website, they can also view and modify their data as well as any approvals which they have provided.

To check the data security concepts which are applied, external security experts regularly carry out penetration tests of the exposed IT systems on behalf of the Internal Audit department. Security patch management is part of normal IT operation in all IT functions. In this way, the freenet Group is able to respond quickly and in an appropriate manner to changes in threat scenarios. The entire IT system landscape of the freenet Group as well as the security level in its own data centre meet the legal requirements and correspond to the current state of the art.

All employees are required to comply with both data protection requirements and the freenet Group's regularly updated confidentiality requirements. All major company departments maintain a list of all data processing activities that is regularly reviewed to ensure that it is up to date. In addition, for the processing of customer data, regular analysis of the level of protection are carried out to identify appropriate protection measures. When IT service providers are appointed by the freenet Group IT department, they are bound by both our customers' data protection requirements when processing orders as well as statutory data security requirements. If customer data are used for analysis purposes or for product design purposes, an approval process ensures in each case that such data are adequately pseudonymised or anonymised.

Beyond its own operational IT security processes, the Media Broadcast Group is very much and continuously involved with KRITIS – a joint initiative of the Federal Office of Civil Protection and Disaster Assistance (Bundesamt für Bevölkerungsschutz und Katastrophenhilfe) and also of the Federal Office for Information Security (Bundesamt für Sicherheit in der Informationstechnik) to protect critical infrastructure: This initiative defines sectors which make a society vulnerable; these also include the field of media and culture. The Media Broadcast Group takes its task of keeping broadcast systems crisis-proof very seriously, given that it has implications for the whole of society. It therefore works in the corresponding sector working party "Media and Culture" on the development of standards as well as providing advice and support to public and private broadcasters to ensure that this part of the critical infrastructure functions properly. The Media and Culture unit is currently developing its own industry standard for IT security. In order to ensure the legally required provision of information and communications technology, the major public television and radio broadcasters are very closely associated with the Media Broadcast Group on the customer side. The Media Broadcast Group in its entirety has enjoyed the corresponding certification ISO 27001 Information security since 2013. It also applies to the freenet data centre in Düsseldorf and with regard to the chain of information and measures resulting from the KRITIS tasks and the information on security cases provided by the Alliance for Cybersecurity, some of which is highly confidential.

The EU General Data Protection Regulation (GDPR) came into force in May 2018. As telecommunication companies subject to legal data protection regulations, and within the framework of ISO 27001 certifications[6], the companies of the freenet Group already complied with most GDPR requirements. The freenet Group implemented the remaining provisions of the Regulation when it came into force. The same applies to Media Broadcast, which began inspecting and revising its existing privacy and contract data processing agreements in accordance with GDPR at an early stage and reviewed the relevant contractual relationships.

GDPR requirements have thus been implemented across the Group and appropriate guidelines and processes have been defined and introduced.

CUSTOMER MATTERS

Aware of its responsibility towards its customers, the freenet Group focusses on sustainable customer relations based on high service quality and customer satisfaction, and product solutions that do more than just offer attractive tariffs and devices. The company reiterated its commitment to this issue by expanding the Executive Board on 1 June 2018. Since that date, the new Chief Customer Experience Officer has been fully responsible for customer activities in the core mobile communications business as well as the digitalisation of all customer interactions and transactions, with the aim of making customer relationships and service quality as quick, direct, seamless and sophisticated as possible. The Group's customer experience approach is based on three strategic pillars:

- Greater customer satisfaction by way of service quality
- Greater customer satisfaction by way of clear brand positioning and a sustainable product portfolio
- Greater customer satisfaction by expanding digital dialogue with customers

Customer satisfaction by way of service quality

For a service provider operating in the mobile communications sector – the core business segment of the freenet Group – the quality of services provided to customers and long-term customer satisfaction are of vital importance: Service quality is regarded by the freenet Group as a strategic asset in meeting customer expectations. The Group relies on a sustainable service concept that includes the customer contact centre, a comprehensive range of digital contact opportunities for customers and the integration of mobilcom-debitel shops. Our range of customer services is being constantly developed and expanded at all customer touch points. In 2018, these new offerings included in-store appointments and bill payment, a mobile phone setup service and attractive financing offers.

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

[6] The certification is applicable for the entire value chain of the Media Broadcast Group and also for the data centre services "Housing and Hosting" for external business customers rendered by freenet Datenkommunikations GmbH.

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

Media Broadcast's entire value chain is certified in accordance with ISO 9001. This certification is the basis for and the central element of our consistently high service quality and resulting customer satisfaction.

Sustainable product solutions

The freenet Group is continually developing its comprehensive and diverse portfolio of customer-focused mobile tariffs based on systematic market and customer analyses to meet customer expectations and steadily improve the customer experience. The Group's close relationship with Germany's three network providers and the associated use of these networks ensures that it can provide the greatest possible mobile network coverage in Germany (availability >95 per cent). The freenet Group can also meet the needs of many German customers with its comprehensive product portfolio. In the discount segment, for example, the Group offers mobile tariffs with Internet access to the LTE network from a price point of around 5 euros per month. In turn, the main brand mobilcom-debitel offers subsidised smartphones combined with high-quality mobile tariffs. This brand and portfolio approach enables the company to meet a wide variety of customer expectations. The company also offers an attractive tariff portfolio for mobile communications and TV for low-income customers and enables customers with poorer creditworthiness to participate in digital life via a special deposit model for subscription-based offerings[7].

The freenet Group also offers a differentiated portfolio of digital lifestyle products. It results from the wide range of customer needs and a rapid and systematic method of identifying and testing new digital trends and solutions. The portfolio also includes products which meet the customer's wishes for product solutions in the fields of environmental protection, data protection and the protection of minors. Regarding choice and development, there is no explicit focus on sustainability criteria, which means that a concept in the narrower sense of the term is not available at present. Irrespective of this, the product portfolio offers a wide range of solutions that can be combined with added value for society. With regard to the subject of security of data and devices, they comprise a comprehensive range of security software (e.g. Norton Security Online) or online protection for children with regard to certain digital content. At the end of 2018, freenet's main brand also introduced a smartwatch for children to the market. Parents and children can use these watches to communicate with each other at any time, while authorised people only – such as parents – can use GPS geofencing to track their child's current location. In the field of environmental protection, the company offers its customers a digital solution for reducing heating consumption by 20 per cent[8] with its Smart Home product.

The range of sustainable product solutions is extended by the cooperation between mobilcom-debitel and Fairphone B.V., a niche provider operating in the market for smartphones. Due to its modular design, the Fairphone allows owners to repair or replace the components themselves, thus increasing the service life of the device. The manufacturer also focusses on materials obtained from conflict-free extraction sites and also on continuously improving working conditions in production and in the supply chain. With regard to sales of the Fairphone in Germany, mobilcom-debitel currently has the largest market share with approximately 15 per cent (2017: approximately 15 per cent).

[7] The deposit model is for customers who failed the credit assessment for subscription-based offerings. The deposit is staggered in 50/100/200/400 euros. Paying the deposit enables the respective customer to use mobile services within their selected tariff. Moreover, the customer benefits from the bundle with a subsidised handset.
[8] The hardware supplier commissioned an institute to measure the savings potential under standardised and defined conditions. The measuring showed a savings potential in the heater consumption of at least 20 per cent, provided that the actuators have been installed and programmed throughout the analysed space. If the target is not achieved, customers are refunded their basic fee.

Customer satisfaction by enhancing digital dialogue

In 2018, the freenet Group focused on strategically enhancing its digital dialogue with customers. The Group also established several communications channels that met with positive feedback from customers:

- Further development of the "mein mobilcom-debitel.de" and "mein klarmobil.de" self-service portals
- New development and expansion of the self-service app for customers of the mobilcom-debitel and klarmobil brands
- Integration of WhatsApp and Facebook Messenger as contact options
- Development of an in-house chatbot for customers
- Expansion of email dialogue with customers

CORPORATE ENVIRONMENTAL PROTECTION

For a medium-sized company, the optimum use of resources and efficient utilisation of energy are not only important for economic success in a competitive environment dominated by large corporations. The freenet Group also explicitly supports internationally formulated climate protection initiatives. These include significant factors such as reducing electricity and fuel consumption to lower carbon emissions. The Group does not intend to introduce a carbon strategy aligned with quantitative parameters due to a general lack of relevance. Nevertheless, the company takes on board the energy efficiency improvement recommendations resulting from regular statutory energy audits conducted in accordance with DIN EN 16247-1, taking into account cost-benefit considerations. The next energy audit is planned for 2019.

Energy consumption and carbon emissions

Within the overall Group, the Media Broadcast Group is a large energy consumer as a result of its business model: for supplying its broadcasting and transmission technology, it consumes energy at approximately 932 transmitter sites and radio towers. The resource consumption of the Media Broadcast Group is backed by an energy management system certified in accordance with ISO 50001, as well as an environmental management system[9] certified in accordance with ISO 14001. In this way, the company places particular emphasis on optimum and efficient use of resources. The strategic decision to change over to the new HD standard DVB-T2 in TV business also makes a contribution towards greater efficiency. The new T2 transmitters broadcast more highly compressed signals (more programmes in the same bandwidth), which means that frequency utilisation is more efficient and energy consumption is considerably reduced. This is also applicable for radio with regard to the replacement of the outdated analogue radio standard by the equally more energy-efficient digital DAB+. However, it is not yet possible to measure the effect for 2018 of the sale of analogue radio that took place in the reporting period. In the past two years, the overall electricity consumption of the Media Broadcast Group has declined by approximately 30.3 per cent, and the associated carbon emissions have declined by approximately 35.3 per cent. In this respect, it should be noted once again that there are limitations to implementing energy savings in the field of broadcasting and transmission technology. Contracting and using frequencies is subject to a regulatory framework. The Media Broadcast Group is therefore not free in establishing and expanding an efficient infrastructure. In order to safeguard a nationally-suitable and sufficient coverage of services, the Media Broadcast Group has to comply with statutory requirements of third parties.

In the remainder of the Group, the data centre and the company vehicle fleet of the freenet Group represent the main areas for reducing carbon emissions. Accordingly, the data centre of the Group in Düsseldorf is supplied exclusively with renewable energy (2018: 5.4 GWh; 2017: 5.4 GWh). The company also focusses on ensuring low-consumption and low-emission when composing its company car fleet. The Media Broadcast Group in 2016 replaced its fleet of company cars which comprised approximately 400 vehicles with the aim of achieving reduced fuel consumption and carbon emissions. As a result, the fleet's fuel consumption and carbon emissions decreased. The company also continuously conducts vehicle mileage checks to identify consolidation opportunities. The fleet size was thus reduced by around 50 vehicles by the end of 2018 (fleet size 2017: approx. 400 vehicles).

[9] Media Broadcast has decided to let certification expire at the end of 2018. Instead, as of 2019, the Group will participate in the statutory energy audits of the freenet Group. The external energy audits according to DIN EN 16247–1 have an alternative character.

Table 25: Energy consumption and carbon emissions

Unit as specified		2018	2017 (adjusted)	2016 (adjusted)
Group[10]				
Fuel consumption[11]	GWh	31.9	34.2	33.8
Thereof carbon emissions (Scope 1)	tCO_2eq[12]	7,677.0	8,170.1	8,053.6
Electricity consumption[13]	GWh	90.5	114.4	125.5
Thereof carbon emissions (Scope 2)	tCO_2eq	44,255.4	60,267.2	66,131.5
Energy consumption	**GWh**	**122.4**	**148.5**	**159.3**
Thereof carbon emissions	**tCO_2eq**	**51,932.5**	**68,437.4**	**74,185.2**
Thereof:				
Media Broadcast Group				
Fuel consumption	GWh	5.5	6.0	6.4
Thereof carbon emissions (Scope 1)	tCO_2eq	1,365.8	1,475.6	1,565.2
Electricity consumption	GWh	76.3	99.6	109.5
Thereof carbon emissions (Scope 2)	tCO_2eq	37,321.7	52,468.3	57,681.9
Energy consumption	**GWh**	**81.8**	**105.6**	**115.8**
Thereof carbon emissions	**tCO_2eq**	**38,687.5**	**53,944.0**	**59,247.1**
Carbon emissions intensity	**tCO_2eq/million revenue**	**17.9**	**19.5**	**22.1**

Consumption of resources

In order to continue to successfully press ahead with the process of digitalising the company, the freenet Group focusses primarily on digital communication among employees as well as in dialogue with customers and business partners. It thus makes a contribution towards reducing paper consumption and making efficient use of resources in administration. This starts with the digital networking of all available sales channels and extends right through to avoiding the printing and posting of millions of invoices every month. In 2018, around 74.9 per cent of all invoices of mobilcom-debitel, the primary brand in mobile communications, were issued electronically (2017: 74.2 per cent), while paperless invoices accounted for 95.7 per cent of the Group's discount brands (2017: 95.7 per cent). Overall therefore, approximately 78.8 per cent of all invoices are transmitted digitally (2017: 78.0 per cent).

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

The company is also working hard to improve the return rate in its own shops as well as the proportion of so-called 'A products' – devices which can be sold immediately – thus enabling it to help avoid electronic waste. In light of this, devices

[10] The Media Broadcast Group has belonged to the group of consolidated companies since 18 March 2016. No consolidation adjustments for the years before 2017 have been made due to simplification and presentation considerations.
[11] The fuel consumption comprises consumption in the form of diesel and petrol for the fleet of company cars as well as the direct purchase of natural gas. Other indirectly procured fuels have not been included because no valid consumption figures were available due to the billing cycle, e.g. of facility managers, and extensive estimates would have been necessary. The conversion factors of the British Ministry for the Environment, Food and Rural Affairs (DEFRA) were used for converting fuel consumption in GWh and carbon emissions.
[12] CO_2eq corresponds to CO_2 equivalent = CO_2, CH_4 and N_2O.
[13] Electricity consumption calculated on the basis of appropriate estimates and extrapolations. The CO_2 emissions factor of the Federal Environmental Office (Umweltbundesamt) is used for converting electricity consumption into CO_2 emissions, although the data centre of freenet Datenkommunikations GmbH is operated with renewable energy (2018: 5.4 GWh).

have been foil wrapped before being shipped to customers since 2017. The resulting and sustained positive effects of this were evident for the second successive year in 2018, as the return rate and proportion of A products remained high. After adjusting for a one-off effect[14], the return rate was 1.7 per cent (2017: 1.5 per cent) and the proportion of A products was 84.2 per cent (2017: 85.8 per cent). In relation to end users, the percentage of A products in 2018 was almost stable at 92.2 per cent (2017: 95.0 per cent).

ANTI-CORRUPTION

Like all modern economies, Germany has recognised the negative impact of corruption on the economy and has therefore made it a punishable offence. The freenet Group is committed to the applicable laws and standards as well as the underlying ethical principles: It is also aware of the negative effects of economic crimes and therefore strongly condemns corruption in particular and takes a strong stance against it. In accordance with German law, the freenet Group does not differentiate between corruption on the one hand and facilitation payments on the other. In the case of criminal offences, the company naturally pursues a zero tolerance policy. The Executive Board underlines the company's strict attitude towards combating corruption by way of a tone from the top. In addition, the works councils also support all guidelines that serve to combat corruption. Compliance is a strong element of the freenet corporate culture, and is also expressed by the actions and support of all parts of the company.

As a typical economic crime, bribery occurs particularly where the briber can have an impact on large cash flows for their own benefit with comparatively small means. In the freenet Group, this risk therefore exists in particular in the context of high-revenue contract partners, both on the customer and supplier side. In order to be able to successfully combat this risk, the company has implemented a compliance management system which has identified the need to combat corruption as one of its primary objectives (for the detailed structure and process organisation, please refer to "Corporate Governance Statement"). Management of corruption risks is based on several approaches, which are characterised by prevention, identification and reaction.

The Group's efforts in this area focus on specific employee information for prevention purposes. Customised training, one-on-one discussions and generally binding guidelines provide the company's employees with a stable framework with which they can align themselves. In this context, the gift, purchasing and signature guidelines have a vital role to play in certain risk areas. While the gift guidelines are designed to prevent the undue influence of both internal and external business dealings, the signature guidelines ensure that only selected individuals can enter into transactions and, in the case of significant amounts, authorised representatives from different departments and divisions are always required to act as co-signatories. In addition, the purchasing policy ensures that the best suppliers are objectively procured using clear procedural parameters and by requiring the specialist department undertaking the procurement to involve the Purchasing department as a neutral party in significant transactions. In addition, the Compliance unit offers a hotline which enables it to always provide legal and content-specific advice in order to enable any uncertainty in daily work to be resolved quickly.

A multiple-channel approach is also used for identifying any legal infringements. The gift guideline requires all employees to submit a report every quarter to the Compliance unit via their superiors with regard to all gifts given and received worth more than 20 euros, so that gifts, invitations and benefits can be checked in order to establish whether they are correct and legally proper. In the freenet Group, receiving and giving gifts is only permitted if the possibility that a business decision has been influenced can be unequivocally ruled out. The freenet Group also actively pursues possible misconduct through its Internal Audit and central Fraud Management departments. Finally, all employees and franchisees can report suspicious incidents to the Compliance unit around the clock via a whistleblower system – including anonymously if desired. In addition to the intranet, email and telephone, there is also an interface on the point of sale system for this purpose. The whistleblower committee reviews incoming tip-offs and conducts additional investigations where appropriate.

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

[14] The one-time effect in Q1/2018 resulted from a streamlining of the product range that was postponed from 2017 to 2018 due to strategic priorities. In this context, there was a focus on retrieving devices from the shops that had been shipped before 2017 – without foil wrapping – which temporarily resulted in a comparatively high proportion of B products.

SUPPLY CHAIN

As a result of the supply chain's importance to the freenet Group business model, we require our suppliers, service providers and other business partners to make a clear commitment to sustainable action. The entire procurement organisation is included in the Partner Relationships department, with a Chief Commercial Officer appointed to the Executive Board of the freenet Group as of 1 June 2018.

The freenet Group works with more than 1,500 suppliers in the process of selling mobile communications services. Most of the cost of sales and thus more than 90 per cent of the monetary purchasing volume is attributable to a small number of large suppliers, namely:

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

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

The freenet Group's ability to exert influence on the major suppliers listed above is comparatively limited when considering the national and, in particular, international overall market and the Group's positioning in the value chain. Nevertheless, the freenet Group is aware of its ecological responsibility and its responsibility for human rights. The objective is therefore to hold the cooperating manufacturers and network operators accountable for using their influence on the value chain to ensure fair working conditions and to exclude conflict minerals in the production of telecommunications hardware and accessories.

Since 2018, this has been done by way of the freenet Group's own Supplier Code of Conduct, which defines minimum requirements for human rights, social standards, environmental protection, security, health, and anti-corruption. The Supplier Code of Conduct is publicly available on the freenet Group website, and is included in all new procurement agreements. Alternatively, we require our strategic suppliers to declare that their standards at least correspond to those of the freenet Group.

These sustainability aspects are incorporated into our purchasing policy as decision-making parameters to reinforce this self-imposed responsibility. As a Group-wide framework, the purchasing policy is intended to encourage the responsible employees to take sustainability criteria into account when making purchasing decisions.

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

NON-FINANCIAL RISKS

The risk analysis carried out in the context of the non-financial statement is based on the Group-wide risk management system (RMS) of the freenet Group. The risks recognised there were analysed to establish whether they match the issues and aspects of the non-financial statement. For risks from the RMS that relate to issues covered by the CSR-RUG, a risk assessment has been carried out in line with the assessment for the Group risk report (for this purpose, please refer to the Report on opportunities and risks in the Group management report). Measured in terms of the legal materiality criteria for reporting non-financial risks, and after the implementation of risk-mitigation measures, none of the identified risks is of a material nature as defined in the RMS established Group-wide. This applies particularly against the backdrop of a very probable occurrence[15].

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

GROUP MANAGEMENT REPORT

CORPORATE GOVERNANCE

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

freenet AG and its management and supervisory bodies are committed to the principles of good and responsible corporate governance; they identify with the objectives of the German Corporate Governance Code and with the principles of transparent, responsible management and control of the company aimed at enhancing its value. The Executive Board and the Supervisory Board, together with all managers and employees in the freenet Group, are committed to pursuing these goals.

In its meeting on 4 December 2018, the Supervisory Board considered the regulations of the German Corporate Governance Code and, together with Executive Board, issued the annual Declaration of Conformity with regard to the German Corporate Governance Code. The Supervisory Board and Executive Board have essentially continued the deviations stated and the reasons for them from previous years. The Declaration of Conformity dated 4 December 2018 is included in the following Corporate Governance Statement and has been made permanently accessible on the company's website.

CORPORATE GOVERNANCE STATEMENT

In the Corporate Governance Statement in accordance with sections 289f, 315d HGB, freenet AG displays its current Declaration of Conformity in accordance with section 161 of the German Stock Corporation Act (AktG) and explains the relevant disclosures about corporate management practices that are applied over and above the statutory provisions. In addition, the working practices of the Executive and Supervisory Boards are described and the composition and working practices of the Supervisory Board's committees are disclosed. Also to be found in the following are the information regarding the percentage of women on the Executive Board and in the two management tiers below the level of the Executive Board, as well as information regarding compliance with minimum percentages of women on the Supervisory Board. And finally, details are provided regarding the reasons why the company does not adopt a diversity plan for the Executive Board and Supervisory Board.

freenet AG made the following Corporate Governance Statement in accordance with sections 289f, 315d HGB, which is simultaneously a part of its management report for the financial year 2018.

STATEMENT IN ACCORDANCE WITH SECTION 161 AKTG

Since submitting the last Declaration of Conformity on 5 December 2017, freenet AG has complied with the recommendations of the German Corporate Governance Code ("Code") as amended on 7 February 2017 with the following exceptions and will continue to comply with the recommendations of the Code as amended on 7 February 2017, unless stated otherwise by the company in the following.

1. The company has taken out D&O insurance for its board members. No deductible has been stipulated for Supervisory Board members because it is not evident that this would represent an advantage for the company. It is taken for granted that all Supervisory Board members carry out their duties responsibly. In order to treat all the Supervisory Board members equally, moreover, any deductible would have to be set at a uniform level, even though the members' personal financial backgrounds vary. A deductible would therefore constitute different burdens for the individual Supervisory Board members. As their responsibilities are the same, this does not seem appropriate. (Code clause 3.8 (3))

2. The company has a strong commitment to transparent reporting. This also applies to the remuneration of the Executive Board members, the separate components

of which are disclosed and discussed individually in the remuneration report. Nonetheless, the Executive Board and Supervisory Board have decided not to use the model tables in the remuneration report to present the Executive Board's remuneration. Although the service contracts with the Executive Board members provide for caps, there is a risk that the disclosure of maximum amounts for share-based payment components creates an impression which is inconsistent with the actual assumptions for the performance of the share price. (Code clause 4.2.5 sentences 5 and 6)

3. When appointing new members to the Executive Board in 2018, the Supervisory Board appointed those candidates to the Executive Board who were best suited in particular because of their knowledge and skills acquired in the course of their many years of service in the company. In contrast, the criteria for the composition of the Executive Board mentioned in clause 5.1.2 (1) of the Code were not the focus of the Supervisory Board's attention when appointments were made and will remain subordinate with respect to future appointments from the Supervisory Board's point of view. (Code clause 5.1.2 (1))

4. No age limit has been set for members of the Executive Board and the Supervisory Board. It is not evident why qualified individuals with relevant professional and other experience should not be considered as candidates solely on the grounds of their age. (Code clauses 5.1.2 sentence 8 and 5.4.1 sentence 2)

5. The Supervisory Board does not specify any concrete targets for its composition, as defined in clause 5.4.1 (2) and 5.4.2 sentence 1. It therefore also does not draw up a profile of skills for the entire board. It can therefore not follow the recommendations made in clause 5.4.1 (4). When proposing new members for election, the Supervisory Board has so far been guided solely by their suitability. The Supervisory Board is convinced that this has proven to be effective. It therefore sees no need to change the practice. (Code clauses 5.4.1 (2), (4) and 5.4.2 sentence 1)

6. Clause 5.4.6 (2) of the Code recommends linking performance-related remuneration for Supervisory Board members to the sustained performance of the company. The Supervisory Board's variable remuneration is set according to the dividend for the past financial year, in line with section 11 (5) of the company's articles of association. This form of variable remuneration has proven its worth in the past. Furthermore, the company's dividend policy as communicated to financial markets, which is based on free cash flow, is linked to the company's sustained performance. Linking variable remuneration to this dividend strategy therefore also serves the company's sustained performance. For this reason, there is no intention of changing the Supervisory Board's variable remuneration. (Code clause 5.4.6 (2)

RELEVANT DISCLOSURES ON CORPORATE GOVERNMENT PRACTICES

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

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

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

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

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

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

The aim is to enable the company to take systematic and appropriate action immediately when compliance is violated and thereby to avert damage to the freenet Group. In order to ensure the proper, swift handling of tip-offs in accordance with the whistleblower process, the freenet Group has set up a whistleblower committee. Permanent members of the whistleblower committee are the Chief Compliance Officer as well as the responsible head of Internal Auditing and the head of Fraud Management. The whistleblower committee is responsible for the operational implementation of the whistleblower process.

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

The significance of data protection has increased continuously in recent years. The freenet Group is aware of its special responsibility with regard to the handling of the personal data of our customers, suppliers, contractual partners and employees, especially given the General Data Protection Regulation (GDPR) and special regulations that apply in the telecommunications sector. It is therefore important to us to protect this data against unauthorised access. For this reason, we use modern security technologies and regularly draw the attention of our employees to this subject in order to continuously improve the overall security level and to meet the challenges posed by growing threats.

WORKING PRACTICES OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

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

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

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

COMPOSITION AND WORKING PRACTICES OF COMMITTEES

The Executive Board has not constituted any committees.

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

STEERING COMMITTEE

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

Members:
Prof Dr Helmut Thoma (chairman), Thorsten Kraemer, Gerhard Huck (since 17 May 2018), Knut Mackeprang

Member who stepped down in 2018:
Gesine Thomas (until 17 May 2018)

PERSONNEL COMMITTEE

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

Members:
Prof Dr Helmut Thoma (chairman), Sabine Christiansen, Claudia Anderleit, Knut Mackeprang

AUDIT COMMITTEE

The audit committee concerns itself with the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system and the internal auditing system, and the auditing of financial statements. In the latter case especially it concerns the choice of auditor and their independence and the additional services rendered by the auditor, the awarding of the audit engagement to the auditor, the determination of key audit matters and the fee agreement. It is also responsible for approving the permissible non-audit services to be rendered by the auditor. It also concerns itself with compliance-related issues.

Members:
Robert Weidinger (chairman), Marc Tüngler, Bente Brandt (since 17 May 2018), Thomas Reimann (since 17 May 2018)

Members who stepped down in 2018:
Ronny Minak (until 17 May 2018), Michael Stephan (until 17 May 2018)

MEDIATION COMMITTEE

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

Members:
Prof Dr Helmut Thoma (Chairman), Fränzi Kühne, Knut Mackeprang, Theo-Benneke Bretsch (since 17 May 2018)

Member who stepped down in 2018:
Gesine Thomas (until 17 May 2018)

NOMINATION COMMITTEE

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

Members:
Prof Dr Helmut Thoma (chairman), Marc Tüngler, Sabine Christiansen

DEFINED TARGETS FOR THE PERCENTAGE OF WOMEN ON THE EXECUTIVE BOARD AND ON THE TWO MANAGEMENT TIERS BELOW THE EXECUTIVE BOARD; DISCLOSURES ON COMPLIANCE WITH MINIMUM PERCENTAGES OF WOMEN ON THE SUPERVISORY BOARD

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

in %	Target for 31 December 2018
Executive Board	0
Management tier 1 (direct reports)	30
Management tier 2 (direct reports)	30

The targets to be achieved in the last reference period by 30 June 2017 for the percentage of women on the Executive Board and on the two management tiers below the Executive Board as defined by the Supervisory Board and Executive Board were achieved as follows:

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

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

DISCLOSURES ON THE DIVERSITY CONCEPT FOR THE SUPERVISORY BOARD AND EXECUTIVE BOARD

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

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

After increasing the number of Executive Board members, the Supervisory Board aims to achieve continuity in 2018 with regard to the composition of the Executive Board, and wishes to avoid potential uncertainty among its members. Such uncertainty might arise if the Supervisory Board sets up a general diversity concept for the composition of the Executive Board without a specific reason. The Supervisory Board therefore currently sees no need for a diversity concept and, given the lack of experience with this new requirement, would like to take a wait-and-see attitude regarding further developments.

DISCLOSURES IN ACCORDANCE WITH SECTIONS 289A (1), 315A (1) HGB

COMPOSITION OF SUBSCRIBED CAPITAL

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

RESTRICTION ON SHARE TRANSFER OR VOTING RIGHTS

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

EQUITY INTERESTS EXCEEDING 10 PER CENT OF THE VOTING RIGHTS

As of 31 December 2018, and on the basis of the existing notifications of voting rights, Flossbach von Storch AG, Cologne, holds an equity interest of 15.39 per cent of the voting rights in freenet AG indirectly via Flossbach von Storch Invest S.A., Luxembourg, in accordance with sections 21 et seq. WpHG.

SHARES WITH SPECIAL RIGHTS AND POWERS OF CONTROL

There are no shares with special rights that confer powers of control.

TYPE OF VOTING RIGHTS CONTROL WHEN EMPLOYEES HOLD AN INTEREST IN SHARE CAPITAL

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

APPOINTMENT AND DISMISSAL OF THE MEMBERS OF THE EXECUTIVE BOARD, CHANGES IN THE ARTICLES OF ASSOCIATION

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

POWERS OF THE EXECUTIVE BOARD TO ISSUE SHARES

The Executive Board, with the approval of the Annual General Meeting, has been authorised by a resolution of the Annual General Meeting of 17 May 2018 to increase the share capital by issuing new shares against contributions in cash or in kind on one or more occasions, up to a maximum of 12,800,000.00 euros until 3 June 2023 (Authorised Capital 2018).

The Executive Board, with the approval of the annual general meeting, has also been authorised by a resolution of the Annual General Meeting of 12 May 2016 to increase the share capital by issuing new shares against contributions in cash or in kind up to a maximum of 12,800,000.00 euros until 1 June 2021 (Authorised Capital 2016).

In addition, on 12 May 2016, the Annual General Meeting adopted a resolution regarding a conditional capital increase involving up to a total of 12,800,000.00 euros, consisting of 12,800,000 new no par value registered ordinary shares (Conditional Capital 2016). The purpose of the conditional capital increase is to enable registered no par value shares to be granted to the holders or creditors of convertible and/or bonds with warrants which are issued on the basis of the authorisation as adopted by the annual general meeting of 12 May 2016 under agenda item 10, letter A) and which provides a conversion or option right in relation to the registered no par value shares of the company or which establishes a conversion or option obligation in relation to these shares. The Executive Board has been authorised to determine the further details for carrying out a conditional capital increase.

POWERS OF THE EXECUTIVE BOARD TO BUY BACK SHARES

Pursuant to the resolution of the Annual General Meeting of 12 May 2016, the Executive Board was authorised, until 11 May 2021, to acquire its own shares equivalent to up to 10 per cent of the current share capital or – if lower – 10 per cent of the share capital existing at the time at which the authorisation is exercised. This authorisation can be exercised by the company, by its subsidiaries, or by third parties for the account of the company or for the account of its subsidiaries. Acquisition of such shares shall be carried out at the discretion of the Executive Board through the stock market, by way of a public offer of purchase, through a public invitation to submit offers for sale, by issuing tender rights to the shareholders or by using equity derivatives (put or call options or a combination of the two). There is also the possibility of purchasing shares in accordance with sections 71 et seq. AktG.

CHANGE OF CONTROL

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

COMPENSATION AGREEMENTS OF THE COMPANY

There are no compensation agreements in place between the company and members of the Executive Board or employees to cover the case of a takeover bid.

STATEMENT IN ACCORDANCE WITH SECTION 289F HGB

The statement in accordance with sections 289f, 315d HGB is published on the company's website at https://www.freenet-group.de/en/ in the Investor Relations/Corporate Governance section.

REMUNERATION REPORT OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

EXECUTIVE BOARD REMUNERATION IN ACCORDANCE WITH HGB

The remuneration paid to the members of the Executive Board consists of an annual fixed salary, annual variable benefits, and benefits with a long-term incentive effect. There are also pension commitments. The annual variable benefits each result from an annual target agreement in which regularly determined figures indicating the freenet Group's significant financial and non-financial performance indicators are defined as individual targets.

On 26 February 2014, agreements concerning the contracts of employment that grant benefits with a long-term incentive effect (LTIP Programme 2) were entered into with the members of the Executive Board. In LTIP Programme 2, the years 2014 to 2018 have been defined as target attainment years for Mr Vilanek, and 2015 to 2019 for Mr Preisig and Mr Esch.

In LTIP Programme 2, an LTIP account is maintained for each member of the Executive Board; in each financial year, depending on the extent to which defined targets for the financial year in question have been attained, credit or debit entries are made in the accounts in the form of phantom shares. Then, within a predetermined period of time, cash payouts less taxes and charges can be made for each financial year, depending on the balance in the respective LTIP account. The amount of these payments is dependent on various factors, including the relevant share price at the time of the payout.

When the employment contract was extended (with Mr Vilanek; granted on 4 April 2018) and the appointment to the Executive Board made (for both Mr v. Platen and Mr Fromme with effect from 1 June 2018), supplemental agreements to the employment contracts granting the new LTIP (LTIP Programme 3) were entered into with the aforementioned members of the Executive Board. In LTIP Programme 3, the years 2019 to 2023 have been defined as target attainment years for Mr Vilanek, and 2018 (on a pro rata basis from the appointment date) to 2021 for Mr v. Platen and Mr Fromme.

In LTIP Programme 3, an LTIP account is also maintained for each member of the Executive Board; in each financial year, depending on the extent to which defined targets for the financial year in question have been attained, credit entries are made in the accounts in the form of phantom shares. Then, within a predetermined period of time, cash payouts less taxes and charges can be made for each financial year, depending on the balance in the respective LTIP account. The amount of these payments is dependent on various factors, including the relevant share price at the time of the payout.

The remuneration for the members of the company's Executive Board was comprised as follows in the reporting year and in the previous year. The following tables show the benefits of the Executive Board in accordance with section 314 (1) No. 6a HGB in conjunction with GAS 17. These figures include the benefits granted in the course of the financial year. In accordance with section 314 (1) no. 6a HGB, changes in the value of the LTIP programmes that were not caused by a change in the exercise conditions are not disclosed.

Table 26: Executive Board remuneration for financial year 2018 according to HGB

In EUR '000s	Fixed benefits	Variable cash benefits	Total cash benefits	Benefits granted with long-term incentive component	Total benefits acc. to HGB
Christoph Vilanek	765	572	1,337	1,776	3,113
Joachim Preisig	544	457	1,001	0	1,001
Stephan Esch	494	229	723	0	723
Rickmann v. Platen[1]	298	167	465	432	897
Antonius Fromme[1]	297	167	464	432	896
Total	**2,398**	**1,592**	**3,990**	**2,640**	**6,630**

[1] Benefits in each case for the period from appointment as a member of the Executive Board, i.e. from 1.6.2018 to 31.12.2018

Table 27: Executive Board remuneration for financial year 2017 according to HGB

In EUR '000s	Fixed benefits	Variable cash benefits	Total cash benefits	Benefits granted with long-term incentive component	Total benefits acc. to HGB
Christoph Vilanek	765	703	1,468	0	1,468
Joachim Preisig	544	562	1,106	0	1,106
Stephan Esch	493	301	794	0	794
Total	**1,802**	**1,566**	**3,368**	**0**	**3,368**

In financial year 2018, the Executive Board benefits in accordance with section 314 (1) no. 6a HGB amounted to 6,630 thousand euros (previous year: 3,368 thousand euros). For 2018, this includes benefits with a long-term incentive effect from the grant of LTIP Programme 3 in the amount of 2,640 thousand euros. The total amount for 2017 does not include any benefits with long-term incentive effects, as these had already been reported in the financial years in which the remuneration instruments were granted.

In addition to the above Executive Board benefits, Mr Preisig was granted severance payments totalling 1,010 thousand euros on 31 December 2018 due to the premature termination of his Executive Board activities, of which 930 thousand euros were for fixed benefits and variable cash benefits for financial year 2019 and 80 thousand euros for the tranche relating to financial year 2019, to compensate for the end of his claim to remuneration through LTIP Programme 2. The severance payments of 1,010 thousand euros were paid in cash in January 2019.

There were no cash payments from LTIP Programme 2 or LTIP Programme 3 in financial year 2018. In financial year 2017, cash payments of 329 thousand euros were made from LTIP Programme 2 and related to Mr Preisig.

As at 31 December 2018, the provision recognised for LTIP Programme 2 according to HGB for Mr Vilanek amounted to 4,366 thousand euros (previous year: 5,212 thousand euros), for Mr Preisig to 1,781 thousand euros (previous year: 1,713 thousand euros) and Mr Esch to 1,372 thousand euros (previous year: 1,414 thousand euros).

As at 31 December 2018, the provision recognised for LTIP Programme 3 according to HGB for Mr Vilanek amounted to 518 thousand euros (previous year: 0 EUR), for Mr v. Platen to 235 thousand euros (previous year: 0 EUR) and Mr Fromme to 235 thousand euros (previous year: 0 EUR).

In November 2004, Mr Esch was granted an indirect pension commitment. In financial year 2009, Mr Vilanek was granted an indirect pension commitment on the occasion of his appointment as chairman of the Executive Board as of 1 May 2009. freenet AG had taken on the pension commitment granted to Mr Preisig from the former debitel AG as of 1 September 2008. In February 2014, adjustments were made to all three Executive Board members' pension commitments. For further details, see the section "Remuneration arrangements in the event of a termination of employment". Mr v. Platen and Mr Fromme were each granted defined contribution benefits as at 1 June 2018 on the occasion of their appointment as members of the Executive Board, with the pension benefits being reinsured by a life insurance policy.

As of 31 December 2018, the obligation under commercial law for Mr Vilanek amounted to 3,620 thousand euros (previous year: 2,787 thousand euros), the obligation for Mr Preisig totalled 2,914 thousand euros (previous year: 3,207 thousand euros) and the obligation for Mr Esch came to 3,127 thousand euros (previous year: 2,486 thousand euros). The obligation amount for Messrs Spoerr, Krieger and Berger, as former Executive Board members, totalled 7,169 thousand euros as at 31 December 2018 (previous year: 6,121 thousand euros). Due to the nature of the selected commitment, there are no obligations under commercial law for Messrs Platen and Fromme.

Current service costs of 863 thousand euros (previous year: 669 thousand euros) were recognised in total in personnel expenses for the members of the Executive Board as a result of the pension commitments. In 2018, Mr Vilanek accounted for 319 thousand euros (previous year: 284 thousand euros) of this amount, Mr Preisig for 245 thousand euros (previous year: 222 thousand euros), Mr Esch for 183 thousand euros (previous year: 163 thousand euros), Mr v. Platen for 58 thousand euros (previous year: 0 EUR) and Mr Fromme for 58 thousand euros (previous year: 0 EUR).

In 2018, the personnel expenses for the members of the Executive Board related to the pension commitments did not include any past service costs as was the case in the previous year.

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

EXECUTIVE BOARD REMUNERATION IN ACCORDANCE WITH THE GCGC

Within the meaning of clause 4.2.5 of the German Corporate Governance Code (DCGK), we hereby make the following disclosures about the benefits granted to the members of the Executive Board for financial year 2018 and the previous year, and about the benefits paid to the members of the Executive Board in financial year 2018 and the previous year.

Table 28: Benefits granted to the Executive Board for financial year 2018 in accordance with the GCGC

In EUR '000s	Christoph Vilanek	Joachim Preisig	Stephan Esch	Rickmann v. Platen	Antonius Fromme	Total
Fixed remuneration	750	530	480	292	292	2,344
Fringe benefits	15	14	14	6	5	54
Total	**765**	**544**	**494**	**298**	**297**	**2,398**
One-year variable remuneration	500	400	200	146	146	1,392
Multi-year variable remuneration						
LTIP Programme 2	741	408	272	0	0	1,421
LTIP Programme 3	0	0	0	99	99	198
Total	**1,241**	**808**	**472**	**245**	**245**	**3,011**
Pension expense						
Current service cost	463	328	270	58	58	1,177
Total remuneration	**2,469**	**1,680**	**1,236**	**601**	**600**	**6,586**

Table 29: Benefits granted to the Executive Board for financial year 2017 in accordance with the GCGC

In EUR '000s	Christoph Vilanek	Joachim Preisig	Stephan Esch	Total
Fixed remuneration	750	530	480	1,760
Fringe benefits	15	14	13	42
Total	**765**	**544**	**493**	**1,802**
One-year variable remuneration	600	480	260	1,340
Multi-year variable remuneration				
LTIP Programme 2	939	495	330	1,764
Total	**1,539**	**975**	**590**	**3,104**
Pension expense				
Current service cost	482	338	281	1,101
Total remuneration	**2,786**	**1,857**	**1,364**	**6,007**

Table 30: Benefits received by the Executive Board in financial year 2018 in accordance with the GCGC

In EUR '000s	Christoph Vilanek	Joachim Preisig	Stephan Esch	Rickmann v. Platen	Antonius Fromme	Total
Fixed remuneration	750	530	480	292	292	2,344
Fringe benefits	15	14	14	6	5	54
Total	**765**	**544**	**494**	**298**	**297**	**2,398**
One-year variable remuneration	572	457	229	167	167	1,592
Multi-year variable remuneration						
LTIP Programme 2	0	0	0	0	0	0
LTIP Programme 3	0	0	0	0	0	0
Total	**572**	**457**	**229**	**167**	**167**	**1,592**
Pension expense						
Current service cost	463	328	270	58	58	1,177
Total remuneration	**1,800**	**1,329**	**993**	**523**	**522**	**5,167**

Table 31: Benefits received by the Executive Board in financial year 2017 in accordance with the GCGC

In EUR '000s	Christoph Vilanek	Joachim Preisig	Stephan Esch	Total
Fixed remuneration	750	530	480	1,760
Fringe benefits	15	14	13	42
Total	**765**	**544**	**493**	**1,802**
One-year variable remuneration	703	562	301	1,566
Multi-year variable remuneration				
LTIP Programme 2	0	329	0	329
Total	**703**	**891**	**301**	**1,895**
Pension expense				
Current service cost	482	338	281	1,101
Total remuneration	**1,950**	**1,773**	**1,075**	**4,798**

REMUNERATION ARRANGEMENTS IN THE EVENT OF A TERMINATION OF EMPLOYMENT

The remuneration arrangements in the event of the premature termination of employment contracts and pension plans are as follows:

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

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

Arrangements for the former Executive Board member Joachim Preisig:

- Upon reaching the age of 60, Mr Preisig shall receive a retirement pension amounting to 2.5 per cent of their last annual fixed salary for each year commenced on the Executive Board of the company or the former debitel AG, to a maximum of one-third of the last annual fixed salary (guaranteed pension).
- Surviving dependant pension for the spouse or life companion and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- Upon reaching the age of 60, Mr Preisig shall receive a pension from the Debitel pension fund which is calculated according to legal requirements; the guaranteed pension is thus calculated on a pro rata basis (monthly retirement pension commitment of 9,333.00 euros) in line with the actual length of service. All claims of Mr Preisig, his spouse or a domestic partner with rights as beneficiary, and any surviving dependants from the debitel pension fund shall be offset against all aforementioned claims arising from the contract of employment with freenet AG.
- A five-year target agreement was signed. The service contract ended due to cancellation so that Mr Preisig is entitled to payout of the long-term incentive account at the time of termination, provided it shows a positive balance. Under the terms of the agreement, the number of phantom shares in the long-term incentive account is increased by the number of shares resulting from the Group EBITDA for the 2018 financial year.

For the Chief Executive Officer Christoph Vilanek, the following arrangement has applied since 1 January 2014:

- On reaching the age of 60, Mr Vilanek shall receive a retirement pension amounting to 2.7 per cent of their last annual fixed salary for each contract year commenced on the Executive Board of the company, to a maximum of one-third of the last annual fixed salary (maximum pension).
- Surviving dependant pension for the spouse or life companion and orphan's pension for any children until the end of their schooling or vocational training, terminating at the latest when they reach the age of 25, to a maximum total amount of the guaranteed pension or the value of pension entitlements accrued at the time of Mr Vilanek's death.
- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the position is revoked, Mr Vilanek is entitled to pay-out of the long-term incentive account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to section 626 of the German Civil Code (Bürgerliches Gesetzbuch–BGB), or that the revocation of his appointment to the position is not connected to the termination of the service contract on the part of the company, for which there is good cause under section 626 BGB, the number of phantom shares in the long-term incentive account is added to the number of shares that result from the Group EBITDA for the current financial year.

For Executive Board member Stephan Esch, the following arrangement has applied since 1 January 2015 (agreement dated 26 February 2014):

- Upon reaching the age of 60, Mr Esch shall receive a retirement pension amounting to 2.5 per cent of their last annual fixed salary for each year commenced on the Executive Board of the company or its legal predecessor freenet.de AG, to a maximum of 40 per cent of the last annual fixed salary (guaranteed pension).
- Surviving dependant pension for the spouse or life companion and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the position is revoked, Mr Esch is entitled to pay-out of the long-term incentive account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to section 626 of the German Civil Code (Bürgerliches Gesetzbuch–BGB), or that the revocation of his appointment to the position is not connected to the termination of the service contract on the part of the company, for which there is good cause under section 626 BGB, the number of phantom shares in the long-term incentive account is added to the number of shares that result from the Group EBITDA for the current financial year.

For the Executive Board member Antonius Fromme, the following arrangement has applied since 1 June 2018:

A three-year target agreement was signed. If the service contract ends prematurely due to termination, cancellation or otherwise, or his appointment to the position is revoked, Mr Fromme is entitled to pay-out of the long-term incentive account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to section 626 BGB, or that the revocation of his appointment to the position is not connected to the termination of the service contract on the part of the company, for which there is good cause under section 626 BGB, or if the contract is terminated by the member of the Executive Board, or if the service contract terminates prematurely due to permanent incapacity to serve, or due to the death of the member of the Executive Board, or if the service contract is terminated prematurely by mutual consent, provided that the cancellation is not made in order to avoid a termination of the service contract by the company, for which an important reason pursuant to section 626 BGB exists, the number of phantom shares in the long-term incentive account is added to the number of phantom shares resulting from the achievement of the target agreement for the current financial year.

For the Executive Board member Rickmann v. Platen, the following arrangement has applied since 1 June 2018:

A three-year target agreement was signed. If the service contract ends prematurely due to termination, cancellation or otherwise, or his appointment to the position is revoked, Mr v. Platen is entitled to pay-out of the long-term incentive account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to section 626 BGB, or that the revocation of his appointment to the position is not connected to the termination of the service contract on the part of the company, for which there is good cause under section 626 BGB, or if the contract is terminated by the member of the Executive Board, or if the service contract terminates prematurely due to permanent incapacity to serve, or due to the death of the member of the Executive Board, or if the service contract is terminated prematurely by mutual consent, provided that the cancellation is not made in order to avoid a termination of the service contract by the company, for which an important reason pursuant to section 626 BGB exists, the number of phantom shares in the long-term incentive account is added to the number of phantom shares resulting from the achievement of the target agreement for the current financial year.

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

SUPERVISORY BOARD REMUNERATION

The Supervisory Board's remuneration is governed by the articles of association and consists of three components:

- Basic remuneration
- Attendance fees
- Performance-related remuneration

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

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

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

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

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

For their activities during financial year 2018, the members of the company's Supervisory Board received fixed remuneration of 405 thousand euros plus attendance fees amounting to 115 thousand euros. In addition, performance-related remuneration of 405 thousand euros was also expensed. The extent to which this performance-related remuneration will be paid out depends on the profit appropriation resolution for financial year 2018. The aggregate expenses for Supervisory Board activities thus amounted to 926 thousand euros.

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

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

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

Table 32: Remuneration for financial year 2018

In EUR '000s	Basic remuneration	Attendance fees	Performance-related remuneration	Total
Active members				
Prof Dr Helmut Thoma	60.0	24.0	60.0	144.0
Knut Mackeprang[1]	45.0	12.0	45.0	102.0
Claudia Anderleit[1]	30.0	8.0	30.0	68.0
Thorsten Kraemer	30.0	8.0	30.0	68.0
Marc Tüngler	30.0	9.0	30.0	69.0
Robert Weidinger	30.0	14.0	30.0	74.0
Sabine Christiansen	30.0	7.0	30.0	67.0
Thomas Reimann[1]	30.0	7.0	30.0	67.0
Fränzi Kühne	30.0	4.0	30.0	64.0
Theo-Benneke Bretsch[1]	18.7	3.0	18.8	40.5
Bente Brandt[1]	18.7	6.0	18.8	43.5
Gerhard Huck[1]	18.7	5.0	18.8	42.5
	371.1	**107.0**	**371.4**	**849.5**
Former members				
Ronny Minak[1]	11.4	3.0	11.3	25.7
Michael Stephan[1]	11.4	3.0	11.3	25.7
Gesine Thomas[1]	11.4	2.0	11.3	24.7
	34.2	8.0	33.9	76.1
Total	**405.3**	**115.0**	**405.3**	**925.6**

[1] Employee representative in accordance with section 7 (1) clause 1 no. 1 Co-determination Act (Mitbestimmungsgesetz – MitbestG) of 4 May 1976.

Table 33: Remuneration for financial year 2017

In EUR '000s	Basic remuneration	Attendance fees	Performance-related remuneration	Total
Active members				
Prof Dr Helmut Thoma	47.4	6.0	47.6	101.0
Knut Mackeprang[1]	45.0	4.0	45.0	94.0
Claudia Anderleit[1]	30.0	5.0	30.0	65.0
Thorsten Kraemer	30.0	5.0	30.0	65.0
Ronny Minak[1]	30.0	8.0	30.0	68.0
Michael Stephan[1]	30.0	8.0	30.0	68.0
Gesine Thomas[1]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	7.0	30.0	67.0
Robert Weidinger	30.0	11.0	30.0	71.0
Sabine Christiansen	30.0	4.0	30.0	64.0
Thomas Reimann[1]	22.5	3.0	22.6	48.1
Fränzi Kühne	17.5	3.0	17.6	38.1
	372.4	**68.0**	**372.8**	**813.2**
Former members				
Dr Hartmut Schenk	25.2	3.0	25.0	53.2
Birgit Geffke[1]	7.5	2.0	7.4	16.9
	32.7	5.0	32.4	70.1
Total	**405.1**	**73.0**	**405.2**	**883.3**

[1] Employee representative in accordance with section 7 (1) clause 1 no. 1 Co-determination Act (Mitbestimmungsgesetz – MitbestG) of 4 May 1976.

GROUP MANAGEMENT REPORT

REPORT ON EXPECTED DEVELOPMENTS

- **Stable market outlook for the freenet Group business model**
- **EBITDA and free cash flow forecast support the continuation of a sustainable and predictable dividend policy**
- **Rise in waipu.tv subscribers expected together with moderate growth in postpaid customers**

MARKET OUTLOOK

GLOBAL ECONOMY AND EUROPE

According to the IMF, the global economy will grow by around 3.7 per cent in 2019. This forecast is only slightly below earlier estimates and should remain at a level comparable to that of previous years. As a result, global economic growth prospects still appear to be unaffected by the heightened political uncertainty of the past few months. The IMF believes that the risks to the world economy include an escalation in trade conflicts.

Growth expectations for the European Union have been revised downwards compared to the previous forecast. The EU is expected to expand by 1.9 per cent in 2019, around 0.1 percentage points lower than previously estimated. The reasons for this include uncertainty surrounding Brexit arrangements, the dispute over Italy's budgetary policy and the aforementioned trade risks. However, the ECB's low interest rate policy is expected to continue to positively impact growth.

GERMANY

The predicted weakening of the global and eurozone economies is impacting the momentum of German economic growth. After the Council of Experts forecast growth of 1.5 per cent in its November 2018 assessment of the macroeconomic environment, the German government anticipated GDP growth of just 1.0 per cent in its latest annual forecast. Disposable income is expected to increase significantly in 2019 given the continuing positive outlook for the German labour market and the effects of wage increases triggered by a rise in collective wages and tax cuts coupled with steady inflation. Overall, consumer spending by private households is expected to expand considerably as a result of this additional income.

TELECOMMUNICATIONS MARKET

Although the telecommunications market should benefit from a rise in private consumer spending, the growth prospects for this sector are still considered limited. The competitive landscape in the telecommunications industry is currently undergoing a period of change, with companies in the sector increasingly having to respond to changing customer preferences. For many years, the primary objective of the competition between telecommunications firms has been to increase market share. However, the price reductions and promotions required to achieve this are expensive and have not been proven to be particularly sustainable. As a result, companies are increasingly focusing on acquiring profitable postpaid customers, a trend that is also being driven by increased customer demand for postpaid models. Sales and service are becoming more important distinguishing features than price in the telecommunications market and create a foundation for long-term customer loyalty. With this in mind, the close online-offline integration of sales activities combined with a comprehensive range of devices and services as well as an exceptional network are increasingly seen as crucial to competitiveness. As long-term customer retention in turn makes consumers less willing to switch providers, market share is also likely to remain constant.

The cross-subsidisation of devices in mobile contracts is also changing. Consumers are demanding greater flexibility: some users want to keep their devices beyond the two-year contract term, while others prefer to buy the latest smartphone – separately from their contract – as soon as it is launched. While the subsidy model will remain relevant for customer loyalty, the low-price segment is increasingly expected to switch to credit and leasing models.

TV/VIDEO MARKET

According to the PwC German Entertainment and Media Outlook for 2018-22, flexibility and personalisation are playing an increasingly important role in video consumption. This means that location and time-independent media consumption (non-linear television) is steadily becoming more significant. So-called data management platforms enable companies to control the variety of their programming and address viewers in an increasingly targeted manner.

This trend is also influencing the development of video broadcasting methods. While the number of cable connections is expected to fall by an average of 0.9 per cent per year by 2022, other broadcasting methods are likely to see growth. Due to technological developments and increased broadband expansion, both IPTV and satellite TV in particular are predicted to gain market share. Experts believe that the strong growth witnessed in the IPTV market in recent years will continue.

STABLE OUTLOOK FOR THE FREENET GROUP BUSINESS MODEL

The market outlook does not provide any grounds for significantly changing the foundation of our business. In addition, ongoing uncertainty in Europe about the effects of a potentially disorderly Brexit has no direct impact on the freenet Group, as almost all of the Group's business activities are located in Germany.

The following assumptions are crucial to the derivation of our financial and non-financial performance indicator forecasts:

- Private consumer spending will continue to bolster German economic growth in 2019
- Increased significance of postpaid models for the mobile communications market will contribute to the stable development of the Mobile Communications segment
- Anticipated increase in IPTV users will create growth potential for the TV and Media segment

COMPANY FORECAST

The forecasts for financial and non-financial performance indicators are based on redefined performance indicators for the 2019 financial year as set out in the "Internal management system" section.

REVENUE STABLE FOR 2019

Revenue for the 2018 financial year, including the effects of IFRS 15, totalled 2,897.5 million euros. Due to the initial application of IFRS 15 from 1 January 2018, there is no comparable figure for the 2017 financial year. Notwithstanding this, the Group expects stable revenue development in the 2019 financial year, assuming stability in the operating business, particularly in the core mobile communications business.

EBITDA AND FREE CASH FLOW FOR 2019

EBITDA totalled 441.3 million euros in the 2018 financial year. This includes a one-off effect of 39.1 million euros resulting from the sale of the analogue radio business. When adjusted for this effect, EBITDA totalled 402.2 million euros at the end of the year. Taking this into account, the Group anticipates EBITDA within a range of 420 to 440 million euros for the 2019 financial year based on the underlying assumptions. This also includes the predicted effects of the initial application of IFRS 16 during the 2019 financial year, boosting EBIDTA by 30 to 40 million euros.

The Group is forecasting a range for EBITDA as regulatory effects in particular (e.g. price regulation of international calls or fees) have to be offset by increasing operational efficiencies.

Taking the new definition into account, free cash flow was 263.8 million euros for the year under review. Free cash flow is expected to lie within a range between 240 and 260 million euros in the 2019 financial year, thus supporting the continuation of a sustainable and predictable dividend policy.

SEGMENT-RELATED FORECASTS FOR 2019

In the Mobile Communications segment, the number of postpaid customers is expected to increase moderately in 2019 compared to the year under review. The postpaid customer forecast goes hand in hand with the expectation of stable postpaid ARPU, which was 19.0 euros in 2018.

In the TV and Media segment, waipu.tv subscribers are anticipated to grow to more than 0.350 million (2018: 0.252 million), while freenet TV subscribers (RGU) are likely to stabilise at over 1.0 million customers (2018: 1.014 million).

Table 34: Forecast of performance indicators relevant for management purposes

In EUR millions/as indicated	Actual, 2018	Forecast for financial year 2019
Financial performance indicators		
Revenue	2,897.5	stable
EBITDA	441.3	420 – 440
Free cash flow	263.8	240 – 260
Postpaid ARPU[1] (in EUR)	19.0	stable
Non-financial performance indicators		
Postpaid customers (in millions)	6.896	moderate increase
freenet TV subscribers (RGU) (in millions)	1.014	> 1.000
waipu.tv subscribers (in millions)	0.252	> 0.350

[1] without hardware

OVERALL ASSESSMENT OF THE GROUP'S EXPECTED DEVELOPMENT

The freenet Group's management is confident that it will be able to continue the positive overall performance seen in recent years in the 2019 financial year. In the Mobile Communications segment, the Group is striving to focus even more on expanding its base of particularly valuable postpaid customers. Measures aimed at increasing loyalty should reduce churn in this area and enable the freenet Group to tailor its products and services even more consistently to the needs and wishes of individual customers. Further interconnecting the online and offline channels should also help the Group to offer its customers seamless and comprehensive support throughout their customer journey.

In the TV and Media segment, the freenet Group ended the financial year with around 1.3 million revenue-generating TV customers. It expects to expand this customer base further during the 2019 financial year in order to establish the segment as a relevant business unit alongside Mobile Communications in the medium term. Management believes that the IPTV product waipu.tv will continue to drive growth in this segment. With an innovative approach that sets it apart from other IPTV offerings, this product is already a relevant player in the IPTV market. The Group expects to expand this market position further during the 2019 financial year with the help of innovative product improvements and new partnerships.

Büdelsdorf, 8 March 2019

The Management Board

Christoph Vilanek   Ingo Arnold   Stephan Esch

Antonius Fromme   Rickmann v. Platen

2018

CONSOLIDATED FINANCIAL STATEMENTS

OF FREENET AG

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

In EUR '000s/as indicated	Note	1.1.2018 – 31.12.2018	1.1.2017 – 31.12.2017
Revenue	4	2,897,466	3,507,263
Other operating income	5	100,704	54,897
Other own work capitalised	6	18,106	18,525
Cost of materials	7	–1,993,739	–2,557,501
Personnel expenses	8	–219,700	–225,661
Depreciation, amortisation and impairment	9	–129,196	–148,234
Other operating expenses	10	–361,653	–388,458
Thereof loss allowances on financial assets and contract assets		–46,666	–50,790
Thereof without loss allowances on financial assets and contract assets		–314,987	–337,668
Operating result		**311,988**	**260,831**
Profit or loss of equity-accounted investments	17	25,110	112,161
Thereof from share of profit or loss		44,343	132,130
Thereof from subsequent accounting from purchase price allocation		–19,233	–19,969
Interest and similar income	11	164	830
Interest and similar expenses	12	–56,042	–51,132
Other financial result	12	–47,218	0
Earnings before taxes		**234,002**	**322,690**
Income taxes	13	–21,839	–47,116
Consolidated profit		**212,163**	**275,574**
Consolidated profit attributable to shareholders of freenet AG	24	223,138	286,669
Consolidated profit attributable to non-controlling interests	24	–10,975	–11,095
Earnings per share in EUR (basic)	**14.1**	**1.74**	**2.24**
Earnings per share in EUR (diluted)	**14.2**	**1.74**	**2.24**
Weighted average number of shares outstanding in thousand (basic)	24	128,011	128,011
Weighted average number of shares outstanding in thousand (diluted)	24	128,011	128,011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

In EUR '000s	Note	1.1.2018 – 31.12.2018	1.1.2017 – 31.12.2017
Consolidated profit		**212,163**	**275,574**
Change in fair value of financial instruments measured at fair value through other comprehensive income		0	–35
Currency translation differences		688	–360
Currency translation differences from subsequent accounting for equity-accounted investments	17.1	4,604	–15,813
Income tax recognised in other comprehensive income		–65	250
Other comprehensive income/ to be reclassified to the income statement in future periods		**5,227**	**–15,958**
Change in fair value of investments in equity instruments		–127,287	0
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. to IAS 19 (2011)	29	–769	3,216
Other shares of the profit or loss of equity-accounted investments	17.1	809	3,653
Income tax recognised in other comprehensive income		2,156	–1,033
Other comprehensive income/ not to be reclassified to the income statement in future periods		**–125,091**	**5,836**
Other comprehensive income		**–119,864**	**–10,122**
Consolidated total comprehensive income		**92,299**	**265,452**
Consolidated total comprehensive income attributable to shareholders of freenet AG		103,274	276,547
Consolidated total comprehensive income attributable to non-controlling interests		–10,975	–11,095

CONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2018

ASSETS

In EUR '000s	Note	31.12.2018	31.12.2017
Non-current assets			
Intangible assets	15, 16	525,355	563,507
Goodwill	15, 16	1,380,056	1,379,919
Property, plant and equipment	15, 16	398,824	435,818
Equity-accounted investments	17	811,808	810,984
Deferred income tax assets	18	158,094	153,508
Trade accounts receivable	21	52,480	79,081
Other receivables and other assets	21	128,023	9,500
Other financial assets	21	126,218	7,945
Contract acquisition costs	19	304,238	0
		3,885,096	**3,440,262**
Current assets			
Inventories	20	105,965	76,310
Current income tax assets	23	2,046	2,205
Trade accounts receivable	21	253,914	453,700
Other receivables and other assets	21	226,394	4,572
Other financial assets	21	34,905	14,258
Liquid assets	22	126,332	322,816
		749,556	**873,861**
		4,634,652	**4,314,123**

EQUITY AND LIABILITIES

In EUR '000s	Note	31.12.2018	31.12.2017
Equity			
Share capital	24.1	128,061	128,061
Capital reserve	24.2	737,536	737,536
Cumulative other comprehensive income	24.3	–140,120	–20,256
Consolidated net retained profits	24.4	535,124	586,433
Equity attributable to shareholders of freenet AG		**1,260,601**	**1,431,774**
Non-controlling interests in equity	24.4	20,152	31,127
		1,280,753	**1,462,901**
Non-current liabilities			
Other liabilities and deferrals	26	115,922	0
Other financial liabilities	26	306,638	332,218
Borrowings	28	1,699,424	1,666,001
Pension provisions	29	89,173	87,909
Other provisions	30	47,042	26,794
		2,258,199	**2,112,922**
Current liabilities			
Trade accounts payable	26	523,174	517,276
Other liabilities and deferrals	26	436,343	81,842
Other financial liabilities	26	51,167	49,121
Current income tax liabilities	27	34,722	33,806
Borrowings	28	23,476	7,145
Other provisions	30	26,818	49,110
		1,095,700	**738,300**
		4,634,652	**4,314,123**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

			Cumulative other comprehensive income								
In EUR '000s	Share capital	Capital reserve	Revaluation reserve	Currency translation differences	Currency translation differences from subsequent accounting for equity-accounted investments	Revaluation reserve in accordance with IAS 19	Other shares of the profit or loss of equity-accounted investments	Consolidated net retained profits	Equity attributable to shareholders of freenet AG	Non-controlling interests in equity	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
Consolidated profit	0	0	0	0	0	0	0	286,669	286,669	–11,095	275,574
Other shares of the profit or loss of equity-accounted investments[1]	0	0	0	0	0	0	3,598	0	3,598	0	3,598
Recognition of actuarial gains and losses acc. to IAS 19 (2011)[1]	0	0	0	0	0	2,238	0	0	2,238	0	2,238
Change in fair value of available-for-sale financial instruments[1]	0	0	–24	0	0	0	0	0	–24	0	–24
Foreign currency translation[1]	0	0	0	–360	0	0	0	0	–360	0	–360
Foreign currency translation from subsequent accounting for equity-accounted investments[1]	0	0	0	0	–15,574	0	0	0	–15,574	0	–15,574
Subtotal: Consolidated total comprehensive income	0	0	–24	–360	–15,574	2,238	3,598	286,669	276,547	–11,095	265,452
As of 31.12.2017	**128,061**	**737,536**	**–164**	**255**	**–11,956**	**–20,548**	**12,157**	**586,433**	**1,431,774**	**31,127**	**1,462,901**

[1] Figures are shown offset against income tax recognised in other comprehensive income.

In EUR '000s	Share capital	Capital reserve	Revaluation reserve	Cumulative other comprehensive income: Currency translation differences	Currency translation differences from subsequent accounting for equity-accounted investments	Change in fair value of investments in equity instruments	Revaluation reserve in accordance with IAS 19	Other shares of the profit or loss of equity-accounted investments	Consolidated net retained profits	Equity attributable to shareholders of freenet AG	Non-controlling interests in equity	Equity
As of 1.1.2018 as reported	**128,061**	**737,536**	**–164**	**255**	**–11,956**	**0**	**–20,548**	**12,157**	**586,433**	**1,431,774**	**31,127**	**1,462,901**
Effects of the transition to IFRS 15 and IFRS 9 at freenet	0	0	0	0	0	0	0	0	–70,368	–70,368	0	–70,368
Effects of the transition to IFRS 15 and IFRS 9 at Sunrise	0	0	0	0	0	0	0	0	7,139	7,139	0	7,139
Reclassification	0	0	164	0	0	–164	0	0	0	0	0	0
As of 1.1.2018 restated	**128,061**	**737,536**	**0**	**255**	**–11,956**	**–164**	**–20,548**	**12,157**	**523,204**	**1,368,545**	**31,127**	**1,399,672**
Dividend payment	0	0	0	0	0	0	0	0	–211,218	–211,218	0	–211,218
Consolidated profit	0	0	0	0	0	0	0	0	223,138	223,138	–10,975	212,163
Change in fair value of investments in equity instruments[1]	0	0	0	0	0	–125,348	0	0	0	–125,348	0	–125,348
Other shares of the profit or loss of equity-accounted investments[1]	0	0	0	0	0	0	0	797	0	797	0	797
Recognition of actuarial gains and losses acc. to IAS 19 (2011)[1]	0	0	0	0	0	0	–535	0	0	–535	0	–535
Foreign currency translation[1]	0	0	0	688	0	0	0	0	0	688	0	688
Foreign currency translation from subsequent accounting for equity-accounted investments[1]	0	0	0	0	4,534	0	0	0	0	4,534	0	4,534
Subtotal: Consolidated total comprehensive income	0	0	0	688	4,534	–125,348	–535	797	223,138	103,274	–10,975	92,299
As of 31.12.2018	**128,061**	**737,536**	**0**	**943**	**–7,422**	**–125,512**	**–21,083**	**12,954**	**535,124**	**1,260,601**	**20,152**	**1,280,753**

[1] Figures are shown offset against income tax recognised in other comprehensive income.

For further details, please refer to our explanations in note 24, Equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

In EUR '000s	Note	1.1.2018 – 31.12.2018	1.1.2017 – 31.12.2017
Earnings before interest and taxes (EBIT)		**337,098**	**372,992**
Adjustments			
Depreciation, amortisation and impairment of non-current assets	9	129,196	148,234
Profit or loss of equity-accounted investments	17	–25,110	–112,161
Dividends received from equity-accounted investments	17	36,912	34,409
Gain on disposal of non-current assets		–25,527	–2,447
Increase in net working capital not attributable to investing or financing activities	19, 20, 25, 28, 29, 31.1	–38,902	–25,598
Capitalisation of contract acquisition costs		–336,622	0
Amortisation of contract acquisition costs		321,973	0
Tax payments	13, 18	–29,541	–30,073
Cash flows from operating activities	**32.1**	**369,477**	**385,356**
Payments to acquire property, plant and equipment and intangible assets		–57,193	–61,118
Proceeds from disposal of intangible assets and property, plant and equipment		13,850	18,597
Payments to acquire subsidiaries		–12,439	0
Proceeds from sale of subsidiaries		0	200
Payments into equity of equity-accounted investments	17	–75	–325
Payments to acquire other equity investments		–277,746	–271
Proceeds from sale of other equity investments		500	0
Income from interest and other net finance costs		206	811
Cash flows from investing activities	**32.2**	**–332,897**	**–42,106**
Payments to company owners and minority shareholders		–211,218	–204,818
Proceeds from new borrowings	28	376,303	0
Cash repayments of borrowings	28	–332,302	–64,612
Cash repayments of liabilities from finance leases	26	–21,754	–24,380
Cash repayments of finance costs due to the prolongation of borrowings		–1,830	–1,927
Cash repayments of finance costs due to the acquisition of other equity investments		–1,450	0
Interest paid		–40,813	–42,883
Cash flows from financing activities	**32.3**	**–233,064**	**–338,620**
Net change in cash funds		**–196,484**	**4,630**
Cash funds at beginning of period		**322,816**	**318,186**
Cash funds at end of period		**126,332**	**322,816**

Composition of cash funds In EUR '000s	31.12.2018	31.12.2017
Liquid assets	126,332	322,816
	126,332	**322,816**

Composition of free cash flow[1] In EUR '000s	31.12.2018	31.12.2017
Cash flows from operating activities	369,477	385,356
Payments to acquire property, plant and equipment and intangible assets	–57,193	–61,118
Proceeds from disposal of intangible assets and property, plant and equipment	13,850	18,597
Free cash flow	**326,134**	**342,835**

[1] Free cash flow is a non-GAAP parameter. In this context, please refer to the section “Alternative performance measures” in the Group management report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1. BUSINESS ACTIVITY AND ACCOUNTING STANDARDS

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

The consolidated financial statements for financial year 2018 were prepared in accordance with the IFRSs promulgated by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as applicable in the European Union as at 31 December 2018. The company also complied with the provisions of German commercial law to be applied in accordance with section 315e HGB.

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

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

The consolidated financial statements are submitted to the Federal Gazette.

The following table shows the new or modified standards (IAS/IFRS) and interpretations (IFRIC) whose application is mandatory from 1 January 2018 and their respective effects on the Group:

Standard/Interpretation		Effective date	Adopted by the EU Commission	Effects
IFRS 15	Revenue from Contracts with Customers	1.1.2018	22.9.2016	Material effects
IFRS 9	Financial Instruments	1.1.2018	22.11.2016	Material effects
IFRS 15	Clarifications to IFRS 15 (Revenue from Contracts with Customers)	1.1.2018	31.10.2017	Material effects
IFRS 4	Amendments to IFRS 4: Applying IFRS 9 (Financial Instruments) with IFRS 4 (Insurance Contracts)	1.1.2018	3.11.2017	None
IFRS 2	Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1.1.2018	26.2.2018	No material effects
IAS 40	Amendment to IAS 40: Transfers of Investment Property	1.1.2018	14.3.2018	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1.1.2018	28.3.2018	None

The Group has adopted all accounting pronouncements required to be applied from 1 January 2018. The following information is provided on the new financial reporting standards IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments):

IFRS 15

In May 2014, the IASB issued IFRS 15, which is effective for reporting periods beginning on or after 1 January 2018. IFRS 15 establishes a single, comprehensive framework for recognising revenue and costs from contracts with customers. The requirements stipulated in IFRS 15 must be applied in a standardised manner for different transactions and across all sectors, thereby improving the global comparability of revenue-related disclosures made by companies. The only exceptions are contracts covered within the scope of IAS 17 (Leases), IFRS 4 (Insurance Contracts) and IFRS 9 (Financial Instruments). IFRS 15 replaces the previous standards and interpretations for the reporting of revenue, specifically IAS 11 (Construction Contracts), IAS 18 (Revenue), IFRIC 13 (Customer Loyalty Programmes), IFRIC 15 (Agreements for the Construction of Real Estate), IFRIC 18 (Transfers of Assets from Customers) and SIC-31 (Revenue – Barter Transactions Involving Advertising Services). On 12 April 2016, the IASB issued clarifications to IFRS 15, for example regarding the identification of performance obligations, the classification of the entity as a principal or an agent, revenue from licences and the practical expedients on initial application.

freenet applies IFRS 15 retrospectively and uses the option of simplified initial application. This means that the contracts which have not yet been completely fulfilled as of 1 January 2018 were recognised as though they had been recognised in accordance with IFRS 15 right from the outset. The cumulative effect resulting from the transition as of 1 January 2018 was recognised directly in equity. Comparison figures of the previous-year periods were not adjusted.

Revenue recognition under IFRS 15 is based on a multi-step model where the first steps are to identify the contract with the customer and the performance obligations in the contract. The aggregate amount of consideration agreed for those performance obligations (the transaction price) must then be determined and allocated to the separate performance obligations on the basis of the relative stand-alone selling prices. Finally, revenue must be recognised for each performance obligation identified when, or as, the performance obligation is satisfied by transferring a promised good or a promised service (asset). An asset is considered to have been transferred once the customer has obtained control of that asset. A distinction is made between performance obligations satisfied at a point in time (e.g. delivery of mobile communications hardware) and performance obligations satisfied over time (e.g. provision of mobile communications services over a period of 24 months). Under the new guidance, the amount of revenue recognised in many cases no longer matches the amount invoiced to the customer particularly in connection with multi-element arrangements involving several different contractual services. As a result, changes may arise with respect to the amount and timing of revenue recognition and revenue adjustments due to contract modifications, among other things.

For the purpose of measuring contractual performance obligations in the freenet Group, the individual contracts with customers are identified and then combined to form portfolios on the basis of certain criteria; for further information, please refer to the comments in note 2.15, Judgements, assumptions about the future and estimation uncertainty, in these notes to the consolidated financial statements.

Another significant consequence of IFRS 15 is the obligation to capitalise contract acquisition costs (customer acquisition and customer retention costs, mainly consisting of dealer commissions paid) and to amortise them over the term of the respective contract.

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

In the case of many of our postpaid end customers, the freenet Group generates service revenue from mobile communications or digital lifestyle services provided to the end customer, and also sells the customer the hardware that enables them to use the relevant services. Some cross-subsidisation usually takes place when pricing these two elements, i. e. the tariff and the hardware. Under IFRS 15, a higher amount of revenue is presented in relation to the hardware revenue generated immediately at the date of the sale, whereas the revenue recognised in relation to the monthly tariff revenue is correspondingly lower than was the case previously. The amount of revenue presented overall for each contract with a customer throughout the duration of the contract is generally the same as that presented previously. Only the times of realisation are affected: For our postpaid operations, the described individual effect of the application of the new standard means that revenue and EBITDA will tend to be recognised significantly earlier than was the case previously. The resulting contract assets and contract liabilities mostly relate to a period of no more than 24 months. A contract asset is presented once the Group has performed. Contract assets are reclassified into receivables if the right to consideration from the customer is unconditional, which is usually the case as a result of billing the customer. The Group bills the customer activation fees that are recognised as revenue over the duration of the underlying contract and accounted for as a contract liability on an accrual basis. Contract liabilities are also recognised if the customer is provided with a material right that the customer would not receive without entering into the contract. For example, the customer receives such rights from vouchers that are a component of the offering attributable to mobile contracts. In this case, a portion of the contractual transaction price is allocated to the voucher on a relative stand-alone selling price basis and recognised as revenue when the voucher is redeemed. A contract liability is presented until the voucher is redeemed or expires.

Furthermore, under IFRS 15 the contract acquisition costs, which essentially consist of dealer commissions in the freenet Group, have to be capitalised, whereas previously, they essentially impacted cost of materials directly at the point at which they were incurred. Under IFRS 15, contract acquisition costs are amortised on a straight-line basis over the duration of the underlying contract, mostly over a period of 24 months, and the amortisation charge increases the cost of materials. The capitalised contract acquisition costs are first determined individually and then aggregated on the basis of the same characteristics, such as types of commission for example. This individual effect means that the cost of materials will tend to be considerably reduced, and that EBITDA will be realised earlier than is currently the case.

A further transition effect resulting from the application of IFRS 15 in the freenet Group is that commissions and bonuses received from network operators will no longer be recognised as revenue immediately when incurred; instead, they will in the future reduce the cost of materials. For the most part, the reduction in the cost of materials is spread over a period of 24 months, while a smaller portion reduces the cost of materials immediately when it occurs. This individual effect means that revenue and cost of materials will tend to be reduced considerably, and that EBITDA will be realised much later than previously.

A fourth effect of the transition is described as follows: if freenet sells the end customer only the tariff, whereas the independent dealer selling indirectly issues the end customer with a discounted smartphone or other customer benefit, freenet in some cases pays the dealer an amount in excess of the equivalent value of the intermediary service for the tariff. In such cases, the tariff price that freenet charges the end customer for the mobile communications service may include an element with an increasing or compensatory effect (“consideration payable to the customer”). Under IFRS 15, this is required to be accounted for in the income statement as a reduction: the tariff revenue is presented after the deduction of such elements. Cost of materials for dealer commissions is also reduced; other things being equal, this leads to the recognition of lower contract acquisition costs (dealer commissions recognised as assets) and the recognition of a financial asset (if the consideration payable to a customer relates to multiple-element arrangements that include a mobile phone upgrade option) or the recognition of another asset (if the consideration payable to a customer relates to multiple-element arrangements that do not include a mobile phone upgrade option). This individual effect results in lower revenue and lower cost of materials and considerably earlier EBITDA realisation than was the case previously.

However, because all effects resulting from the transition to the new accounting method are recognised directly in equity, any effects reflected in the income statement in financial year 2018 resulted from changes in timing differences stemming from the realisation of revenue and expenses. Assuming that operations remain unchanged, and in a mass market with a number of customer agreements which are entered into at different times, regarding the effects impacting on EBITDA this means that:

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

At the date of transition on 1 January 2018, IFRS 15 had the following material effects on the consolidated balance sheet:

- On the assets side
  - Deferred income tax receivables decreased by 13.0 million euros (deferred taxes relating to temporary differences).
  - The carrying amounts of the equity-accounted investments increased by 7.1 million euros due to the initial application of IFRS 15 at Sunrise.
  - The sum of trade accounts receivable, other receivables and other assets as well as other financial assets increased by 79.1 million euros. This was due mainly to contract assets arising from the cross-subsidisation of service and hardware revenue in direct sales (in the amount of 126.4 million euros) and also from the recognition of the consideration payable to a customer in indirect sales (129.9 million euros). On the other hand, trade accounts receivable decreased by 131.5 million euros as a result of a further netting of all receivables from and liabilities to network operators due to the recognition of IFRS 15 items. In addition, trade accounts receivable from the deferral of the mobile phone upgrade option decreased by 61.7 million euros.
  - Contract acquisition costs of 289.6 million euros were recognised for the first time in a separate balance sheet item under non-current assets.

- On the liabilities side
  - Equity is reduced by approximately 45.5 million euros after recognition of deferred taxes as a result of the one-off transition effect.
  - The sum total of trade accounts payable, other liabilities and deferrals and other financial liabilities increased by 413.4 million euros. The main portion is attributable to the deferred income from the majority of bonuses and commissions received from network operators over a period of 24 months (435.6 million euros).
  - The other provisions were reduced by 5.2 million euros as a result of lower provisions for contingent losses in relation to negative margin tariffs.

Overall, the transition to the new IFRS 15 as at 1 January 2018 resulted in an increase in total assets/total equity and liabilities of 362.8 million euros. There were no material effects on the earnings metrics gross profit, EBITDA, EBIT, EBT and consolidated profit for financial year 2018. However, as a result of the changes described above regarding the way in which commissions and bonuses received from network operators and consideration payable to a customer are presented, there were material changes within gross profit. IFRS 15 therefore reduced consolidated revenue reported for financial year 2018 by 761.7 million euros. The reduction in cost of materials as a result of the effects of IFRS 15 was of a similar amount. On all other income statement items, i.e. besides revenue and cost of materials, the introduction of IFRS 15 had either an insignificant effect or no effect.

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

IFRS 9

On 24 July 2014, the IASB finally issued IFRS 9, which governs the recognition of financial instruments, replacing IAS 39 in this respect. IFRS 9 is to be effective for annual periods beginning on or after 1 January 2018.

IFRS 9 governs the classification and the initial and subsequent measurement of debt instruments, equity instruments as well as derivatives. According to IFRS 9, all financial instruments are measured at fair value upon acquisition. Transaction costs increase or decrease the initial carrying amount if the financial asset or the financial liability is not measured at fair value through profit or loss. With regard to subsequent measurement, all financial assets are broken down into two classification categories: financial assets measured at amortised cost and financial assets measured at fair value. If financial assets are measured at fair value, income and expenses can be recognised either entirely through profit or loss or through other comprehensive income. Classification is determined when the financial asset is first recognised, i.e. at the point at which the company becomes the counterparty to the contractual arrangements of the instrument. In certain cases, however, subsequent reclassification of financial assets may be necessary.

In accordance with the new requirements under IFRS 9, freenet AG classifies financial instruments into the new categories: at amortised cost (AC), at fair value through profit or loss (FVTPL) and at fair value through other comprehensive income (FVTOCI).

The following table shows a reconciliation of the measurement categories and carrying amounts as a result of the initial application of IFRS 9:

Assets

In EUR '000s	Measurement categories		Carrying amounts		
	IAS 39	IFRS 9	**31.12.2017**	**1.1.2018**	**Difference**
Cash/liquid assets	Loans and receivables	Amortised cost (AC)	322,816	322,816	0
Trade accounts receivable[1]			532,781	314,279	−218,502
	Loans and receivables	Amortised cost (AC)	410,357	246,416	−163,941
	Loans and receivables	Fair value through profit or loss (FVTPL)	122,424	67,863	−54,561
Other financial assets			22,203	40,126	17,923
Non-derivative financial assets	Loans and receivables	Amortised cost (AC)	18,671	18,671	0
Other financial assets					
	—	Amortised cost (AC)	0	6,174	6,174
	—	Fair value through profit or loss (FVTPL)	0	11,749	11,749
Other equity instruments					
	Available-for-sale assets	Fair value through profit or loss (FVTPL)	793	793	0
	Available-for-sale assets	Fair value through other comprehensive income (FVTOCI)	2,739	2,739	0

Equity and liabilities

In EUR '000s	Measurement categories		Carrying amounts		
	IAS 39	IFRS 9	**31.12.2017**	**1.1.2018**	**Difference**
Trade accounts payable			517,276	455,860	−61,416
Other trade accounts payable	Financial liabilities measured at amortised cost	Amortised cost (AC)	495,522	434,106	−61,416
Borrowings			1,673,146	1,673,146	0
Borrowings from promis-sory notes	Financial liabilities measured at amortised cost	Amortised cost (AC)	1,060,637	1,060,637	0
Other borrowings	Financial liabilities measured at amortised cost	Amortised cost (AC)	612,509	612,509	0
Other financial liabilities			381,339	420,567	39,228
Non-derivative financial liabilities	Financial liabilities measured at amortised cost	Amortised cost (AC)	121,138	149,902	28,764

[1] The difference between the carrying amount of trade accounts receivable as at 31 December 2017 and 1 January 2018 of −218.5 million euros results from the transition effects to the new financial reporting standards IFRS 15 (−192.9 million euros) and IFRS 9 (−25.6 million euros). The differences shown in the other balance sheet items are exclusively attributable to the initial application of IFRS 15.

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

As at 1 January 2018, items in the balance sheet changed as follows as a result of IFRS 9:

- Trade accounts receivable decreased by 25.6 million euros in connection with the expected credit loss method.
- Deferred tax assets rose by 7.8 million euros (deferred taxes for temporary differences relating to the effect of transitioning to IFRS 16 recognised in equity)
- Equity (consolidated net retained profits) declined by 17.8 million euros

OTHER CHANGES

All other financial reporting standards applicable as at 1 January 2018 have no effect or no significant effect on these consolidated financial statements of freenet AG.

The following table shows the new or modified standards (IAS/IFRS) and interpretations (IFRIC) whose application was not yet mandatory in the 2018 financial year and their respective effects on the Group:

Standard/Interpretation		Effective date	Adopted by the EU Commission	Effects
IFRS 16	Leases	1.1.2019	31.10.2017	Material effects
IFRIC 23	Uncertainty over Income Tax Treatments	1.1.2019	23.10.2018	None
IAS 28	Amendment to IAS 28: Long-term interests in associates and joint ventures	1.1.2019	tbd	No material effects
Various	Annual Improvements to IFRSs: (2015 – 2017 Cycle) – IFRS 3, IFRS 11, IAS 12 and IAS 23	1.1.2019	tbd	No material effects
IAS 19	Amendment to IAS 19: Plan Amendment, Curtailment and Settlement	1.1.2019	tbd	No material effects
IFRS 3	Amendment to IFRS 3: Definition of a Business	1.1.2020	tbd	No material effects
IAS 1, IAS 8	Amendments to IAS 1 and IAS 8: Definition of Materiality	1.1.2020	tbd	No material effects
Conceptual Framework	Updating References to the Conceptual Framework for Financial Reporting	1.1.2020	tbd	No material effects
IFRS 17	Insurance Contracts	1.1.2021	tbd	None

IFRS 16

In January 2016, the IASB published the standard IFRS 16 (Leases). IFRS 16 replaces the previous standard regarding the recognition of leases IAS 17 as well as the interpretations IFRIC 4 (Determining whether an Arrangement Contains a Lease), SIC-15 (Operating Leases – Incentives) and SIC-27 (Evaluating the Substance of Transactions Involving the Legal Form of a Lease). This standard is effective for periods starting on or after 1 January 2019.

The material innovations introduced by IFRS 16 relate to recognition at the lessee. For all leases, the lessee must recognise assets for the acquired right-of-use assets and liabilities for the assumed payment obligations. No distinction is made between operating leases and financial leases. Practical expedients are permitted for low-value leased assets and for short-term leases. The regulations regarding the recognition of assets at the lessor remain virtually unchanged. The overriding objective is to enable the reader to assess the impact of existing leases on the company.

The freenet Group analysed the effects of initially applying IFRS 16 in the course of a Group-wide project. In the freenet Group, the new requirements will impact, in particular, the recognition and measurement of leasing arrangements currently classified as operating and finance leases. The following categories of leases were identified: site leases, co-location leases, shop/store leases, TV and Media upfront expenditure, motor vehicles and other leased assets.

Upon initial application, the freenet Group will elect to apply the modified retrospective approach in accordance with IFRS 16. C5(b), i.e. the right-of-use assets and lease liabilities as at 31 December 2018 will be measured using the leases in effect as at 31 December 2018. As permitted by IFRS 16.C10(d), initial direct costs were excluded from the measurement of the right-of-use asset at the date of initial application. In accordance with IFRS 16.C7, comparative information for financial year 2018 will not be restated in the 2019 consolidated financial statements. Under the option in IFRS 16.5, short-term leases with a term of no more than twelve months and leases for which the underlying asset is of low value were not recognised.

As at 31 December 2018, a master lease agreement was classified as a finance lease under IAS 17 in the amount of the minimum lease obligation. In accordance with IFRS 16.C11, the freenet Group elects to also apply the modified retrospective approach described in IFRS 16.C5(b) to this lease. The carrying amount of the right-of-use asset and the lease liability at the date of initial application is therefore the carrying amount calculated when measuring the leased asset and the lease liability in accordance with IAS 17 immediately before that date. Consequently, the leased assets presented as property, plant and equipment in the amount of 248.1 million euros as at 31 December 2018 will be reclassified into the new balance sheet item Lease assets at the date of initial application. At the same time, the liabilities presented under other financial liabilities (237.2 million euros) and trade accounts payable (23.0 million euros) as at 31 December 2018 will be reclassified into the new balance sheet item Lease liabilities as at 1 January 2019.

In addition, IFRS 16 will have the following material effects on the consolidated balance sheet as at 1 January 2019:

- Leases previously recognised as operating leases will for the first time be recognised in a separate line item, Lease assets, in the amount of 258.3 million euros
- Other financial assets will increase by 95.4 million euros due to the recognition of receivables from subleases classified as finance leases
- Deferred tax assets will rise by 0.3 million euros
  (deferred taxes for temporary differences relating to the effect of transitioning to IFRS 16 recognised in equity)
- Equity (consolidated net retained profits) will decline by 0.8 million euros
- Lease liabilities will for the first time be presented in a separate line item in the amount of 356.4 million euros
- Other provisions will decrease by 1.6 million euros due to lower provisions for contingent losses

Overall, the transition to IFRS 16 as at 1 January 2019 will result in an increase in total assets/total equity and liabilities of 354.0 million euros. On the basis of the leases as at 1 January 2019, we expect EBITDA for financial year 2019 to increase by an amount in the mid double-digit millions. With regard to the statement of cash flows, IFRS 16 will not have any effect on the amount of free cash flow.

1.2. BASIS OF CONSOLIDATION

The consolidated financial statements include as subsidiaries all companies which are controlled by the Group. For a complete list of all companies included in freenet AG's consolidated financial statements, please consult the disclosures made in accordance with section 315e HGB in note 36.

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

Associates are all entities over which the Group has a significant influence but not control, generally accompanied by a shareholding of between 20 per cent and 50 per cent of the voting rights.

The companies 01019 Telefondienste GmbH, 01024 Telefondienste GmbH, freenet.de GmbH, freenet Cityline GmbH, freenet Datenkommunikations GmbH, 01050.com GmbH, new directions GmbH, freenet Direkt GmbH, mobilcom-debitel GmbH, MobilCom Multimedia GmbH, mobilcom-debitel Shop GmbH, Stanniol GmbH für IT & PR, GRAVIS – Computervertriebsgesellschaft mbH ("GRAVIS"), freenet Energy GmbH, freenet digital GmbH, iLove GmbH, Lorena Medienagentur GmbH, Ojom International GmbH (formerly: Quaid Media International GmbH), Vene International GmbH (formerly: Motility GmbH), klarmobil GmbH, callmobile GmbH, freenet Shopping GmbH, mobilcom-debitel Logistik GmbH, Taunus Beteiligungs GmbH, Media Broadcast GmbH, Media Broadcast Services GmbH and Media Broadcast TV Services GmbH will make use of the exemption rules specified in section 264 (3) HGB for the annual financial statements for the period ending on 31 December 2018.

The group of consolidated companies was expanded in financial year 2018 to include the newly founded freenet Shopping GmbH, Hamburg.

1.3. CONSOLIDATION PRINCIPLES

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

Acquisition accounting is based on the purchase method.

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

All of the acquired company's identifiable assets, liabilities and contingent liabilities that meet the recognition criteria stipulated by IFRS 3.37 are disclosed separately at their fair value, irrespective of the extent of any minority interests. For each corporate acquisition, the Group decides on an individual basis whether the non-controlling interests in the acquired company are recognised at fair value or on the basis of the percentage of net assets attributable to the acquired company.

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

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

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

Goodwill is recognised as the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date. Any excess of the interest in the net fair value of the acquiree over cost shall be recognised immediately through profit or loss.

Investments in associates as well as joint ventures are disclosed in the consolidated financial statements using the equity method, with the carrying amounts of the investments being increased or reduced annually by the proportion of the changes in equity at the respective company attributable to the freenet Group. The Group's share of the profits and losses of associates and joint ventures is recognised in the income statement as well as in other comprehensive income from the date of acquisition. Dividend payments received reduce the carrying amount of the investment in the associate. Goodwill arising from the acquisition of associates and joint ventures is not shown separately. If the Group's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group discontinues recognising its share of further losses. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

If the Group loses control over a company, the remaining share is remeasured at fair value and the resulting difference is recognised in profit or loss. In addition, all amounts shown under other comprehensive income in relation to that company are recognised as if the parent company had directly disposed of the related assets and liabilities. This means that a profit or loss that had previously been recognised in other comprehensive income is reclassified from equity to profit or loss.

Intra-group profits and losses, revenue, expenses and income as well as trade accounts receivable and liabilities between the consolidated companies are eliminated. The same applies to the elimination of intra-group profits and losses for joint ventures and associates.

2. ACCOUNTING POLICIES

The following accounting policies were applied for the preparation of these consolidated financial statements. The accounting policies have generally been applied consistently to the previous year. Regarding the changes, please refer to note 1.1, Business activity and accounting standards, of these notes. In this regard, the following sections explain both the old accounting policies applied for the 2017 financial year and the new accounting policies applied for the 2018 financial year.

2.1. RECOGNITION OF REVENUE AND EXPENSES

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

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

Supplementary notes on revenue recognition (for a breakdown of operating segments, please refer to note 3, Segment reporting):

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

For information on the accounting for new and existing multiple-element arrangements in the Mobile Communications segment (consisting of services performed at a point in time, e. g. delivery of mobile communications hardware, and services performed over time, e. g. provision of mobile communications services over a period of 24 months), please refer to the comments under the section heading "IFRS 15" in note 1.1, Business activity and accounting standards.

In the case of particular agency services provided by dealers, for whom the amount of sales commission depends on the newly acquired customers remaining in the Group's customer base and also on the level of future Group revenue generated with the newly acquired customers, the services purchased are recognised as a deferred item based on their most likely value and recognised through profit or loss over the average term of the associated end customer contract using the straight-line method.

The revenue in the TV and Media segment is generated by the rendering of services to end customers in the IP TV and DVB-T2 fields and also by the operation and service of broadcast-related solutions for business users in the radio and media sector. Revenue is recognised at the time at which the service is provided to the customer. In the TV and Media segment, revenue from delivering hardware to end customers is recognised at a point in time, although this revenue is currently insignificant in amount.

The accounting policies for 2017 differed as follows:

Customer acquisition costs, which consisted mainly of the purchase cost of mobile devices and the dealer commissions, were usually expensed immediately upon acquisition by the customers.

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

Commission revenue and bonuses from network operators were usually recognised as soon as a new customer obtained network access from a network provider. In addition, market development funds were provided by network operators for specific advertising campaigns and, if the grant of the funds was contingent on the activation of new customers, the funds were recognised as revenue. If claims extended beyond the period over which the services were rendered, commission revenue was recognised accordingly on an accrual basis.

2.2. INTANGIBLE ASSETS

Goodwill is tested for impairment at least once a year and whenever there is an indication of impairment, and is measured at its original cost less cumulative impairment.

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

Trademarks with a significant carrying amount are assets with an indefinite useful life that are not amortised but tested for impairment annually or whenever there are indications of impairment. The indefinite useful life was chosen if no constant reduction in value is discernible in relation to this asset and no limitation of the useful life had to be considered in terms of time either.

The other trademarks, on the other hand, have definable terms. These trademarks are carried at their historical cost and are amortised on a straight-line basis over their anticipated useful lives of 36 to 180 months. On the balance sheet date of 31 December 2018, the remaining useful life of these trademarks was 146 months.

Licences, software and right-of-use assets are shown at cost and are amortised on a straight-line basis over their anticipated useful lives, which is generally three years for software and three to ten years for licences and right-of-use assets.

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

Customer relationships are amortised on a straight-line basis over a period of 60 to 262 months. On the balance sheet date of 31 December 2018, the remaining useful life of the customer relationships recognised was between 1 and 228 months.

Distribution rights are amortised on a straight-line basis over the expected duration of the underlying agreements (36 months). On the balance sheet date of 31 December 2018, the remaining useful life of the distribution rights recognised was 21 months.

2.3. PROPERTY, PLANT AND EQUIPMENT

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

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

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

Asset	Useful life
Buildings	10 to 33 years
Technical equipment and machinery	5 to 15 years
Motor vehicles	6 years
IT equipment	3 to 8 years
Telecommunications equipment and hardware	2 to 5 years
Leasehold improvements	3 to 10 years

2.4. IMPAIRMENT OF NON-MONETARY ASSETS

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

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

If the reason for impairment no longer applies, the asset's impairment is reversed to a figure not exceeding amortised cost. This is not applicable to goodwill, as reversals of impairment are not permitted here.

2.5. LEASES

2.5.1. The Group as lessee

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

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

In accordance with IAS 17, the leased assets which are attributable to the Group as the beneficial owner under finance leases are recognised at the lower of fair value of the leased asset and the present value of the minimum lease payments, and are depreciated over the shorter of their normal useful life and the term of the lease. Accordingly, the liability arising from the lease is recognised and reduced by the repayment portion of the lease instalments that have already been paid. The interest portion of the lease instalments is expensed.

As at 31 December 2018, a master lease agreement was classified as a finance lease in the amount of the minimum lease obligation. Please refer to the comments in note 26, Trade accounts payable, other liabilities and deferrals and other financial liabilities.

Regarding the new accounting for leases (IFRS 16) from 1 January 2019, please refer to note 1.1., Business activity and accounting standards, of the notes to the consolidated financial statements.

2.5.2. The Group as lessor in finance leases

When the beneficial ownership of an asset is transferred to the contractual partner or customer, the Group reports a receivable due from the lessee in accordance with IAS 17. The receivable is shown in the amount of the net investment value as of the time when the contract is signed. Lease instalments received are split into an interest component, which is recognised in the income statement, and a principal component. The interest components are recognised as finance income on an accrual basis spread over the relevant periods. As of 31 December 2018, as was the case in the previous year, there were no contracts in which the Group is classified as the lessor in finance leases.

2.6. INTERESTS IN ASSOCIATES AND JOINT VENTURES

The carrying amount of investments in associates and joint ventures is recognised on the basis of the associate's or joint venture's annual or consolidated financial statements in accordance with IFRSs prepared in accordance with the Group's accounting policies. With regard to the equity method, please refer to note 1.3, Consolidation principles.

2.7. FINANCIAL INSTRUMENTS

2.7.1 Definition and classification

A financial instrument is any contract that simultaneously gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity. For the purposes of measurement, financial assets and financial liabilities are classified as follows:

- Financial assets measured at amortised cost
- Financial assets measured at fair value through profit or loss
- Financial assets measured at fair value through other comprehensive income
- Liabilities measured at amortised cost

The classification of financial assets and liabilities is based on the characteristics of the contractual cash flows of the financial assets and the business model that management uses to manage the financial assets. Management determines how the financial assets and financial liabilities are classified upon initial recognition.

2.7.2 Financial assets measured at amortised cost

The Group classifies these assets in the following three categories:

Liquid assets

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

Trade accounts receivable

Trade accounts receivable are amounts owed by customers for goods and services provided in the ordinary course of business. They are classified as current assets, with the exception of those which do not fall due until 12 months after the balance sheet date. The latter are reported as non-current trade accounts receivable. The Group holds trade accounts receivable in order to collect the contractual cash flows; they are subsequently measured at amortised cost using the effective interest method.

Non-derivative financial assets

The Group measures its non-derivative financial assets at amortised cost if the financial asset is held as part of a business model according to which financial assets are held for the purpose of collecting the contractual cash flows. In addition, the contract terms result in cash flows consisting exclusively of principal and interest payments on the principal amount outstanding. This category includes receivables from trustees, collateral and other contract assets reported in other financial assets.

2.7.3 Financial assets measured at fair value through profit or loss

The Group classifies these assets in the following two categories:

Trade accounts receivable

The freenet Group carries trade accounts receivable held for trading purposes at fair value through profit or loss. These include trade accounts receivable from multiple-element arrangements (mobile phone upgrade option) sold to a credit institution. Please refer to the explanation regarding factoring in note 33.6.

Other equity instruments

The company measures investments in equity instruments at fair value through profit or loss if the Group has elected not to recognise changes in fair value in other comprehensive income. As at the reporting date, other equity investments reported in other financial assets are assigned to this category.

2.7.4 Financial assets measured at fair value through other comprehensive income

The Group classifies these assets in the following category:

Other equity instruments

Other equity instruments measured at fair value through other comprehensive income are financial assets not held for trading purposes which the freenet Group has irrevocably chosen upon initial recognition to report in this category. This category includes equity investments and securities serving as security for non-current pension obligations reported in other financial assets.

2.7.5 Liabilities measured at amortised cost

Financial liabilities are based on contractual agreements regarding the payment of liquid assets or the rendering of other financial assets to a third party. A financial liability is recognised when freenet becomes the contracting party. The financial liabilities as of the balance sheet date are disclosed in the trade accounts payable, borrowings and other financial liabilities items.

2.7.6 Measurement of financial instruments

Regular purchases and sales of financial assets are recognised as at the trade date, i. e. the day on which the Group enters into an obligation to buy or sell the asset. Financial assets are measured at fair value upon acquisition. Transaction costs increase or decrease the initial carrying amount if the financial asset is not measured at fair value with changes in value being recognised through profit or loss.

Financial assets are broken down into two classification categories: financial assets measured at amortised cost and financial assets measured at fair value. If financial assets are measured at fair value, income and expenses can be recognised either at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVTCOI). The classification is made on initial recognition of the financial asset and is based on the business model for managing financial assets and the characteristics of the contractual cash flows of the financial asset.

A financial asset shall be measured at amortised cost if the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that are not measured at amortised cost or at fair value through other comprehensive income must be measured at fair value through profit or loss.

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

2.7.7 Impairment of financial assets

The Group applies the simplified approach provided for by impairment rules to measure expected credit losses. Accordingly, expected credit losses anticipated over the term of all trade accounts receivable and contract assets are recognised upon the initial recognition of these items. Impairments of financial assets are based on assumptions regarding default risk and expected loss rates on the basis of historical losses and the Group’s past experience, as well as forward-looking estimates at the end of the financial year.

The carrying amount of the receivables is reduced by using an allowance account. If reasonable assessments indicate that the receivable is no longer recoverable, the receivable is derecognised against the allowance account. Subsequent payments in relation to previously derecognised amounts are credited to the income statement against impairment losses on trade accounts receivable.

The general approach is applied by the Group to non-derivative assets. The expected credit loss model uses a three-stage approach to allocate loss allowances. In general, all instruments are classified in Stage 1 when originated or acquired. For these items, the expected loss resulting from possible default events during the next 12 months following the reporting date must be recognised as an expense. Interest is recognised based on the gross carrying amount, i.e. the effective interest method must be applied based on the carrying amount before deduction of expected credit losses. Stage 2 includes all instruments that have experienced a significant increase in default risk since initial recognition as at the reporting date. The loss allowance must reflect the present value of all expected losses over the remaining term of the instrument. Interest is recognised based on the gross amount, i.e. the effective interest method must be applied based on the carrying amount before deduction of expected credit losses. Significant indications of impairment include the following:

- Significant deterioration in the expected payments and expected performance of the debtor
- Significant deterioration in the credit quality of other instruments of the same debtor
- Actual or expected deterioration of economic, financial, regulatory or technological circumstances relevant to the credit-worthiness of the debtor

If, in addition to a significant increase in default risk, there is also objective indication of impairment as at the reporting date (Stage 3), the loss allowance is also measured based on the present value of the expected losses for the remaining term. The interest recognised must be adjusted in subsequent periods so that the interest income must be calculated based on the net carrying amount in the future, i.e. the carrying amount after deduction of expected credit losses. Objective indications of impairment include the following:

- Significant financial difficulties of the issuer or debtor
- Breach of contract such as a default or delinquency in interest or principal payments
- An increased probability that the debtor will become bankrupt or will have to go through some other restructuring process

Cash and cash equivalents are also subject to the impairment rules in IFRS 9. Default risk is substantially reduced by diversifying cash and cash equivalents among various major banks.

No loss allowances are recognised for expected credit losses in the case of equity instruments. An objective indication of impairment is a significant or permanent decline in the fair value below cost. If no market prices are available, other measurement approaches such as the discounted cash flow method are used to determine whether recognition of impairment losses is necessary.

The measurement methods for 2017 differed as follows:

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

In the case of unlisted shares which were classified as available-for-sale, any significant or continuing reduction in the fair value of the securities to a level below the purchase price of the shares was regarded as an objective indication of impairment. If no market prices were available, other methods, e.g. the DCF method, were used to determine any need for impairment.

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

2.7.8 Derecognition of financial assets

The freenet Group derecognises a financial asset only when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all of the risks and rewards of ownership of the asset are transferred to a third party. For details, please refer to the comments in note 33.6, Transfer of financial assets.

2.7.9 Derecognition of financial liabilities

The freenet Group derecognises financial liabilities only when these are repaid, i. e. when the obligation stipulated in the contract is either settled or cancelled or has expired. In the event of an exchange of debt instruments with substantially different contract terms or in the case of substantial changes in the contract terms of an existing liability, the transaction is treated as the repayment of the original financial liability and the recognition of a new financial liability. A gain or loss from repayment of the original financial liability is recognised in profit or loss.

2.7.10 Netting of financial instruments

Financial assets and liabilities are netted and shown as a net amount in the balance sheet only if there is a legal entitlement to such treatment and if the Group intends to settle on a net basis or to use the asset and settle the liability simultaneously.

2.8. INVENTORIES

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

2.9. FOREIGN CURRENCY TRANSACTIONS

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Gains and losses resulting from the fulfilment of such transactions, and also from the process of translating monetary assets and liabilities denominated in foreign currencies as at the closing date, are recognised in the income statement. Minor volumes of foreign currency transactions were carried out in financial year 2018.

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

The earnings and balance sheet items of all Group companies that have a functional currency other than the euro are translated into euros using the modified closing date method. Any resulting currency translation differences are recognised in other comprehensive income and disclosed as a cumulative figure in equity.

2.10. EQUITY

Ordinary shares, capital reserves, revaluation reserves, consolidated net retained profits and non-controlling interests are shown as equity. After the deduction of applicable current taxes, costs of capital increases are recognised directly in equity under capital reserves.

2.11. PENSION PROVISIONS

In the 2018 financial year, minimal adjustments were made to the method for determining the discount rate. The method to date would have produced a discount rate of 2.20 per cent and pension obligations would have been 0.4 per cent higher.

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

Actuarial gains and losses resulting from empirical adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they arise.

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

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

Past service costs are immediately recognised in profit or loss. The service cost is shown under personnel expenses and the interest portion of the addition to provisions is shown in net finance costs.

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

2.12. PROVISIONS

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

If there are a number of similar obligations, the probability of an outflow of resources is determined on the basis of the group of these obligations. A provision is also recognised as a liability if the probability of an outflow of resources relating to individual obligations included in this group is low.

In accordance with IAS 16, the costs expected for the obligation to dismantle transmission installations and leasehold improvements are included in the costs of these items. In accordance with IAS 37, a provision is therefore recognised to cover the present value of these obligations if an outflow of resources is likely; this provision is recognised at the time at which the obligations arise. Changes in the measurement of an existing provision, in other words changes in the settlement value and/or the discount rate, are recognised by means of an adjustment to the carrying amount of the transmission installations and leasehold improvements (upper limit: recoverable amount; lower limit: zero).

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

There are semi-retirement obligations in accordance with the Altersteilzeitgesetz (Semi-Retirement Act – AltTZG) of 23 July 1996 in line with the block model. The semi-retirement phase cannot begin before the employee’s 55th birthday. During the semi-retirement phase, the employee’s monthly semi-retirement net salary is normally topped up to 85 per cent (or 83 per cent for agreements signed after 1 October 2012) of the theoretical monthly full-time salary less statutory deductions. A discount rate of 0.45 per cent and a salary increase of 2.25 per cent p.a. have been used as the basis for measuring the semi-retirement obligations. No consideration has been given for any potential in this respect. The obligations have been netted with the fair values of the corresponding plan assets. If the fair value of the plan assets is higher than the obligations, the surplus is shown under the receivables and other assets.

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

2.13. EMPLOYEE INCENTIVE PROGRAMMES

In financial year 2018, three significant long-term incentive programmes (“LTIP programmes”) for employees were in place in the Group.

The accounting policies of these employee incentive programmes are described below:

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

In financial year 2018, agreements were signed to grant new LTIPs (hereinafter referred to as “Programme 3") on the occasion of the extension of an Executive Board member's employment contract and the appointment of new Executive Board members.

In January 2016, freenet AG and two other Group companies granted LTIPs to senior executives below the Executive Board level (hereinafter referred to as “Programme 4”).

In LTIP programmes, an LTIP account is maintained for each beneficiary; in each financial year, depending on the extent to which defined objectives for the financial year in question have been attained, credit or debit entries are made in the accounts in the form of phantom shares. Then, within a predetermined period of time, payouts less taxes and charges can be made for each financial year, depending on the balance in the respective LTIP account. The amount of these payments is dependent on various factors, including the relevant share price at the time of the payout. The provision is measured at the fair value of the phantom shares that are likely to vest. The corresponding expense is shown under personnel expenses. For details, please refer to our explanations in note 25, Employee incentive programmes.

2.14. DEFERRED AND CURRENT INCOME TAXES

Deferred taxes are recognised using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts, and on tax loss carryforwards. Deferred taxes are measured using tax rates and tax laws enacted or substantively enacted at the balance sheet date that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets on deductible temporary differences are recognised at the amount for which deferred tax liabilities exist. If the amount of deferred tax assets on deductible temporary differences exceeds this value, they are recognised only to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. Deferred tax assets on existing tax loss carryforwards are also recognised only to the extent that it is probable that future taxable profit will be available against which they can be utilised. The expected future profits are based on the company's forecast of earnings before taxes applicable on the balance sheet date.

Deferred tax liabilities arising from temporary differences in connection with investments in subsidiaries and associates are recognised unless the timing of the reversal of the temporary differences can be determined by the Group, and it is probable that the temporary differences will not reverse in the foreseeable future due to this influence.

Current tax expenses are calculated based on the German tax regulations applicable at the balance sheet date or in the near future. Management regularly reviews tax returns, particularly with respect to interpretable matters, and, where appropriate, recognises provisions based on the amounts expected to be paid to the tax authorities.

2.15. JUDGEMENTS, FORWARD-LOOKING ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

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

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

With regard to the forward-looking assumptions made within the framework of the tests relating to potential goodwill impairments (carrying amount as of 31 December 2018: 1,380.0 million euros; previous year: 1,379.9 million euros) as well as impairments of intangible assets with an indefinite useful life (carrying amount as of 31 December 2018: 293.2 million euros, previous year: 293.2 million euros), please refer to note 16, Impairment testing for non-monetary assets.

A sensitivity analysis regarding the impairment tests for the assets allocated to the cash generating unit (CGU) "Mobile Communications" has established that the fair value less costs to sell would decline by approximately 362 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 449 million euros if the WACC were to decline by 0.5 percentage points, and that, if earnings before interest and taxes (EBIT) were to be reduced or increased by 10 per cent in the planning period, the fair value less costs to sell would decrease by approximately 738 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 913 million euros (if the WACC simultaneously were to be reduced by 0.5 percentage points); this would not result in any impairment with regard to the assets allocated to this CGU, especially in case of the negative scenarios.

A sensitivity analysis regarding the impairment tests for the assets allocated to the cash generating unit “TV” has established that the fair value less costs to sell would decline by approximately 78 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 95 million euros if the WACC were to decline by 0.5 percentage points, and that, if earnings before interest and taxes (EBIT) were to be reduced or increased by 10 per cent in the planning period, the fair value less costs to sell would decrease by approximately 158 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 196 million euros (if the WACC simultaneously were to be reduced by 0.5 percentage points); this would not result in any impairment with regard to the assets allocated to this CGU, especially in the case of the negative scenarios.

A sensitivity analysis regarding the impairment tests for the assets allocated to the cash generating unit “Online” has established that the fair value less costs to sell would decline by approximately 6 million euros if the WACC were to be increased by 0.5 percentage points, and would increase by approximately 7 million euros if the WACC were to decline by 0.5 percentage points, and that, if earnings before interest and taxes (EBIT) were to be reduced or increased by 10 per cent in the planning period, the fair value less costs to sell would decrease by approximately 14 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 16 million euros (if the WACC simultaneously were to be reduced by 0.5 percentage points); this would not result in any impairment with regard to the assets allocated to this CGU, especially in case of the negative scenarios.

The other equity instruments measured at fair value through profit or loss do not include listed shares for which there is an active market. Their fair value is determined using recognised actuarial methods. The underlying assumptions regarding future developments rely on the Group’s judgement.

Impairment losses on financial assets are based on assumptions regarding default risk and expected loss rates. In preparing these assumptions and selecting the input factors for calculating the impairment losses, the Group exercises its judgement based on its past experience and forward-looking estimates at the end of the financial year.

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

Regarding the change of accounting treatment for multiple-element arrangements in accordance with IFRS 15 from 1 January 2018 onward, the following material judgements, forward-looking assumptions, and uncertainties involved in estimation apply:

Measuring contractual performance obligations involves identifying the individual customer contracts and grouping them into portfolios based on certain criteria. A portfolio is defined as a set of aggregated contracts with uniform characteristics. Discretion plays a part in selecting these criteria (the assessment of whether uniformity exists and the decision on the number of portfolios).

The first step is identifying the performance obligations within customer contracts (or after their aggregation in portfolios) and their relative individual selling prices. These are estimated based on transactions conducted in the past (such as hardware sales and offers of mobile communications services over 24 months). In the next step, the net contract position is calculated taking into account other contract components: If the relative stand-alone selling prices of a contract component exceeds the transaction price, the transaction price is reallocated. The resulting net contract position of a contract (or after its aggregation in a portfolio) is reversed on a pro rata basis over the underlying contract term depending on the relevant performance dates or periods. Measurement of the net contract position is subject to certain assumptions. Uncertain future contract events, which cannot be influenced by the freenet Group, are anticipated according to their weighted likelihood of occurrence. Such contract events include premature contract termination, cancellation, bad debt losses, contract modifications, and the exercise of contractual (material) rights, such as those arising from product vouchers.

The following material judgements, estimates and forward-looking assumptions are made with regard to accounting for multiple-element arrangements in accordance with IFRS 15:

- Forward-looking assumptions in determining the expected future customer contract term for the amortisation period of contract acquisition costs and bonuses and commission of network operators for specific periods
- Assessment of whether there is a significant financing component
- Judgements and forward-looking assumptions in determining whether certain cost items constitute incremental contract extension costs, the reimbursement of which is expected in the future
- Judgements regarding the assessment of commissions and bonuses received by network operators, specifically
  - which portions thereof must be recognised in revenue as separable individual performance components immediately upon performance,
  - which portions thereof constitute an immediate reduction in the cost of materials due to their nature as a discount, and
  - which portions thereof can be considered discounts granted over the underlying customer contract term and therefore reduce the cost of materials on a pro rata basis
- Judgements and estimates in determining the equivalent value of brokerage services in indirect sales in order to obtain the carrying amount of "consideration payable to a customer"

In connection with the acquisition of the Media Broadcast Group in March 2016, a master lease agreement was classified as a finance lease in the amount of the minimum lease obligation. This is a master lease agreement with an infrastructure provider relating to the use of radio infrastructures (such as towers and masts) and radio locations and other areas, due to run until 31 December 2027. The Media Broadcast Group has the right to demand that the agreement be extended by ten years until 31 December 2037. The probability of this extension option being exercised has been assumed to be less than 50 per cent.

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

Regarding the recognition of the provision for contingent losses for any vacancy of rented shops and/or office buildings, assumptions were made with respect to the possibility of these premises being sublet in the future. With regard to the recognition of provisions for contingent losses in relation to anticipated losses from negative-margin tariffs, assumptions were made largely with respect to how long customers will remain in these tariffs in the future.

With regard to the assumptions and estimates made in the measurement model used for determining the provision for the LTIP programme as at 31 December 2018, please refer to note 25, Employee incentive programmes.

With regard to pension provisions and similar obligations, note 29 describes how forward-looking assumptions have been made for the measurement of the provisions for pensions and similar obligations. This involves the estimation of a discount rate, the pension trend, the assessment of the future development of the beneficiary's pensionable income and an assessment of the beneficiary's life expectancy. A sensitivity analysis came to the conclusion that if the discount rate were to increase by 1.0 percentage points, the present value of the funded and unfunded obligations would be reduced by 14,461 thousand euros, while a decrease of 1.0 percentage points in the discount rate would increase the present value of the funded and unfunded obligations by 18,668 thousand euros. With regard to further sensitivity analyses pertaining to the pension obligations, please refer to note 29, Pension provisions and similar obligations, of the notes to the consolidated financial statements.

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

The deferred tax assets in relation to loss carryforwards are based on corporate planning for the four subsequent financial years involving forward-looking assumptions about, for example, the macroeconomic trend and the development of the telecommunications market. With regard to the extent of the recognised deferred taxes on loss carryforwards and also the extent of the loss carryforwards in relation to which no deferred tax assets have been recognised, please refer to note 18, Deferred tax assets and deferred tax liabilities. A sensitivity analysis carried out in relation to the deferred tax assets has established that the deferred tax assets would increase by approx. 20.0 million euros, or decrease by 19.8 million euros if the trade income or corporation tax income were to increase or decrease by 10 per cent in the relevant planning period.

2.16. NON-CURRENT ASSETS HELD FOR SALE

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

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

2.17. LIMITED COMPARABILITY

Comparability with the consolidated financial statements as of 31 December 2017 is significantly impaired due to the first-time application of IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments) as of 1 January 2018. In this context, please refer to the extensive explanations in note 1.1, Business activity and accounting standards, in the notes to the consolidated financial statements.

3. SEGMENT REPORTING

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

As its main decision-making body, the Executive Board organises and manages the company on the basis of the differences between the individual products and services offered by the company. As the Group performs its business operations almost entirely in Germany, its business is not organised or managed based on geographical regions. The Group was active in the following operating segments in financial year 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 Deutsche Telekom, Vodafone and Telefónica Deutschland in Germany based on the network operator agreements entered into 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
  - Sunrise activities (areas of activity of Sunrise: mobile communications, landlines, Internet as well as digital TV)

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

- Other/Holding:
  - Rendering of portal services such as e-commerce/advertising services (these essentially comprise the offer of online shopping and the marketing of advertising space on websites), of payment services for end customers as well as various digital products and entertainment formats for downloading and displaying, and use on mobile devices
  - Development of communication solutions, IT solutions and other services for corporate customers
  - Range of narrowband voice services (call-by-call, preselection) and data services
  - Rendering of sales services

The "Other/Holding" segment includes other business activities in addition to operating activities. This mainly comprises the holding activities of freenet AG (with the rendering of services within the Group in central areas, such as legal, human resources and finance) as well as areas which cannot be clearly allocated to operating segments. The segment revenue of 65.3 million euros (previous year: 75.1 million euros) reported for the "Other/Holding" segment in 2018 is attributable to operating activities (66.1 million euros; previous year: 76.1 million euros) and other business activities (–0.8 million euros; previous year: –1.0 million euros). Of the figure of 45.8 million euros (previous year: 48.1 million euros) reported for gross profit for 2018 for the "Other/Holding" segment, 47.1 million euros (previous year: 49.7 million euros) is attributable to the operating activities and –1.3 million euros (previous year: –1.6 million euros) is attributable to the other business activities. The EBITDA of –11.0 million euros (previous year: –12.6 million euros) reported for the "Other/Holding" segment for 2018 was accounted for by operating activities to the extent of 15.9 million euros (previous year: 14.7 million euros) and by other business activities in the amount of –26.9 million euros (previous year: –27.3 million euros).

The segments provide, or used to provide, services to the other operating segment. If there are equivalent external market prices for internally offered services, these market prices are used as internal transfer prices. The transfer prices for non-marketable services are generally based on the costs incurred (plus overhead surcharge).

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

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

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

Segment report for the period from 1 January to 31 December 2018

In EUR '000s	Mobile Communications	TV and Media	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**2,571,507**	**274,595**	**51,364**	**0**	**2,897,466**
Inter-segment revenue	35,161	7,958	13,966	–57,085	0
Total revenue	2,606,668	282,553	65,330	–57,085	2,897,466
Cost of materials, third party	**–1,868,578**	**–110,135**	**–15,026**	**0**	**–1,993,739**
Inter-segment cost of materials	–19,589	–24,988	–4,514	49,091	0
Total cost of materials	–1,888,167	–135,123	–19,540	49,091	–1,993,739
Segment gross profit	**718,501**	**147,430**	**45,790**	**–7,994**	**903,727**
Other operating income	50,017	51,750	3,963	–5,026	100,704
Other own work capitalised	9,113	6,711	2,282	0	18,106
Personnel expenses	–122,848	–63,599	–33,253	0	–219,700
Other operating expenses	–288,782	–55,996	–29,895	13,020	–361,653
Thereof loss allowances on financial assets and contract assets	–45,745	–502	–419	0	–46,666
Thereof without loss allowances on financial assets and contract assets	–243,037	–55,494	–29,476	13,020	–314,987
Shares of the profit or loss of equity-accounted investments	44,260	0	83	0	44,343
Total overhead[1]	**–308,240**	**–61,134**	**–56,820**	**7,994**	**–418,200**
Thereof inter-segment allocation	–6,607	657	–2,044	7,994	
Segment EBITDA	**410,261**	**86,296**	**–11,030**	**0**	**485,527**
Depreciation, amortisation and impairment					–129,196
Subsequent accounting for equity-accounted investments					–19,233
EBIT					**337,098**
Financial result					–103,096
Income taxes					–21,839
Consolidated profit					**212,163**
Consolidated profit attributable to shareholders of freenet AG					223,138
Consolidated profit attributable to non-controlling interests					–10,975
Net cash investments	**20,272**	**17,625**	**5,446**		**43,343**

[1] The overhead costs as the difference between gross profit and EBITDA include the items other operating income, other own work capitalised, personnel expenses, other operating expenses and share of profit or loss of equity-accounted investments

Segment report for the period from 1 January to 31 December 2017

In EUR '000s	Mobile Communications	TV and Media	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**3,153,216**	**292,342**	**61,705**	**0**	**3,507,263**
Inter-segment revenue	45,688	2,415	13,429	–61,532	0
Total revenue	3,198,904	294,757	75,134	–61,532	3,507,263
Cost of materials, third party	**–2,441,037**	**–94,786**	**–21,678**	**0**	**–2,557,501**
Inter-segment cost of materials	–13,422	–33,600	–5,362	52,384	0
Total cost of materials	–2,454,459	–128,386	–27,040	52,384	–2,557,501
Segment gross profit	**744,445**	**166,371**	**48,094**	**–9,148**	**949,762**
Other operating income	50,226	4,502	5,603	–5,434	54,897
Other own work capitalised	8,244	7,879	2,402	0	18,525
Personnel expenses	–125,209	–65,015	–35,437	0	–225,661
Other operating expenses	–297,303	–73,526	–32,211	14,582	–388,458
Thereof loss allowances on financial assets and contract assets	–50,679	–33	–78	0	–50,790
Thereof without loss allowances on financial assets and contract assets	–246,624	–73,493	–32,133	14,582	–337,668
Shares of the profit or loss of equity-accounted investments	133,167	0	–1,037	0	132,130
Total overhead[1]	**–230,875**	**–126,160**	**–60,680**	**9,148**	**–408,567**
Thereof inter-segment allocation	–5,185	–3,434	–529	9,148	
Segment EBITDA	**513,570**	**40,211**	**–12,586**	**0**	**541,195**
Depreciation, amortisation and impairment					–148,234
Subsequent accounting for equity-accounted investments					–19,969
EBIT					**372,992**
Financial result					–50,302
Income taxes					–47,116
Consolidated profit					**275,574**
Consolidated profit attributable to shareholders of freenet AG					286,669
Consolidated profit attributable to non-controlling interests					–11,095
Net cash investments	**17,724**	**20,885**	**3,912**	**0**	**42,521**

[1] The overhead costs as the difference between gross profit and EBITDA include the items other operating income, other own work capitalised, personnel expenses, other operating expenses and share of profit or loss of equity-accounted investments

4. REVENUE

A breakdown of the revenue of 2,898 million euros (previous year: 3,507 million euros) by segments is set out under note 3, Segment reporting.

Of the total external revenue (inclusive of IFRS 15) of the Mobile Communications segment totalling 2,572 million euros in the 2018 financial year, 1,697 million euros was attributable to revenue from services (of which 1,555 million euros is accounted for by postpaid, and 142 million euros by no-frills and prepaid), 794 million euros to revenue from hardware and 80 million euros to other revenue.

Of the total revenue (exclusive of IFRS 15) generated in the previous year 2017 by the Mobile Communications segment of 3,153 million euros, 1,783 million euros was attributable to revenue from services, 712 million euros to revenue from hardware, 619 million euros to fees for premiums and commissions with respect to network operators and 39 million euros to other revenue.

Before accounting for the effects of the initial application of IFRS 15, the Group and the Mobile Communications segment reported a 761.7 million euro increase in revenue (of which 606.2 million euros is attributable to fees for premiums and commissions, 134.2 million euros to revenue from services and 21.4 million euros to revenue from hardware). This primarily affects the change in accounting for fees for premiums and commissions with respect to network operators. For more information, see note 1.1, Business activity and accounting standards, sub-headline IFRS 15.

The following disclosures are made in accordance with IFRS 15.116 b and IFRS 15.116 c:

In financial year 2018, revenue in the amount of 10,464 thousand euros was recognised which had previously been reported in net contract liabilities to customers from contracts with customers as at 1 January 2018. Revenue totalling 46 thousand euros from performance obligations settled or partly settled in prior periods was recognised in the 2018 financial year.

The total amount of the transaction price allocated to performance obligations not settled or only partly settled at the end of the reporting period (IFRS 15.120) amounts to 1,220.5 million euros. The outstanding performance obligations relate to the following periods: 850.0 million euros to 2019, 346.3 million euros to 2020 and 24.6 million euros to 2021. The Group did not apply the exemption in IFRS 15.121 to this disclosure.

5. OTHER OPERATING INCOME

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

6. OTHER OWN WORK CAPITALISED

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

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

7. COST OF MATERIALS

The cost of materials breaks down as follows:

In EUR '000s	2018	2017
Costs of purchased goods	819,335	724,738
Costs of purchased services	1,174,404	1,832,763
Total	**1,993,739**	**2,557,501**

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

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

Before recognition of the effects of the initial application of IFRS 15, the Group and the Mobile Communications segment would have reported a cost of materials higher by a similar amount as the aforementioned effect on revenue amounting to 761.7 million euros. This also primarily results from the change in accounting for fees for premiums and commissions in respect to network operators. For more information, see note 1.1, Business activity and accounting standards, sub-heading IFRS 15.

The following disclosure is made in accordance with IFRS 15.127: In the 2018 financial year, contract acquisition costs of 321,984 thousand euros were amortised in the cost of materials. Under IFRS 15, contract acquisition costs are amortised using the straight-line method over the term of the underlying contract, in the vast majority of cases over a period of 24 months. Of the contract acquisition costs reported as at 31 December 2018, 316,097 thousand euros relate to dealer commission, 5,874 thousand euros to employee commission and 13 thousand euros to other items.

8. PERSONNEL EXPENSES

Personnel expenses are broken down as follows:

In EUR '000s	2018	2017
Wages and salaries	182,825	188,735
Social security and post-employment benefit costs	36,875	36,926
Total	**219,700**	**225,661**

An average of 4,131 persons were employed in the Group in financial year 2018 (previous year: 4,167). At the end of the financial year, the Group employed 4,183 persons (previous year: 4,113). Of this figure, 38 (previous year: 31) were senior executives and 325 (previous year: 322) were apprentices or students of the vocational academy as of 31 December 2018.

The Group’s employee incentive programmes reduced personnel expenses as per IFRS 2 by 635 thousand euros (previous year: 3,199 thousand euros).

With regard to an explanation of the employee incentive programmes, please refer to our comments to notes 2.13 and 25, Employee incentive programmes.

Personnel expenses also comprise an expense of 2,208 thousand euros for defined benefit plans (previous year: 2,272 thousand euros), see also note 29, Pension provisions and similar obligations.

Personnel expenses include a figure of 14,413 thousand euros as the employer's social insurance contribution as costs of defined contribution benefit plans (previous year: 14,330 thousand euros).

9. DEPRECIATION, AMORTISATION AND IMPAIRMENT

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

In EUR '000s	2018	2017
Amortisation of intangible assets	58,160	60,262
Impairment of intangible assets	0	211
Depreciation of property, plant and equipment	71,036	87,761
Total	**129,196**	**148,234**

The decrease in depreciation of property, plant and equipment is primarily attributable to the reduction in the useful lives of the assets to be sold in the previous year due to the imminent sale of the analogue radio infrastructure within the Media Broadcast Group.

10. OTHER OPERATING EXPENSES

Other operating expenses consist mainly of marketing costs (117,381 thousand euros in 2018 compared with 135,231 thousand euros in 2017), legal and consulting fees, administration expenses (e. g. rent and incidental costs of the shops and administration buildings), expenses for loss allowances and defaults on receivables, expenses for billing, outsourcing and postage.

A total of 31,557 thousand euros were recognised in the income statement in connection with rental agreements and leases (previous year: 32,553 thousand euros).

In the 2018 financial year, other operating expenses included impairment losses on financial assets and contract assets of 46.7 million euros. Of this amount, 41.4 million euros is attributable to impairment losses recognised under IFRS 9, of which 41.0 million euros concern trade accounts receivable, and 0.4 million euros concern contract assets from contracts with customers.

11. INTEREST AND SIMILAR INCOME

Interest and similar income consists of the following items:

In EUR '000s	2018	2017
Interest from banks, debt collection and similar income	92	653
Interest income from tax refunds	72	177
Total	**164**	**830**

12. INTEREST AND SIMILAR EXPENSES AND OTHER FINANCIAL RESULT

Interest and similar expenses are comprised as follows:

In EUR '000s	2018	2017
Interest to banks and similar expenses	34,396	33,079
Interest from finance leases	11,616	12,620
Interest expense from the unwinding of discounts on liabilities	6,158	1,355
Interest expense from pension obligations	1,708	1,635
Interest expense from additional tax payments and similar expenses	111	154
Other	2,053	2,289
Total	**56,042**	**51,132**

The interest expense for 2018 relating to the unwinding of the discount on liabilities in the amount of 6,158 thousand euros (previous year: 1,355 thousand euros) is mainly attributable to the unwinding of the discount on provisions, current income tax liabilities and other financial liabilities.

This item includes interest relating to the effective interest method (IFRS 9 measurement category: amortised cost) in the interest to banks and similar expenses of 6,238 thousand euros (previous year: 4,148 thousand euros), in the interest from finance leasing of 11,616 thousand euros (previous year: 12,620 thousand euros) and in the interest expense relating to the unwinding of the discount on liabilities in the amount of 6,158 thousand euros (previous year: 1,355 thousand euros).

Other financial result in 2018 amounted to −47,218 thousand euros, which breaks down into −47,137 thousand euros (−45,687 thousand euros plus acquisition-related costs of −1,450 thousand euros) for the acquisition of shares in CECONOMY: initially, a derivative was acquired upon signing (option for shares at a purchase price of 8.50 euros per share) and measured at 45,687 thousand euros. At closing, the shares were initially carried at a price of 7.10 euros per share and the derivative derecognised and expensed via other financial result.

13. INCOME TAXES

Income taxes comprise paid and outstanding income taxes, plus deferred taxes.

In EUR '000s	2018	2017
Current tax expense for the financial year	–29,593	–28,762
Tax income from previous years	48	1,517
Deferred tax income (previous year: tax expense) due to write-up (previous year: write-down) on deferred tax assets	4,549	–10,321
Deferred tax income (previous year: tax expense) relating to temporary differences	3,157	–12,166
Deferred tax income from tax rate changes	0	2,616
Total	**–21,839**	**–47,116**

For further details concerning deferred taxes, please refer to note 18, Deferred tax assets and deferred tax liabilities.

Applying the average tax rate of the consolidated companies to consolidated profit before income taxes would result in anticipated tax expense of 71.1 million euros (previous year: 98.1 million euros). The difference between this amount and the current tax expense of 21.8 million euros (previous year: 47.1 million euros) is shown in the following reconciliation:

In EUR '000s	2018	2017
Earnings before taxes	234,002	322,690
Expected tax expense applying the tax rate of 30.40% (previous year: 30.40%)	–71,137	–98,098
Change in deferred tax assets on loss carryforwards and unrecognised deferred tax assets on loss carryforwards	42,358	26,929
Tax effect on non-deductible expenses due to trade tax additions	–8,019	–7,695
Tax effect of other non-deductible expenses	–16,035	–4,484
Tax effect of tax-free income	5,931	32,099
Effects of tax rate changes	0	2,616
Tax income from previous years	48	1,517
Other effects	25,015	0
Current tax expense	**–21,839**	**–47,116**
Effective tax rate in per cent	9.33	14.60

The other effects in the 2018 financial year in the amount of 25,015 thousand euros relate to a non-recurring expense in the tax accounts for freenet AG's consolidated tax group for income tax purposes as at 1 January 2018 totalling 82,287 thousand euros. This non-recurring expense related to the derecognition for tax purposes of trade accounts receivable in connection with a new treatment of net assets based on an analysis of a situation against the backdrop of the new IFRS 15.

For the Group companies, a corporation tax rate of 15.0 per cent (previous year: 15.0 per cent) was applied in financial year 2018 for calculating current and deferred income taxes. A solidarity surcharge of 5.5 per cent (previous year: 5.5 per cent) in relation to the corporation tax as well as an average trade tax assessment rate of 414.94 per cent (previous year: 415.48 per cent) were also applied. The deferred taxes in financial year 2018 were calculated using an average tax rate of 30.40 per cent (previous year: 30.40 per cent).

14. EARNINGS PER SHARE

14.1. BASIC EARNINGS PER SHARE

Basis earnings per share are calculated by dividing the profit attributable to the shareholders by the weighted average number of shares outstanding during the financial year. In the future, basis earnings per share may decrease as a result of the possible utilisation of conditional capital. For information purposes, please refer to our comments under note 24.7, Conditional capital.

	2018	2017
Consolidated profit attributable to shareholders of freenet AG In EUR '000s	223,138	286,669
Weighted average number of shares outstanding	128,011,016	128,011,016
Earnings per share in EUR (basic)	**1.74**	**2.24**

14.2. DILUTED EARNINGS PER SHARE

Diluted earnings per share are calculated by dividing the profit attributable to the shareholders by the weighted average number of shares outstanding increased by potentially dilutive shares.

As at 31 December 2018, there are neither actual nor potential dilution effects.

	2018	2017
Consolidated profit attributable to shareholders of freenet AG In EUR '000s	223,138	286,669
Weighted average number of shares outstanding	128,011,016	128,011,016
Weighted average number of shares outstanding plus number of potentially dilutive shares	128,011,016	128,011,016
Earnings per share in EUR (diluted)	**1.74**	**2.24**

15. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND GOODWILL

Movements in intangible assets and property, plant and equipment are shown under note 38.

The most significant carrying amount in intangible assets relates to trademarks arising from the purchase price allocation on the occasion of the acquisition of the debitel Group in financial year 2008.

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

In EUR '000s	31.12.2018	31.12.2017
Trademarks	301,427	302,227
Customer relationships	87,046	94,059
Right-of-use assets	50,546	57,796
Software	76	1,903
Total	**439,095**	**455,985**

In addition to the intangible assets resulting from the various purchase price allocations, further intangible assets of 86.3 million euros are shown as at 31 December 2018 (31 December 2017: 107.5 million euros) including distribution rights of 44.5 million euros (previous year: 69.9 million euros).

The exclusive distribution right with Media Saturn Deutschland GmbH resulted in a carrying amount of 43.8 million euros as at 31 December 2018 (previous year: 68.8 million euros). No impaired intangible assets existed as at 31 December 2018.

The allocation of goodwill to CGUs is shown in the table below:

In EUR '000s	31.12.2018	31.12.2017
Mobile Communications	1,119,396	1,119,396
Online	29,887	29,750
TV	226,621	226,621
Other	4,152	4,152
Total	**1,380,056**	**1,379,919**

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

Since 2016, the “TV” CGU has been allocated to the “TV and Media” segment, and the “Other” CGU has been allocated to the “Other/Holding” segment.

16. IMPAIRMENT TEST FOR NON-MONETARY ASSETS

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

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

The fair value less costs to sell has been used as the recoverable amount of the “Mobile Communications” CGU. The fair value was determined on the basis of planning approved by management covering the period up to and including 2022. The detailed planning phase was extrapolated in the terminal value. This is equivalent to level 3 of the fair value hierarchy in accordance with IFRS 13.

Planning is based on detailed assumptions derived from previous experience and future expectations in relation to the main earnings and value drivers. In principle, the gross profit of the “Mobile Communications” CGU can be broken down into two earnings flows: the contribution made to earnings by new customers, and customer retention. These are opposed by the costs for purchased services, particularly with regard to the mobile network operators. The costs of acquiring and retaining customers dominate the contribution to earnings made by new customers and customer loyalty. On the other side are costs for procuring hardware and for dealer commissions to be paid to sales partners as a result of the acquisition or loyalty programmes. In the planning period, the freenet Group is expecting to see stable customer acquisition costs as well as stable customer retention costs. In addition, the Group is expecting to see a stable customer base (postpaid and no-frills) and stable postpaid ARPU in 2019. In the planning period, the freenet Group expects that, within the “Mobile Communications” CGU, the postpaid customer group will increase moderately, with a stable performance in revenue, postpaid ARPU and EBITDA. freenet assumes that the revenue and earnings contributions of the digital lifestyle products within the “Mobile Communications” CGU will increase in the planning period.

The WACC after tax derived in relation to the specific risk structure of the "Mobile Communications" CGU on the basis of market data and used in the course of determining the fair value is 5.64 per cent (previous year: 5.83 per cent). With regard to the capitalisation rate in the subsequent phase (as from 2023), a discount of 1.0 per cent has been assumed as a result of growth assumptions (previous year: 0.25 per cent); this is also the growth rate which has been used for extrapolating the cash flow forecasts.

The impairment test carried out in 2018 in relation to the "Mobile Communications" CGU confirmed that no impairment has to be recognised in relation to the goodwill allocated or to the trademark with an indefinite useful life.

As of 31 December 2018, goodwill of 226,621 thousand euros (previous year: 226,621 thousand euros) was allocated to the "TV" CGU which is identical to the "TV und Medien" segment. The fair value less costs to sell has been used as the recoverable amount of the "TV" CGU. The fair value was determined on the basis of planning approved by management covering the period up to and including 2022. The detailed planning phase was extrapolated in the terminal value. This is equivalent to level 3 of the fair value hierarchy in accordance with IFRS 13.

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

The WACC after tax derived in relation to the specific risk structure of the "TV" CGU on the basis of market data and used in the course of determining the fair value is 5.98 per cent (previous year: 5.89 per cent). With regard to the capitalisation rate in the subsequent phase (as from 2023), a discount of 1.0 per cent has been assumed as a result of growth assumptions (previous year: 1.0 per cent); this is also the growth rate which has been used for extrapolating the cash flow forecasts.

The impairment test carried out in 2018 in relation to the "TV" CGU confirmed that the goodwill allocated was not impaired.

Goodwill of 29,887 thousand euros has been attributed to the "Online" CGU (previous year: 29,750 thousand euros). The "Online" CGU is part of the "Other/Holding" segment. The fair value less costs to sell has been used as the recoverable amount of the "Online" CGU. The fair value was determined on the basis of planning approved by management covering the period up to and including 2022. The detailed planning phase was extrapolated in the terminal value. This is equivalent to level 3 of the fair value hierarchy in accordance with IFRS 13.

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

The WACC after tax derived in relation to the specific risk structure of the "Online" CGU on the basis of market data and used in the course of determining the fair value is 6.52 per cent (previous year: 6.78 per cent). With regard to the capitalisation rate in the subsequent phase (as from 2023), a discount of 0.25 per cent has been assumed as a result of growth assumptions (previous year: 0.28 per cent).

The impairment test carried out in 2018 in relation to the "Online" CGU confirmed that the goodwill allocated was not impaired.

The consolidated financial statements as at 31 December 2018 include other goodwill for various CGUs in the amount of 4,152 thousand euros (previous year: 4,152 thousand euros), all of which is allocated to the "Other/Holding" segment.

No impairment of non-monetary assets was recognised in the Group in financial year 2018 (previous year: 0.2 million euros).

In accordance with IAS 36 in conjunction with IAS 28.40 et seq., a separate impairment test had to be carried out in relation to the total carrying amount of the shares in the associated company Sunrise as of 31 December 2018 in the amount of 810.4 million euros (previous year: 809.7 million euros). The recoverability was estimated on the basis of information available in the public domain. The main sources in this respect were analyst estimates and also the application of EBITDA multiples which are usual in the telecommunications sector. On the basis of this information, it was possible to confirm the recoverability of the equity interest in the associated company Sunrise. There was no need for recognising an impairment loss.

17. EQUITY-ACCOUNTED INVESTMENTS

In EUR '000s	Note	31.12.2018	31.12.2017
Interests in associates	17.1.	810,399	809,732
Interests in joint ventures	17.2.	1,409	1,252
Total		**811,808**	**810,984**

17.1. ASSOCIATES

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

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

The most recent financial information published by Sunrise relates to the consolidated financial statements as of 31 December 2018. A brief overview is provided in the following:

Summarised Information as of 31 December 2018

BALANCE SHEET[1] In EUR '000s	31.12.2018	31.12.2017
Non-current assets	2,682,475	2,621,891
Thereof intangible assets	1,855,191	1,891,183
Current assets	801,138	660,231
Thereof cash	373,944	233,139
Total assets	**3,483,613**	**3,282,122**
Non-current liabilities	1,663,404	1,476,209
Thereof long-term borrowings	1,393,244	1,189,246
Current liabilities	504,331	513,717
Thereof trade accounts payable and other liabilities	445,103	462,870
Total liabilities	**2,167,735**	**1,989,925**

[1] The closing rate as of 31.12.2018 was 0.8884 CHF/EUR.

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INCOME STATEMENT In EUR '000s	1.1.2018 – 31.12.2018	1.1.2017 – 31.12.2017
Revenue	1,625,956	1,670,241
Gross profit	1,056,367	1,074,318
EBITDA	521,896	533,574
Depreciation, amortisation and impairment	–368,862	–385,672
Interest and similar expenses	–43,981	–47,230
Income taxes	–31,431	–25,062
Consolidated profit after tax	92,644	454,717

OTHER COMPREHENSIVE INCOME[2] In EUR '000s	2018	2017
Consolidated profit after tax	**92,644**	**454,717**
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. to IAS 19 (2011)	4,135	18,685
Income taxes	–840	–3,813
Other comprehensive income/not to be reclassified to the income statement in future periods	**3,295**	**14,872**
Other comprehensive income	**95,939**	**469,589**

[2] The average exchange rate for financial year 2018 was 0.8665 CHF/EUR.

The reconciliation to the carrying amount is as follows:

RECONCILIATION TO THE CARRYING AMOUNT In EUR millions	2018	2017
Carrying amount as of 1 January, as reported	**809.7**	**743.1**
Effects of the transition to IFRS 15/IFRS 9	7.1	0.0
Carrying amount as of 1 January, restated	**816.8**	**743.1**
Current profit share	44.3	133.2
Subsequent accounting from purchase price allocation	–19.2	–20.0
Other comprehensive income	5.4	–12.2
Dividend paid to freenet	–36.9	–34.4
Carrying amount as of 31 December	**810.4**	**809.7**

RECONCILIATION OF THE NET ASSETS OF SUNRISE TO THE CARRYING AMOUNT In EUR millions	2018	2017
Net Sunrise assets as of 31 December	**1,315.9**	**1,292.2**
Net Sunrise assets attributable to freenet as of 31 December	323.2	317.4
Elimination of PPA effects at Sunrise	–321.4	–342.9
Fair value adjustments on net Sunrise assets from PPA at freenet	810.1	829.3
Other effects of reconciliation	–1.5	5.9
Carrying amount as of 31 December	**810.4**	**809.7**

For the period 1 January 2018 to 31 December 2018, the income statement shows a profit share of 25,027 thousand euros (previous year: 113,198 thousand euros) for equity-accounted investments attributable to the interest in Sunrise; of this figure, 44,260 thousand euros relates to shares of the consolidated profit of Sunrise after tax (previous year: 133,167 thousand euros) and –19,233 thousand euros relates to the subsequent write-down recognised in connection with the shadow purchase price allocation (previous year: –19,969 thousand euros). The decrease in the profit share is mainly attributable to the one-off effect of the Tower deal in the previous year.

With regard to the shares in the consolidated profit after tax of Sunrise, it has to be borne in mind that freenet initially adjusts consolidated profit after tax disclosed by Sunrise by the amount included in this consolidated profit as write-downs as well as deferred tax effects in relation to purchase price allocation on the part of Sunrise. This ensures that these write-downs and these deferred tax effects are not recognised twice, as freenet shows these effects in the “Profit or loss of equity-accounted investments, thereof from subsequent accounting from purchase price allocation”.

In relation to Sunrise, other comprehensive income of 4,604 thousand euros (previous year: –15,813 thousand euros) resulting from currency translation differences with regard to subsequent accounting as well as other comprehensive income of 809 thousand euros (previous year: 3,653 thousand euros) resulting from recognised income taxes (–206 thousand euros) and actuarial gains arising from the accounting for pension plans (1,016 thousand euros) were shown as elements of other comprehensive income in the consolidated statement of comprehensive income.

On 19 April 2018, freenet AG received a dividend payment of 36,912 thousand euros (previous year: 34,409 thousand euros) as a result of the dividend payment of 4.00 CHF per share adopted by the annual general meeting of Sunrise on 11 April 2018. This inflow boosted the cash flows from operating activities.

As of 31 December 2018, the carrying amount of the Group’s equity interest in Sunrise amounted to 810,399 thousand euros (31 December 2017: 809,732 thousand euros). At the balance sheet date the share price of Sunrise amounted to 76.74 euros (31.12.2017: 76.04 euros – source: Bloomberg). As of 31 December 2018, the freenet Group held 11,051,578 shares, as previously.

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

As has been the case in the past, only the share of the profit or loss from the item “Profit or loss of equity-accounted investments” have been used for calculating our key financial performance indicator EBITDA. The write-downs resulting from subsequent accounting for the shadow purchase price allocation do not have a negative impact on Group EBITDA.

17.2. JOINT VENTURES

The consolidated financial statements for the period ending 31 December 2018 include Jestoro GmbH, Hamburg, as an insignificant joint venture with a carrying amount of 1.4 million euros (31 December 2017: 1.3 million euros). In financial year 2018, the net profit/loss of Jestoro GmbH amounted to 0.5 million euros (previous year: –0.9 million euros).

18. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The deferred tax assets and deferred tax liabilities, taking account of the temporary differences in accordance with the liability method, were taxed at an overall rate of 30.40 per cent (previous year: 30.40 per cent).

The following amounts are shown in the consolidated balance sheet:

In EUR '000s	31.12.2018	31.12.2017
Deferred income tax assets	158,094	153,508
Total	**158,094**	**153,508**

The overhang of deferred tax assets for the corporation tax and trade tax group of freenet AG which are recognised (158.1 million euros; previous year: 153.5 million euros) is classified as current (43.7 million euros; previous year: 45.0 million euros) and non-current (114.4 million euros; previous year: 108.5 million euros) as a result of the anticipated use of tax loss carryforwards.

Changes in the deferred income tax assets and deferred income tax liabilities in financial year 2018 are shown in the following table:

In EUR '000s	1.1.2018	Transition to IFRS 15, IFRS 9	Set off in other comprehensive income	Expenses and income from income taxes	31.12.2018
Property, plant and equipment	2,038	0	0	–436	1,602
Intangible assets	–171,474	0	0	–4,463	–175,937
Financial assets	958	0	0	–958	0
Other financial assets	0	–5,449	1,935	–4,029	–7,543
Contract acquisition costs	0	–88,035	0	–4,453	–92,488
Loss carryforwards	288,168	0	0	4,549	292,717
Pension provisions	9,625	0	233	–321	9,537
Other provisions	4,931	–1,581	0	4,417	7,767
Other financial liabilities	0	7,488	0	461	7,949
Trade accounts payable, other liabilities	–1	158,169	0	12,448	170,616
Borrowings	849	0	0	282	1,131
Trade accounts receivable, other assets	18,414	–75,798	–82	209	–57,257
Total	**153,508**	**–5,206**	**2,086**	**7,706**	**158,094**

The expenses and income from income tax amounting to a net income of 7,706 thousand euros (previous year: net expense of 19,870 thousand euros) are shown in the consolidated income statement as deferred income taxes under “Income taxes”. They basically correspond to the sum of the deferred income taxes attributable to continuing and discontinued operations. As in the previous year, income tax expenses and income in 2018 were attributable solely to continuing operations.

The deferred tax assets and deferred tax liabilities developed as follows in financial year 2017:

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

The summarised net change in deferred taxes is shown below:

In EUR '000s	2018	2017
As of 1.1.	**153,508**	**174,172**
Transition to IFRS 15, IFRS 9	–5,206	0
Set off in other comprehensive income	2,086	–794
Tax income (previous years: tax expense)	7,706	–19,870
As of 31.12.	**158,094**	**153,508**

The existing tax loss carryforwards that can be carried forward without any restrictions exceed the sum of the forecast cumulative profits for the next four financial years. Accordingly, a deferred tax asset was only recognised in the consolidated balance sheet to the extent that it is regarded as probable that this asset will indeed be realised. The expected profits are based on the company's forecast for earnings before taxes applicable as at the balance sheet date. As at 31 December 2018, deferred tax assets amounting to 292,717 thousand euros had been recognised in relation to loss carryforwards (previous year: 288,168 thousand euros). Of this figure, 142,924 thousand euros (previous year: 140,635 thousand euros) are attributable to corporation tax loss carryforwards and 149,793 thousand euros (previous year: 147,533 thousand euros) are attributable to trade tax loss carryforwards. Of the figure shown for other loss carryforwards, for which no deferred tax assets had been recognised in the consolidated balance sheet, 1.2 billion euros relate to corporation tax and 0.4 billion euros relate to trade tax (previous year: 1.0 billion euros corporation tax and 0.3 billion euros trade tax). As was the case on the previous year's balance sheet date, there were no unrecognised interest carryforwards as per section 4h (1) sentence 2 of the German Income Tax Act (Einkommensteuergesetz–EStG).

As at 31 December 2018, there are temporary outside basis differences (net equity in accordance with IFRS is higher than the corresponding carrying amounts of investments shown for tax purposes) of 48.3 million euros (previous year: 14.1 million euros). No deferred taxes have been recognised in connection with these differences because they are not expected to be reversed in the fiscal planning period.

19. CONTRACT ACQUISITION COSTS

Capitalised contract acquisition costs amounted to 304,238 thousand euros as of 31 December 2018 (opening balance as of 1 January 2018: 289,589 thousand euros). They relate predominantly to dealer commissions and, to a lesser extent, to employee commissions.

If IFRS 15 had not been applied, the contract acquisition costs shown as of 31 December 2018 would have been 0.

20. INVENTORIES

The inventories are comprised as follows:

In EUR '000s	31.12.2018	31.12.2017
Mobile phones/Accessories	66,858	38,774
Computers/IT products	19,820	19,518
SIM cards	7,492	6,825
Bundles and vouchers	69	59
Other	11,726	11,134
Total	**105,965**	**76,310**

Impairment of 4,915 thousand euros (previous year: 3,666 thousand euros) has been recognised in relation to the year-end inventories.

21. RECEIVABLES, OTHER ASSETS AND OTHER FINANCIAL ASSETS

Receivables, other assets and other financial assets are comprised as follows:

	31.12.2018		
In EUR '000s	Total	Non-current	Current
Trade accounts receivable	306,394	52,480	253,914
Other non-derivative financial assets	22,054	8,320	13,734
	328,448	**60,800**	**267,648**
Other financial assets	33,461	12,290	21,171
Other equity instruments	105,608	105,608	0
Financial assets	**467,517**	**178,698**	**288,819**
Other assets	347,659	127,675	219,984
Prepayments made	6,758	348	6,410
Non-financial assets	**354,417**	**128,023**	**226,394**
Total receivables, other assets and other financial assets	**821,934**	**306,721**	**515,213**

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

The other equity instruments are comprised as follows:

In EUR '000s	31.12.2018	31.12.2017
Equity investment in CECONOMY	104,427	0
Miscellaneous other equity investments	634	273
Silent partner investments	0	500
Other	547	2,759
Total	**105,608**	**3,532**

The freenet Group acquired 9.1 per cent of the ordinary shares (32,633,555) of CECONOMY AG (“CECONOMY”) with effect from 12 July 2018 for a price of 277.4 million euros. As of 31 December 2018, the equity interest in CECONOMY was reported under other financial assets at a carrying amount of 104.4 million euros. Subsequent accounting is at fair value through other comprehensive income. The Group reports the fair value as the market price on the reporting date (closing price on the Frankfurt Stock Exchange).

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

The sum total of trade accounts receivable and other non-derivative financial assets, less loss allowances, amounted to 328,448 thousand euros as at 31 December 2018 (previous year: 551,452 thousand euros). For more information, please refer to the statements in note 33, Information on financial instruments. In the freenet Group, trade accounts receivable are the most significant item in this category. These are due in almost equal proportions from end customers, corporate customers, dealers and sales partners. Other assets and prepayments made of 354,417 thousand euros (previous year: 17,604 thousand euros) consist of non-financial assets as at 31 December 2018.

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

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

The maximum default risk of the trade accounts receivable as at the balance sheet date amounts to 259.5 million euros (previous year: 504.5 million euros) due to existing commercial credit insurance. The maximum default risk in connection with financial assets and other equity instruments corresponds to their carrying amounts.

The following information concerns the age structure of this category of trade accounts receivable and non-derivative financial assets as of the prior-year reporting date of 31 December 2017:

			thereof not impaired and past due for the following periods as of the reporting date		
In EUR '000s	Carrying amount on 31.12.2017	thereof neither impaired nor past due as of the reporting date	less than 90 days	between 90 and 180 days	more than 180 days
Trade accounts receivable	532,781	447,517	14,357	1,472	1,650
Other non-derivative financial assets	18,672	17,520	645	36	181
Total	**551,453**	**465,037**	**15,002**	**1,508**	**1,831**

The loss allowances recognised as at the balance sheet date of 31 December 2017 were attributable to the following categories of receivables:

In EUR '000s	31.12.2017
Collective loss allowances by time period	**130,470**
Thereof on receivables not past due	1,534
Thereof on receivables past due for <90 days	6,780
Thereof on receivables past due for 90 to 180 days	7,972
Thereof on receivables past due for >180 days	114,184
Specific loss allowances	**4,216**
Total loss allowances	**134,686**

The loss allowances recognised as at the reporting date of 31 December 2018 were attributable to the categories of receivables and assets presented below. On this basis, the loss allowances for trade accounts receivable, other financial assets and other receivables and other assets as at 31 December 2018 and 1 January 2018 (with the adoption of IFRS 9) were determined as follows:

On 31 December 2018, loss allowances recognised on receivables, other assets and other financial assets pursuant to IFRS 9:

In EUR '000s	Balance sheet item	Gross carrying amount	Loss allowance	Net carrying amount	Expected loss rate (mathematical) in %
Receivables from end customers – not past due	Trade accounts receivable	120,076	–4,028	116,049	3.4
Receivables from end customers – past due for <90 days	Trade accounts receivable	20,941	–6,630	14,311	31.7
Receivables from end customers – past due for 90 to 180 days	Trade accounts receivable	16,144	–8,215	7,929	50.9
Receivables from end customers – past due for >180 days	Trade accounts receivable	149,620	–133,621	15,999	89.3
Receivables from business partners	Trade accounts receivable	155,699	–3,593	152,106	2.3
Other non-derivative financial assets (Stage 1)	Other financial assets	22,773	–720	22,053	
Other financial assets					
Thereof consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option) (Stage 1)	Other financial assets	35,061	–1,600	33,461	
Other assets					
Thereof contract assets from contracts with customers (Mobile Communications)	Other receivables and other assets	151,741	–5,553	146,188	3.7
Thereof consideration payable under IFRS 15 (Mobile Communications/tariff) (Level 1)	Other receivables and other assets	137,655	–4,908	132,747	3.6
Thereof financial assets from contracts with customers (TV)	Other receivables and other assets	40,603	0	40,603	

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On 1 January 2018, loss allowances recognised on receivables, other assets and other financial assets pursuant to IFRS 9:

In EUR '000s	Balance sheet item	Gross carrying amount	Loss allowance	Net carrying amount	Expected loss rate (mathematical) in %
Receivables from end customers – not past due	Trade accounts receivable	109,738	−3,391	106,347	3.1
Receivables from end customers – past due for <90 days	Trade accounts receivable	23,801	−7,180	16,621	30.2
Receivables from end customers – past due for 90 to 180 days	Trade accounts receivable	17,516	−8,872	8,644	50.7
Receivables from end customers – past due for >180 days	Trade accounts receivable	153,065	−137,585	15,480	89.9
Receivables from business partners	Trade accounts receivable	170,647	−3,460	167,187	2.0
Other non-derivative financial assets (Stage 1)	Other financial assets	19,286	−615	18,671	
Other financial assets					
Thereof consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option) (Stage 1)	Other financial assets	19,978	−2,055	17,923	
Other assets					
Thereof contract assets from contracts with customers (Mobile Communications)	Other receivables and other assets	131,741	−5,342	126,399	4.1
Thereof consideration payable under IFRS 15 (Mobile Communications/tariff) (Level 1)	Other receivables and other assets	116,692	−4,721	111,971	4.0

We provide the following information on the development loss allowances in the 2018 financial year:

In EUR '000s	Trade accounts receivable (simplified model)	Other financial assets (Stage 1)	Other receivables and other assets (contract assets)	Total
Loss allowance as at 31.12.2017 – calculated under IAS 39	**134,071**	**615**	**0**	**134,686**
Amounts restated retrospectively through the opening balance of the consolidated balance sheet result	26,417	2,055	10,063	38,535
Opening loss allowance on 1 January 2018 – calculated under IFRS 9	**160,488**	**2,670**	**10,063**	**173,221**
Net change in loss allowances in 2018	−4,401	−350	398	−4,353
Loss allowance as at 31.12.2018 – calculated under IFRS 9 (of which specific loss allowances was 3,281, see following table)	**156,087**	**2,320**	**10,461**	**168,868**

The following overview shows the development in specific loss allowances.

In EUR '000s	2017
Development of specific loss allowances on trade accounts receivable	
As of 1.1.	**5,745**
Addition	1,708
Utilisation	2,445
Reversal	1,407
As of 31.12.	**3,601**
Development of specific loss allowances on other non-derivative assets	
As of 1.1.	**794**
Addition	72
Utilisation	0
Reversal	251
As of 31.12.	**615**

The specific loss allowances on trade accounts receivable at both reporting dates mainly related to receivables from distribution partners in the Mobile Communications segment.

The breakdown of **non-current other financial assets** is as follows:

In EUR '000s	31.12.2018	Opening balance sheet pursuant to IFRS 15, IFRS 9 01.01.2018	31.12.2017
Interest in CECONOMY	104,427	0	0
Consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option)	12,290	17,170	0
Other	9,501	7,945	7,945
Total	**126,218**	**25,115**	**7,945**

Current other financial assets are comprised as follows:

In EUR '000s	31.12.2018	Opening balance sheet pursuant to IFRS 15, IFRS 9 01.01.2018	31.12.2017
Consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option)	21,171	753	0
Other	13,734	14,258	14,258
Total	**34,905**	**15,011**	**14,258**

Prior to the application of IFRS 15, non-current other financial assets would have amounted to 113,928 thousand euros and current other financial assets would have totalled 13,733 thousand euros as at 31 December 2018.

The breakdown of **non-current other receivables and other assets** is as follows:

In EUR '000s	31.12.2018	Opening balance sheet pursuant to IFRS 15, IFRS 9 01.01.2018	31.12.2017
Contract assets from contracts with customers (Mobile Communications)	51,040	43,895	0
Other assets from contracts with customers (TV)	37,014	0	0
Consideration payable under IFRS 15 (Mobile Communications/tariff)	34,871	31,826	0
Other	5,098	17,344	9,500
Total	**128,023**	**93,065**	**9,500**

Current other receivables and other assets are comprised as follows:

In EUR '000s	31.12.2018	Opening balance sheet pursuant to IFRS 15, IFRS 9 01.01.2018	31.12.2017
Contract assets from contracts with customers (Mobile Communications)	95,148	82,504	0
Consideration payable under IFRS 15 (Mobile Communications/tariff)	97,876	80,145	0
Other assets from contracts with customers (TV)	3,589	0	0
Other	29,781	12,416	4,572
Total	**226,394**	**175,065**	**4,572**

Prior to the application of IFRS 15, non-current other receivables and other assets would have amounted to 42,112 thousand euros, and current other receivables and other assets would have totalled 33,371 thousand euros as at 31 December 2018.

Non-current trade accounts receivable are comprised as follows:

In EUR '000s	31.12.2018	Opening balance sheet pursuant to IFRS 15, IFRS 9 01.01.2018	31.12.2017
Receivables from end customers from mobile phone upgrade option (Mobile Communications)	52,328	46,198	78,923
Other	152	158	158
Total	**52,480**	**46,356**	**79,081**

Current trade accounts receivable are comprised as follows:

In EUR '000s	31.12.2018	Opening balance sheet pursuant to IFRS 15, IFRS 9 01.01.2018	31.12.2017
Receivables from network operators, dealers, distributors, hardware manufacturers (Mobile Communications)	121,009	131,308	262,802
Receivables from end customers (Mobile Communications), without mobile phone upgrade option	68,538	72,912	99,474
Receivables from end customers from mobile phone upgrade option (Mobile Communications)	30,054	24,863	52,584
Receivables from end customers (TV and Media, and Other/Holding)	3,368	3,119	3,119
Other	30,945	35,721	35,721
Total	**253,914**	**267,923**	**453,700**

Prior to the application of IFRS 15, non-current trade accounts receivable would have amounted to 89,547 thousand euros and current trade accounts receivable would have totalled 425,380 thousand euros as at 31 December 2018.

22. LIQUID ASSETS

Liquid assets are comprised as follows:

In EUR '000s	31.12.2018	31.12.2017
Cash at bank, cheques and cash in hand	126,332	322,816
Total	**126,332**	**322,816**

23. CURRENT INCOME TAX ASSETS

The current income tax assets mainly relate to receivables due from former shareholders in connection with tax clauses from acquisitions.

24. EQUITY

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

24.1. SHARE CAPITAL

The company's issued share capital is unchanged compared with the previous year and amounts to 128,061 thousand euros. The share capital consists of 128,061,016 registered no-par-value shares, each with a theoretical nominal value of 1.00 euro. The entire share capital is fully paid up. All shares have the same rights. As in the previous year, 50,000 of these shares are held by mobilcom-debitel Logistik GmbH, Schleswig, which in turn is wholly owned by the company, unchanged compared with the previous year at 100 per cent. As was the case in the previous year, the treasury shares were deducted from the capital reserve at their acquisition cost of 50 thousand euros.

Pursuant to section 71 (1) no. 8 of the German Stock Corporation Act (Aktiengesetz – AktG), the Executive Board has been authorised by the annual general meeting on 12 May 2016 to purchase its own shares amounting to a total of 10 per cent of the share capital existing at the time of the resolution on 12 May 2016 with the approval of the Supervisory Board or – if this amount is lower – the share capital existing at the time this authorisation is exercised accordingly, for any permissible purpose within the legal restrictions. The authorisation is valid until 11 May 2021. In financial year 2018, the Executive Board made no use of this authorisation.

In addition to the authorisation pursuant to section 71 (1) no. 8 AktG, the Executive Board may additionally use equity derivatives to acquire its own shares. This does not result in an increase in the maximum volume of shares permitted to be purchased; it only provides another alternative to acquiring its own shares.

24.2. CAPITAL RESERVE

As was the case in the previous year, major components of the capital reserve reported as at 31 December 2018 originate from the capital increase in 2008 due to the acquisition of the debitel Group (349.8 million euros), as well as the merger between mobilcom AG and freenet.de AG to form freenet AG, which became effective in 2007 along with the related acquisition of the minority interest in the former freenet.de AG (134.7 million euros).

24.3. CUMULATIVE OTHER COMPREHENSIVE INCOME

The cumulative other comprehensive income essentially consists of actuarial gains and losses relating to the recognition of pension schemes in accordance with IAS 19 as well as currency translation differences relating to the subsequent accounting for equity-accounted investments.

24.4. CONSOLIDATED NET RETAINED PROFITS

The consolidated net retained profits for financial year 2018 comprise the cumulative consolidated profit attributable to freenet AG shareholders, less the dividend payments. In the 2018 financial year, a dividend of 1.65 euros per no par value share, making a total of 211.2 million euros, was paid out for financial year 2017.

24.5. NON-CONTROLLING INTERESTS

The non-controlling interests in equity are mainly (16,113 thousand euros; 31 December 2017: 27,592 thousand euros) attributable to the 49.99 per cent (31 December 2017: 49.99 per cent) interest held by non-controlling shareholders in EXARING. We provide the following information regarding the assets and liabilities of EXARING as of 31 December 2018, before the consolidation of liabilities, income and expenses, and also inclusive of the effects of the subsequent accounting for the purchase price allocation:

EXARING In EUR '000s	31.12.2018	31.12.2017
Non-current assets	66,200	70,655
Current assets	1,964	15,914
Total assets	**68,164**	**86,569**
Non-current liabilities	15,366	17,570
Current liabilities	10,775	4,014
Total liabilities	**26,141**	**21,584**
Net assets	**42,023**	**64,985**
Thereof: non-controlling interests in equity	**16,113**	**27,592**

The net result of EXARING amounted to –17,917 thousand euros in financial year 2018 (previous year: –15,019 thousand euros).

24.6. AUTHORISED CAPITAL

New authorised capital was created at the annual general meeting held on 17 May 2018 (Authorised Capital 2018). Accordingly, the Executive Board, with the approval of the Supervisory Board, is authorised to increase the share capital once or several times by issuing new shares against contributions in cash or in kind up to an overall maximum sum of 12.8 million euros until 3 June 2023. The full wording of the Executive Board's authorisation was published in the Federal Gazette under agenda item 6 of the invitation to the 2018 annual general meeting.

New authorised capital was created at the annual general meeting held on 12 May 2016 (Authorised Capital 2016). Accordingly, the Executive Board, with the approval of the Supervisory Board, is authorised to increase the share capital once or several times by issuing new shares against contributions in cash or in kind up to an overall maximum sum of 12.8 million euros until 1 June 2021. The full wording of the Executive Board's authorisation was published in the Federal Gazette under agenda item 7 of the invitation to the 2016 annual general meeting. In financial year 2018, the Executive Board made no use of this authorisation.

24.7. CONDITIONAL CAPITAL

In accordance with the resolution by the annual general meeting held on 12 May 2016, the company's share capital is subject to a conditional capital increase of up to 12.8 million euros by issuing up to 12,800,000 new no par value registered shares, with each individual no par value share accounting for 1.00 euro of the share capital (Conditional Capital 2016). The purpose of the conditional capital increase is to enable registered no par value shares to be granted to the holders or creditors of convertible and/or bonds with warrants which are issued on the basis of the authorisation as adopted by the annual general meeting of 12 May 2016 under agenda item 10, letter A), and which provides a conversion or option right, or the right to the delivery of shares in relation to the registered no par value shares of the company, or which establishes a conversion or option obligation in relation to these shares.

The issue amount for the new no par value registered shares is subject to regulations set out in section 4 (7) of the articles of association. The conditional capital increase is to be carried out only to the extent to which conversion or option rights or a right to delivery of shares are utilised, or to which holders or creditors with a conversion or option obligation meet their conversion or option obligation and if treasury shares are not used for settlement or if the company does not provide a cash settlement. The new registered no par value shares participate in the profits from the beginning of the financial year in which they are created. The Executive Board is authorised to determine the further details for carrying out the conditional capital increase. In financial year 2018, the Executive Board made no use of this authorisation.

25. EMPLOYEE INCENTIVE PROGRAMMES

25.1. FREENET AG LTIP PROGRAMME – PROGRAMME 1

Programme 1, which had been granted to members of the Executive Board in 2011, was terminated in 2015 when paid out to the beneficiaries.

25.2. FREENET AG LTIP PROGRAMME – PROGRAMME 2

On 26 February 2014, agreements concerning the contracts of employment that grant new LTIPs (hereinafter referred to as “Programme 2”) were entered into with the members of the Executive Board.

Again, in addition to the annual target agreement, a five-year target agreement was signed in which EBITDA in financial years 2014 to 2018 (for Mr Vilanek) and EBITDA in financial years 2015 to 2019 (for Mr Preisig and Mr Esch) was designated as the target parameter. In the event of acquisitions which are financed by the issuing of new shares, the earnings targets are adjusted proportionately to the effective net dilution effect on the date on which new shares are issued. A basic amount was specified in each beneficiary’s employment contract for this remuneration component; this basic amount is entered in a virtual account for the Executive Board member in question as a positive or negative amount as described below and in accordance with target attainment in each financial year, and paid out in annual instalments depending on future performance, provided that account shows a credit balance. Basic amounts totalling 1,050 thousand euros in each case were specified for each financial year for the beneficiaries.

If the Group EBITDA target is attained in a financial year, 100 per cent of the basic amount is credited to the virtual account. If the Group EBITDA defined for 120 per cent target attainment is achieved, 200 per cent of the basic amount is credited to the virtual account. Even if the 120 per cent target is exceeded, no more than 200 per cent of the basic amount is credited to the virtual account. When the respective target attainment is being determined, the Supervisory Board is entitled to reward exceptional performance and success by setting a notional Group EBITDA amount. If such a step results in the target attainment of 120 per cent being exceeded in arithmetical terms, the Supervisory Board may also set a higher level for target attainment, bearing in mind that a maximum of 300 per cent of the basic amount may be credited to the virtual account. If the target attainment for the defined Group EBITDA is between the fixed 90 per cent target and 100 per cent, a percentage of the basic amount which is reduced on a linear basis is credited to the virtual account; if only 90 per cent of the target is attained, nothing is credited to the virtual account for the financial year in question. If Group EBITDA fails to meet the 90 per cent target, a negative amount of up to 200 per cent of the basic amount (if Group EBITDA is 80 per cent of the target or less) is debited to the virtual account. For the purpose of posting the (positive or negative) number of phantom shares in the virtual account, sub-accounts are maintained in the LTIP account bearing the designation of the financial year for which the number posted was ascertained.

The amount shown on the virtual account (known as the “allotment amount” as the product of the basic amount and the basic amount multiplier) is converted into phantom shares. This calculation is based on a reference share price, i.e. the average Xetra closing price on the 20 stock exchange trading days after the day on which the consolidated financial statements for the relevant financial year are published.

Starting from the end of the second financial year to benefit from the programme (for Mr Vilanek therefore starting from financial year 2016, for Messrs Preisig and Esch starting from financial year 2017), and in each case after the crediting to the virtual account of a (positive or negative) amount for the financial year ended, the respective beneficiary is entitled to have 25 per cent of the account balance paid out annually within a time frame of three months from the day which is 20 stock market trading days after the day on which the consolidated financial statements were published, provided that the account shows a credit balance. For this purpose, the respective balance of phantom shares is, in turn, converted into cash on the basis of the average Xetra closing price on the 20 stock exchange trading days after the day on which the consolidated financial statements for the relevant financial year are published. The increase in the share price is taken into account only up to a price of 50.00 euros (cap). Irrespective of that, the gross payout amount is restricted additionally in each financial year as follows: the maximum gross amount to be paid out per financial year corresponds to 25 per cent of 500 per cent of the number of phantom shares in the respective sub-account, multiplied by the applicable share price on which the calculation of the allotment amount when the respective post was made in the sub-account was based.

For the purpose of conversion into phantom shares, dividend payments, as well as circumstances for which dilution protection stipulations are applicable in the case of marketable financial instruments dependent on the share value, must be included in the calculations. If the virtual account shows a negative balance at the point at which a payment is due to be made, the Executive Board member in question will receive a (further) payment only when the negative amount has been cancelled out by success in attaining the relevant target parameters for the subsequent year or years.

The obligation arising from the LTIP programme was determined at fair value with the help of a recognised measurement model pursuant to IFRS 2. The main parameters in this measurement model are the share price of freenet AG as of the balance sheet date, the volatility of share prices in line with the remaining life of the LTIP programme, the estimate of target attainment for the respective financial year as well as the estimate of the discount rate. The graded vesting method is used; according to this method, the personnel expenses for all Executive Board members are incurred from the date on which the programme is granted, i.e. in this case as from 26 February 2014.

The development of the holdings in the virtual accounts for each Executive Board member for Programme 2 is shown in the following table:

PROGRAMME 2	Number of phantom shares 31.12.2017	Additions	Disposal by payout	Number of phantom shares 31.12.2018	Provision 31.12.2018 in EUR '000s
Christoph Vilanek	118,875	43,582	0	162,457	4,109
Joachim Preisig	31,771	23,772	0	55,543	1,781
Stephan Esch	28,241	15,848	0	44,089	1,486
Total	**178,887**	**83,202**	**0**	**262,089**	**7,376**

The actual target attainment defined for 2017 is 120 per cent. This means that 200 per cent of the base amount would be used for payment into the virtual account for Mr Vilanek, Mr Preisig and Mr Esch. This is equivalent to 1,100 thousand euros for Mr Vilanek, 600 thousand euros for Mr Preisig and 400 thousand euros for Mr Esch. After the consolidated financial statements for 2017 had been approved, this amount was converted into phantom shares for financial year 2017 based on an average share price of 25.24 euros, with the result that a total of 83,202 phantom shares was credited to the virtual accounts of the Executive Board members. Target attainment for the financial year ended 2018 will be 120 per cent.

In the past financial year, a severance agreement was entered into with Mr Preisig, under which his employment on the Executive Board terminated on 31 December 2018. The severance agreement states that Mr Preisig will not be awarded any more phantom shares for financial year 2019. To compensate for any resulting disadvantage, Mr Preisig will receive a severance award of 80 thousand euros payable in 2019, which is included in the provision for LTIP Programme 2 as at 31 December 2018. With regard to the further severance payment to which Mr Preisig is entitled under the above-mentioned severance agreement, we refer to our explanation in note 34.2, Executive Board remuneration.

In financial year 2018, Programme 2 resulted in a decrease in personnel expenses by 1,307 thousand euros due to a reduction in the provision from 8,683 thousand euros (as of 31 December 2017) to 7,376 thousand euros as of 31 December 2018. There were no payments under Programme 2 in financial year 2018.

25.3. FREENET AG LTIP PROGRAMME – PROGRAMME 3

When the employment contract was extended (with Mr Vilanek; granted on 4 April 2018) and the appointment to the Executive Board made (for both Mr v. Platen and Mr Fromme with effect from 1 June 2018; for Mr Arnold with effect from 1 January 2019), supplemental agreements to the employment contracts granting new LTIPs were entered into with the aforementioned members of the Executive Board (hereinafter referred to as “Programme 3”).

In addition to the annual target agreement, a five-year target agreement (in relation to Mr Vilanek), a three-year and seven-month target agreement (in relation to Mr v. Platen and Mr Fromme) and a three-year target agreement (in relation to Mr Arnold) was entered into, designating as the target metric target attainment from the respective annual variable remuneration for financial years 2019 to 2023 (for Mr Vilanek), financial years 2018 (prorated as of the date of appointment to the Executive Board) to 2021 (for Mr v. Platen and Mr Fromme) and financial years 2019 to 2021 (for Mr Arnold). A basic amount was specified in each beneficiary’s employment contract for this remuneration component; this basic amount is entered in a virtual account for the Executive Board member in question as a positive amount as described below and in accordance with the target attainment in each financial year, and paid out in accordance with the terms of the payout described in the text below, depending on future performance. Basic amounts totalling 1,400 thousand euros (of which 650 thousand euros for Mr Vilanek and 250 thousand euros in each case for Mr v. Platen, Mr Fromme and Mr Arnold) were specified for the beneficiaries for each full financial year.

If the level of target attainment of the annual variable target agreement for a financial year is 100 per cent, 100 per cent (as the basic amount multiplier) of the basic amount is credited to the virtual account. At most (if the level of target attainment is 125 per cent or above), 150 per cent of the basic amount is credited to the virtual account. If the level of target attainment is less than 70 per cent, no phantom shares are credited for the financial year in question. If target attainment is between 70 and 125 per cent, linear interpolation is used. For the purpose of posting the number of phantom shares in the virtual account, sub-accounts are maintained in the LTIP account bearing the designation of the financial year for which the number posted was ascertained.

The amount shown on the virtual account (known as the “allotment amount” as the product of the basic amount and the basic amount multiplier) is converted into phantom shares. This calculation is based on a reference share price, i. e. the average Xetra closing price in the twelve months of the relevant target period.

Irrespective of the level of target attainment calculated above, phantom shares are only entered for the most recent financial year covered by this LTIP programme if more than 90 per cent of a defined Group EBT target (for all Executive Board members, this relates to Group EBT achieved in financial year 2022) is attained. The actual number of phantom shares to be entered for this most recent financial year covered by the programme is calculated as follows: if the EBT target is attained precisely, the method of calculation described above is retained. If the EBT target is exceeded or missed, the number of phantom shares to be entered is increased or reduced as follows: if 105 per cent or more of the EBT target is attained, the number for entry calculated above is doubled. If 90 per cent or less of the EBT target is attained, the number for entry is reduced to zero. In each case, a value is linearly interpolated between the aforementioned levels of attainment of the EBT target.

A beneficiary is entitled to payouts from the LTIP if and to the extent that the EBT target is attained. The applicable reference value for this is Group EBT for financial year 2022 for all Executive Board members who are beneficiaries of Programme 3. If the Group EBT target for 2022 is attained precisely, the number of phantom shares described above remains unchanged. If the EBT target for 2022 is exceeded or missed, the number of phantom shares is doubled at most (target attainment is 105 per cent or more) or, in the worst-case scenario, set to 0 (target attainment is 90 per cent or less). In each case, a value is linearly interpolated between the aforementioned levels of attainment of the EBT target. The Executive Board member may request that the resulting payout be disbursed at the earliest when attainment of the EBT target is determined at the beginning of 2023, but not before the end of the holding period for the number entered.

About the holding period: as a rule, the number entered must be held by the Executive Board member for three years as of 1 January of the year in which the number of phantom shares is entered into the LTIP account; if the employment contract is not extended at the end of the regular contract term, the holding period instead ends at the latest 18 months after the penultimate target period during the contract term, i. e. six months after the end of the contract term.

About the exercise period: at the end of the holding period, but not before attainment of the EBT target is determined, the Executive Board member is entitled during a period of two years as of the end of the holding period to request that the payout be disbursed. The payout may also be requested in partial amounts. If no payout is requested or if a payout is not requested within the specified period, the phantom shares concerned expire.

The maximum amount payable in each case is the number of phantom shares payable as calculated in accordance with the aforementioned principles, multiplied by the payout multiplier, plus the dividend. The payout multiplier is the average of the Xetra closing prices on all trading days during the twelve months before the date on which the payout is requested. Irrespective of share price performance, the payout multiplier is in each case capped at 50 euros. The dividend is the sum total of the amounts of the gross dividend per share disbursed in the period between the beginning of the holding period for the number entered and the date on which the payout is requested, multiplied by the number of phantom shares payable. When calculating this dividend, however, an amount of 20 euros per phantom share payable may not be exceeded (dividend cap). For the last scheduled financial year under the employment contract, for which phantom shares are only entered if the EBT target is attained, the Executive Board member is only entitled to payouts from the LTIP account if and to the extent that Group EBT for financial year 2023 exceeds Group EBT for financial year 2022 by at least 1.5 per cent.

Standard market anti-dilution provisions apply, i. e. in the event of a share split, a share consolidation or a capital increase from retained earnings where new shares are issued, for example, the number of phantom shares in the LTIP account is adjusted accordingly.

The obligation arising from the LTIP programme was determined at fair value with the help of a recognised measurement model pursuant to IFRS 2. The main parameters in this measurement model are the share price of freenet AG as of the balance sheet date, the volatility of share prices in line with the remaining life of the LTIP programme, the estimate of target attainment for the respective financial year as well as the estimate of the discount rate. The graded vesting method is used; according to this method, the personnel expenses for all Executive Board members are incurred from the date on which the programme is granted.

As at 31 December 2018, there were no phantom shares in the LTIP accounts of the Executive Board members who are beneficiaries of Programme 3.

In financial year 2018, Programme 3 resulted in personnel expenses of 988 thousand euros; these were recognised as a provision in the amount of 988 thousand euros as at 31 December 2018.

25.4. LTIP PROGRAMME FOR SENIOR EXECUTIVES – PROGRAMME 4

In January 2016, freenet AG and two other group companies granted long-term variable salary elements to senior executives below the Executive Board level (referred to in the following as “Programme 4”).

Programme 4 is based on Group EBITDA for financial years 2016 to 2020.

An LTIP account is maintained for each vested employee. LTIP values totalling 2,700 thousand euros were originally specified when originally granted. On 31 December 2015, the LTIP value was converted on one occasion to a number of LTIP shares by division by the relevant share price. The reference share price was defined as the average Xetra closing price of all stock exchange trading days of December 2015, namely 30.69 euros. Overall, this resulted in an LTIP number of 87,976 phantom shares across all vested employees.

It is possible for payments to be made out of the non-interest-bearing LTIP accounts depending on the attainment of defined targets. The target for a specific financial year (2016 to 2020) is deemed to have been attained when the amount of Group EBITDA for the relevant financial year equals or exceeds the guidance. The guidance is the forecast for Group EBITDA communicated to the capital market by the Executive Board for the respective financial year. If the target for a specific financial year is missed, any surplus amount relating to the target applicable for a subsequent financial year can be used to retroactively compensate for this failure. However, the maximum target attainment is defined as 100 per cent in each case. The respective target attainment is determined immediately after approval of the audited consolidated financial statements by the Supervisory Board of freenet AG.

In each financial year, starting in 2017 for financial year 2016, the vested employees are able to receive the payment from the LTIP account in a window of three months. If the target has been attained in the respective financial year, and if the beneficiary wishes to receive payment, the number of LTIP shares is multiplied by the payment element specified for the financial year and the payment factor. The payout percentages for financial years 2016 and 2017 were set at 15 per cent, for financial year 2018 at 20 per cent and for financial years 2019 and 2020 at 25 per cent. The payment factor is the average Xetra closing price of the 20 stock exchange trading days starting with the first stock exchange trading day after the day on which the consolidated financial statements for the relevant financial year are published. Any dividend payments have to be taken into consideration for determining the payment factor and determining the number of phantom shares, and the standard dilution protection regulations are applicable.

If a vested employee does not request a payment in the annual three-month exercise window, this request can only be subsequently exercised in the same period of the respective following year. In the event of payment, the share price performance is only taken into consideration up to a share price of 50.00 euros (cap).

The obligation arising from Programme 4 was determined at fair value in accordance with the help of a recognised measurement model pursuant to IFRS 2. The main parameters in this measurement model are the share price of freenet AG as of the balance sheet date, the volatility of share prices in line with the remaining life of the LTIP programme, the estimate of target attainment for the respective financial year, as well as the estimate of the discount rate. The graded vesting method is used; according to this method, personnel expenses for all vested employees are incurred from the date on which the programme is granted, i.e. in this case as of January 2016.

The development of the holdings in the virtual accounts for Programme 4 is shown in the following table:

PROGRAMME 4	Number of phantom shares 01.01.2018	Disposal by exit	Disposal by payout	Number of phantom shares 31.12.2018	Provision 31.12.2018 in EUR '000s
Various beneficiaries	53,193	17,107	10,264	25,822	274

The target for financial year 2017 was achieved. The target for financial year 2018 was also achieved.

In 2018 there were payments of 265 thousand euros (previous year: 355 thousand euros).

In financial year 2018, Programme 4 resulted in a reduction in personnel expenses of 316 thousand euros due to a reversal of the provision in the amount of 581 thousand euros, less payments of 265 thousand euros.

25.5. OTHER EMPLOYEE INCENTIVE PROGRAMMES

The Group has a further employee incentive programme, which was recognised as a provision in the amount of 1,307 thousand euros as at 31 December 2018 (previous year: 896 thousand euros). Under the terms of the programme, the employees were granted phantom shares which are earned in annual tranches up to 2020. When the programme is concluded in 2020, the phantom shares will be paid out in the amount of the pro rata enterprise value.

26. TRADE ACCOUNTS PAYABLE, OTHER LIABILITIES AND DEFERRALS, AND OTHER FINANCIAL LIABILITIES

Trade accounts payable, other liabilities and deferrals, and other financial liabilities are comprised as follows:

	31.12.2018		
In EUR '000s	Total	Non-current	Current
Trade accounts payable	523,174	0	523,174
Other non-derivative financial liabilities	120,629	69,462	51,167
	643,803	**69,462**	**574,341**
Other financial liabilities	237,176	237,176	0
Financial liabilities	**880,979**	**306,638**	**574,341**
Other liabilities and deferrals	25,131	5,876	19,275
Prepayments received	527,114	110,046	417,068
Non-financial liabilities	**552,245**	**115,922**	**436,343**
Total trade accounts payable, other liabilities and deferrals, and other financial liabilities	**1,433,224**	**422,560**	**1,010,684**

	31.12.2017		
In EUR '000s	Total	Non-current	Current
Trade accounts payable	517,276	0	517,276
Other non-derivative financial liabilities	121,138	72,017	49,121
	638,414	**72,017**	**566,397**
Other financial liabilities	260,201	260,201	0
Financial liabilities	**898,615**	**332,218**	**566,397**
Other liabilities and deferrals	6,266	0	6,266
Prepayments received	75,576	0	75,576
Non-financial liabilities	**81,842**	**0**	**81,842**
Total trade accounts payable, other liabilities and deferrals, and other financial liabilities	**980,457**	**332,218**	**648,239**

As at 31 December 2018, there were no liabilities vis-à-vis related parties; please refer to note 34, Related party transactions.

Of the figure shown for liabilities, 1,010,684 thousand euros (previous year: 648,239 thousand euros) are due within the next 12 months. Liabilities amounting to 277,793 thousand euros (previous year: 159,819 thousand euros) have a maturity of between one year and five years; liabilities of 144,767 thousand euros (previous year: 172,399 thousand euros) are due in more than five years.

Of the figure shown for the liabilities, which is combined under financial liabilities, 590,244 thousand euros (previous year: 566,397 thousand euros) come due within one year, 167,747 thousand euros (previous year: 159,819 thousand euros) come due in between one and five years, and 144,767 thousand euros (previous year: 172,399 thousand euros) come due more than five years after the balance sheet date.

The finance lease liabilities shown as of the balance sheet date concern a master lease agreement with an infrastructure provider regarding the use of radio infrastructures (such as towers and masts) at radio locations and other sites, 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 non-current finance lease assets are shown at 248,065 thousand euros (previous year: 275,628 thousand euros) for technical equipment and machinery as of 31 December 2018.

The interest portions of future lease instalments and the **present values of total finance lease liabilities** break down as follows:

In EUR '000s	31.12.2018	31.12.2017
Within one year	33,744	33,370
Between one and five years	138,786	137,254
More than five years	145,072	180,348
	317,602	**350,972**
Interest portion of future lease instalments		
Within one year	−10,719	−11,616
Between one and five years	−32,833	−36,965
More than five years	−13,849	−20,436
Present values of total finance lease liabilities	**260,201**	**281,955**

The maturities of the total **finance lease** liabilities are shown below:

In EUR '000s	31.12.2018	31.12.2017
Within one year	23,025	21,754
Between one and five years	105,953	100,289
More than five years	131,223	159,912
Total	**260,201**	**281,955**

The figure disclosed in the balance sheet corresponds to the present value of the contractual minimum lease payments. The interest rate used as the basis for recognising the finance lease liabilities resulting from this is 4.12 per cent.

Current trade accounts payable break down as follows:

In EUR '000s	31.12.2018	Opening balance pursuant to IFRS 15, IFRS 9 01.01.2018	31.12.2017
Liabilities to network operators, dealers, distributors, hardware manufacturers (Mobile Communications)	307,359	251,949	383,443
Liabilities to sales partners from contracts with customers	84,541	70,078	0
Finance lease commitments (DFMG)	23,025	21,754	21,754
Obligations from distribution rights	29,750	35,065	35,065
Other	78,499	77,014	77,014
Total	**523,174**	**455,860**	**517,276**

Prior to the application of IFRS 15, current trade accounts payable would have totalled 576,590 thousand euros as at 31 December 2018.

Current other financial liabilities are comprised as follows:

In EUR '000s	31.12.2018	Opening balance sheet pursuant to IFRS 15, IFRS 9 01.01.2018	31.12.2017
Personnel obligations	18,040	18,958	18,958
Refund liabilities	22,225	21,528	21,528
Other	10,902	8,635	8,635
Total	**51,167**	**49,121**	**49,121**

Non-current other financial liabilities are comprised as follows:

In EUR '000s	31.12.2018	Opening balance sheet pursuant to IFRS 15, IFRS 9 01.01.2018	31.12.2017
Finance lease commitments (DFMG)	237,176	260,200	260,200
Obligations from distribution rights	29,750	59,500	59,500
Liabilities to sales partners from contracts with customers	26,148	24,632	0
Obligations from put options	13,543	12,518	12,518
Other	21	0	0
Total	**306,638**	**356,850**	**332,218**

Prior to the application of IFRS 15, non-current other financial liabilities would have amounted to 280,490 thousand euros as at 31 December 2018.

Current other liabilities and deferrals are comprised as follows:

In EUR '000s	31.12.2018	Opening balance sheet pursuant to IFRS 15, IFRS 9 01.01.2018	31.12.2017
Deferred income from bonuses and commissions received from network operators	344,885	331,178	0
Deferred income from customer credit balances, Mobile Communications	51,087	51,702	51,702
Liabilities to customers from contracts with customers	15,903	10,464	0
Other	24,468	30,140	30,140
Total	**436,343**	**423,484**	**81,842**

Prior to the application of IFRS 15, current other liabilities would have amounted to 75,555 thousand euros as at 31 December 2018.

Non-current other liabilities and deferrals are comprised as follows:

In EUR '000s	31.12.2018	Opening balance sheet pursuant to IFRS 15, IFRS 9 01.01.2018	31.12.2017
Deferred income from bonuses and commissions received from network operators	110,046	104,441	0
Liabilities to customers from contracts with customers	5,876	4,132	0
Total	**115,922**	**108,573**	**0**

Prior to the application of IFRS 15, non-current other liabilities and deferrals would have amounted to 0 as at 31 December 2018.

27. CURRENT INCOME TAX LIABILITIES

Current income tax liabilities consist mainly of anticipated additional corporation tax and trade tax payments for previous financial years.

28. BORROWINGS

Borrowings are structured as follows:

In EUR '000s	31.12.2018	31.12.2017
Non-current		
Liabilities from promissory notes	1,091,766	1,060,637
Liabilities to banks	607,658	605,364
Total	**1,699,424**	**1,666,001**
Current		
Liabilities from promissory notes	22,405	6,378
Liabilities to banks	1,071	767
Total	**23,476**	**7,145**

In December 2018, freenet AG increased the total amount of the existing syndicated bank loan from the original 610.0 million euros to 910.0 million euros. The term was extended until at least 2023. The increased bank loan of 910.0 million euros consists of an amortizing loan of 610.0 million euros due upon financial maturity and a revolving credit facility for 300.0 million euros, which had not been drawn down as at the reporting date. Both tranches are still floating-rate tranches. There were no changes in interest rates or covenants.

The loan which is due upon final maturity with a nominal amount of 610.0 million euros is shown, less fees, in an amount of 608.6 million euros under liabilities to banks (thereof non-current: 607.7 million euros, thereof current: 0.9 million euros).

In addition, in December 2018, freenet AG placed a promissory note with institutional investors. This falls due at maturity and comprises four tranches totalling 100.0 million euros. Two tranches with a nominal value of 76.5 million euros have a five-year term with an initial margin of 1.20 per cent. Two further tranches with a nominal value of 23.5 million euros have a seven-year term and carry an initial margin of 1.30 per cent.

The promissory notes from the years 2015, 2016 and 2018 with a total nominal amount of 1,110.0 million euros (31.12.2017: 1,064.5 million euros) are shown, after fees, with an amount of 1,114.2 million euros in liabilities from promissory notes (thereof non-current: 1,091.8 million euros, thereof current: 22.4 million euros). In the 2018 financial year, the liabilities from the 2012 promissory note loan in the amount of 54.5 million euros were repaid in full ahead of schedule.

Net debt amounted to 644.0 million euros as at 31 December 2018 (31 December 2017: 510.0 million euros). In the case of this indicator, net debt are reduced by the liquid assets and the interest in the market value of Sunrise (11,051,578 shares multiplied by the closing price of 76.74 euros) and of CECONOMY (32,633,555 shares multiplied by the closing price of 3.20 euros) as at 31 December 2018. Net debt is a non-GAAP figure which is used by management for managing the financing structure of the Group.

29. PENSION PROVISIONS AND SIMILAR OBLIGATIONS

The pension obligations are based on defined benefit and contribution plans. The pension benefit provided in each case is the payment of a lifetime retirement pension upon reaching the age of 60 or 65 and the payment of benefits to surviving dependants. The pension benefits are partly financed by a reinsured pension scheme. All pension commitments are always determined by the salary amount and the length of service at the company. The Executive Board commitments are fully funded. They are secured by a reinsured pension scheme as well as pledged pension liability insurance policies with a fair value totalling 12,387 thousand euros (previous year: 11,426 thousand euros).

The provision in the consolidated balance sheet is calculated as follows:

In EUR '000s	31.12.2018	31.12.2017
Present value of funded obligations	22,715	21,266
Present value of unfunded obligations	78,845	78,069
Present value of obligations	**101,560**	**99,335**
Fair value of plan assets	−12,387	−11,426
Provision recognised	**89,173**	**87,909**

It is expected that these obligations will be fulfilled in the long term. The following table sets out the development in the present value of the funded and unfunded obligations:

In EUR '000s	2018	2017
As of 1.1.	**99,335**	**100,567**
Current service cost	2,208	2,272
Gross interest expense	1,972	1,799
Employe contributions	13	22
Settlement of pension obligations	−106	−155
Actuarial losses/gains		
Thereof due to experience adjustments	667	−320
Thereof due to demographic parameter adjustments	1,017	0
Thereof due to financial parameter adjustments	−1,682	−2,963
Actuarial losses/gains, subtotal	**2**	**−3,283**
Payments made	−1,864	−1,887
As of 31.12.	**101,560**	**99,335**

The weighted average remaining term of the obligations as of 31 December 2018 amounted to 24.8 years for the freenet plan (previous year: 25.9 years), 17.0 years for the debitel plans (previous year: 17.6 years) and 9.9 years for the plans of the Media Broadcast Group (previous year: 9.5 years).

The following amounts have been shown for the defined benefit plans for the current reporting period and the previous reporting periods:

In EUR '000s	2018	2017	2016	2015	2014
Present value of funded obligation	22,715	21,266	21,026	16,162	17,461
Present value of unfunded obligation	78,845	78,069	79,541	41,604	47,529
Fair value of plan assets	–12,387	–11,426	–7,929	–6,575	–5,644
Plan deficit	**89,173**	**87,909**	**92,638**	**51,191**	**59,346**
Experience adjustments of plan liabilities	667	–320	45	284	45
Experience adjustments of plan assets	–766	–67	–112	–226	512

The plan assets consist of several pension liability insurance policies entered into by the pension scheme set up for this purpose with an aggregate fair value of 12,387 thousand euros (previous year: 11,426 thousand euros). The pension liability insurance policies invest the plan assets in equity funds or shares that are quoted in an active market. There is no active market for the pension liability insurance policies. The development of fair value is set out in the table below:

In EUR '000s	2018	2017
As of 1.1	**11,426**	**7,929**
Interest on plan assets (through income statement, with interest in accordance with IAS 19)	259	162
Differences between the expected and actual income from plan assets (recognised through other comprehensive income)	–766	–67
Employer contributions to plan assets	5,025	3,402
Reclassification to other financial assets	–3,557	0
As of 31.12.	**12,387**	**11,426**

The actual expenses from the plan assets amount to 508 thousand euros (previous year: 96 thousand euros), and are calculated as the sum of the calculated expenses or income from the plan assets and the actuarial gains or losses.

For financial year 2019, freenet is expecting payments of 1,073 thousand euros into plan assets and payments of 3,240 thousand euros out of plan assets for pensions. In the previous year 2017, freenet had expected for financial year 2018 payments of 1,449 thousand euros into plan assets and payments of 2,240 thousand euros out of plan assets for pensions.

In the consolidated balance sheet as at 31 December 2018, a non-current other financial asset of 3,557 thousand euros was recognised in the amount of cash held in trust from which the employer contributions to plan assets are being paid for one beneficiary for the period to 31 August 2028.

The amounts recognised as provisions in the balance sheet developed as follows:

In EUR '000s	2018	2017
As of 1.1.	**87,909**	**92,638**
Current service cost	2,208	2,272
Net interest expense	1,713	1,636
Gains on the settlement of pension obligations	–38	–52
Subtotal: amount recognised in the consolidated income statement	**3,883**	**3,856**
Remeasurement:		
Experience-based gains (–)/losses (+)	667	–320
Gains (–)/losses (+) due to demographic parameter adjustments	1,017	0
Gains (–)/losses (+) due to financial parameter adjustments	–1,682	–2,963
Return on (–)/costs (+) of plan assets not already included in net interest expense	766	67
Subtotal: remeasurements recognised through other comprehensive income	**768**	**–3,216**
Payments made	–1,932	–1,989
Employer contributions to plan assets	–5,025	–3,402
Reclassification to other financial assets	3,557	0
Employees' contributions	13	22
As of 31.12.	**89,173**	**87,909**

The following significant actuarial assumptions were made:

in %	31.12.2018	31.12.2017
Discount rate (freenet, debitel plans)	2.22	2.13
Discount rate (Media Broadcast Group plans)	1.73	1.58
Future salary increases (debitel plan)	1.75	1.75
Future salary increases (Media Broadcast Group plans)	2.25	2.25
Future pension increases (debitel plan)	1.75	1.75
Future pension increases (freenet plan)	1.75	1.75
Future pension increases (Media Broadcast Group plans)	1.70	1.70

The RT 2018G mortality tables created by Dr Klaus Heubeck have been used as the biometric basis (previous year: 2005G tables by Dr Klaus Heubeck).

The sensitivities of the present value of the funded and unfunded obligations have been calculated on the basis of actuarial reports. We provide the following information in this respect.

AS OF 31.12.2018	**Change in present value of obligations**	
In EUR '000s	**Increase**	**Decrease**
Increase in discount rate by 1.0 percentage points		14,461
Decrease in discount rate by 1.0 percentage points	18,668	
Increase in future salary increases by 0.5 percentage points	–42	
Decrease in future salary increases by 0.5 percentage points		20
Increase in future pension increases by 0.25 percentage points	1,566	
Decrease in future pension increases by 0.25 percentage points		1,545
Life expectancy: +2 years	4,745	

AS OF 31.12.2017	**Change in present value of obligations**	
In EUR '000s	**Increase**	**Decrease**
Increase in discount rate by 1.0 percentage points		14,417
Decrease in discount rate by 1.0 percentage points	18,667	
Increase in future salary increases by 0.5 percentage points	511	
Decrease in future salary increases by 0.5 percentage points		22
Increase in future pension increases by 0.25 percentage points	1,520	
Decrease in future pension increases by 0.25 percentage points		1,442
Life expectancy: +2 years	4,230	

The sensitivities were calculated on the basis of the same holdings and using the same valuation method as that used for determining the extent of the obligation as of 31 December 2018. For this purpose, one parameter was varied and the other parameters were left unchanged. Any interdependencies between individual parameters occurring in practise were disregarded.

30. OTHER PROVISIONS

The following overview gives a breakdown of the development of the provisions' carrying amounts:

In EUR '000s	01.01. 2018	Effects of the transition to IFRS 15 as of 1.1.2018	Use	Reversal	Discounting/ Unwinding of discount	Addition	Reclassification	31.12. 2018
Contingent losses	6,357	–5,202	670	386	213	1,731	0	2,043
Litigation	3,284	0	158	2,161	0	539	0	1,504
Asset retirement obligations	43,076	0	909	3,315	2,692	2,795	–324	44,015
Employee incentive programmes	10,434	0	265	1,624	0	1,400	0	9,945
Service anniversaries	889	0	162	232	0	457	0	952
Restructuring	2,512	0	640	44	0	0	0	1,828
Warranty/guarantee	463	0	0	418	0	0	0	45
Storage costs	454	0	0	0	1	11	0	466
License costs	4,322	0	0	270	0	0	0	4,052
Reimbursement obligations	0	0	0	0	0	2,942	324	3,266
Other	4,113	0	2,316	361	348	3,960	0	5,744
Total	**75,904**	**–5,202**	**5,120**	**8,811**	**3,254**	**13,835**	**0**	**73,860**
Thereof non-current	26,794							47,042
Thereof current	49,110							26,818

Prior to the application of IFRS 15, other provisions would have amounted to 75,160 thousand euros as at 31 December 2018.

As a result of the acquisition of the Media Broadcast Group, the company also acquired obligations for semi-retirement and long-term work accounts. These obligations are netted with the fair values of the corresponding plan assets as of every balance sheet date. As of 31 December 2018, the provisions before netting for long-term work accounts amounted to 5,575 thousand euros (previous year: 6,068 thousand euros), and the corresponding provisions for semi-retirement amounted to 2,076 thousand euros (previous year: 3,285 thousand euros).

In EUR '000s	2018
Long-term work accounts	
Obligation as at 1.1.	6,068
Payments from long-term work accounts	–977
Personnel expenses	442
Interest expense	42
Obligation as of 31.12. before netting	**5,575**
Fair value of plan assets as of 1.1.	6,735
Payments from plan assets	–400
Loss on plan assets	–186
Plan assets as of 31.12.	**6,149**

In EUR '000s	2018
Semi-retirement	
Obligation as at 1.1.	3,285
Payments from semi-retirement accounts	–1,367
Personnel expenses	151
Interest expense	7
Obligation as of 31.12. before netting	**2,076**
Fair value of plan assets as of 1.1.	3,264
Payments from plan assets	–1,500
Loss on plan assets	–20
Plan assets as of 31.12.	**1,744**

The remaining provision of 543 thousand euros is shown in the statement of provisions under "Other".

Further details concerning the recognition of provisions for employee incentive programmes are documented under note 25, Employee incentive programmes.

The provisions for restructuring mainly comprise personnel expenses for severance payments. The outflow of assets for these provisions is expected to amount to 1,776 thousand euros for 2019 and 52 thousand euros for 2020.

Provisions for contingent losses concern, among others, vacancy costs incurred with rented shops and office buildings (433 thousand euros), for which the expected outflow of assets amounts to 167 thousand euros in 2019 and 266 thousand euros in the years from 2020 to 2022.

The provision for asset retirement obligations resulting from the acquisition of the Media Broadcast Group mainly comprises obligations for the dismantling and removal of radio infrastructure at numerous locations. Following the probable expiry of the underlying rental agreements, the outflow of funds is expected to be 4,300 thousand euros in 2019 and 34,050 thousand euros in the years from 2020 to 2030. There are further obligations to dismantle and remove tenant fittings at various technology and administration locations of the Group. Following the probable expiry of the underlying rental agreements, the outflow of funds is expected to be 1,524 thousand euros in 2019 and 4,141 thousand euros in the years from 2020 to 2028.

Provisions for service anniversaries have been recognised; the outflow of assets for 2019 is expected to be 154 thousand euros and the outflow of assets for the years 2020 to 2038 is expected to be 798 thousand euros. A discount rate of 1.4 per cent and an average period of seven years between the balance sheet date and the actual payment have been assumed as the basis for calculation.

Litigation provisions relate to the probable costs of various legal actions against Group companies as well as other as yet unresolved disputes with third parties. Most of these provisions relate to litigation with former trade partners and customers as well as issues of competition law. The Group is anticipating an asset outflow of 1,504 thousand euros in 2019. To avoid disclosing prematurely, and therefore endangering, the legal and negotiation position, we shall refrain from giving further information at this juncture.

The share of personnel-related provisions amounted to 13,268 thousand euros as of 31.12.2018 (31.12.2017: 14,686 thousand euros).

31. OTHER FINANCIAL OBLIGATIONS, CONTINGENT LIABILITIES AND CREDIT ENHANCEMENTS

As at the end of the financial year, there are operating lease commitments (which cannot be terminated) from rental and lease agreements, maintenance, support and other obligations, as well as order commitments in the following amounts:

In EUR '000s	31.12.2018	31.12.2017
Rental and lease obligations		
Due within one year	73,813	46,346
Due within one and five years	240,349	88,982
Due after more than five years	129,859	34,323
	444,021	**169,651**
Thereof already recognised as a provision for contingent losses	3,566	604
	440,455	**169,047**
Maintenance, support and other obligations		
Due within one year	44,519	48,988
Due within one and five years	105,734	109,252
Due after more than five years	4,020	31,274
	154,273	**189,514**
Order commitments		
Regarding intangible assets	0	565
Regarding property, plant and equipment	2,701	6,685
Regarding inventories, expenses and services	132,749	159,509
	135,450	**166,759**
Total	**990,379**	**525,320**

Rental and lease obligations result mainly from the leasing of office buildings, shops/stores, TV and Media upfront expenditure, obligations under co-location leases, motor vehicles and other assets. The increase in obligations from 169.0 million euros in the previous year to 440.5 million euros is due mainly to different assumptions made about lease terms at the reporting dates: As at 31 December 2018, contract terms were assessed taking into account any extension options reasonably certain to be exercised in light of the new accounting standard IFRS 16 (Leases), which is effective as of 1 January 2019. In 2017, rental and lease agreements were assessed on the basis of the regular term of the contract (excluding any extension options).

As in 2017, obligations under maintenance, support and other agreements consist mainly of agreements regarding the maintenance of IT hardware and databases, building services, network infrastructure and the outsourcing of business processes in customer service.

The order commitments as at the end of the financial year amounted to 135,450 thousand euros (previous year: 166,759 thousand euros). Of this sum, 2,701 thousand euros (previous year: 7,250 thousand euros) is attributable to the procurement of non-current assets. There are other purchase commitments amounting to 132,749 thousand euros (previous year: 159,509 thousand euros). These are mainly obligations relating to the sourcing of power for production at the various rental locations, as well as broadband connections within the context of media networks (audio and video broadcasts).

Other contingent liabilities have arisen as a result of letters of comfort and rent guarantees, their aggregate total as at the balance sheet date being 34,013 thousand euros (previous year: 28,549 thousand euros). It is not expected that any claims will be submitted under the terms of the letters of comfort and rent guarantees because it is expected that the corresponding invoices will be paid in line with the contractual agreements, and that the corresponding rental agreements will be paid regularly.

The following contingent liability exists as at 31 December 2018: in a letter from the Federal Ministry of Finance dated 4 December 2014 and a simultaneous addendum to the VAT application decree, the financial authority issued the following ruling: if the intermediary in a mobile communications contract supplies the customer in the intermediary's own name with a mobile communications device or some other electronic article, and if the mobile communications company grants the intermediary a commission dependent on the supply of the mobile communications device or other electronic articles on the basis of a contractual agreement, or part of a commission dependent on the above, such a commission or part of a commission shall not be regarded as remuneration for an intermediary brokering role vis-à-vis the mobile communications company, but rather as remuneration from a third party as defined by section 10 (1) sentence 3 of the German VAT Act (Umsatzsteuergestz–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 of 1 January 2015 does not involve any reportable risks for the company. As for the revenue reported before 1 January 2015, the company regards it as very likely that the ruling specified above will have no significant negative effects for freenet AG under VAT law. However, a low risk remains for the revenue reported before 1 January 2015 for assessment periods that have not been audited conclusively; if this risk materialises, freenet AG would have to refund some of its input tax to the tax authorities.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

In the consolidated statement of cash flows, the figures are reported for the Group (continuing and discontinued operations). In financial year 2018, as in the previous year, the cash flows were attributable solely to continuing operations.

Cash funds consist of cash at banks, cash in hand, cheques, short-term money market instruments that can be liquidated at any time and current financial liabilities, each with an original term of up to three months. As in the previous year, cash funds do not include any liquid assets from discontinued operations.

The cash flows are broken down into operating activities, investing activities and financing activities. The indirect presentation method has been used to present cash flows from operating activities.

The item "Increase in net working capital not attributable to investing or financing activities" contains the change in the balance sheet items "Trade accounts receivable", "Other receivables and other assets", "Other financial assets", "Inventories", "Trade accounts payable", "Other liabilities and deferrals", "Other financial liabilities", "Other provisions", and the change in other assets and liabilities not attributable to investing or financing activities.

32.1. CASH FLOWS FROM OPERATING ACTIVITIES

The cash flows from operating activities decreased by 15.9 million euros to 369.5 million euros year-on-year. Without including the non-cash share of the profit of the associate Sunrise (41.6 million euros), EBITDA exclusive of Sunrise increased by 33.2 million euros compared with the previous year. Non-cash gains on the disposal of non-current assets rose by 23.1 million euros to 25.5 million euros, mainly as a result of the sale of the analogue radio infrastructure, as the corresponding financial assets (receivables due from buyers) will only be recognised as cash items in future periods. In financial year 2018, freenet AG received a dividend payment of 36.9 million euros (previous year: 34.4 million euros) as a result of the dividend payment of 4.00 CHF per share adopted by the annual general meeting of Sunrise on 11 April 2018. Net working capital increased in 2018 by 38.9 million euros, compared with an increase of 25.6 million euros in the previous year. The increase of 38.9 million euros can be attributed mainly to the regular cash reduction in liabilities and deferrals vis-à-vis distribution partners arising from distribution rights as well as the increase in inventories. The capitalisation and amortisation of contract acquisition costs (IFRS 15) depressed cash flows from operating activities by 14.6 million euros in 2018 (previous year: 0).

In addition, there were cash outflows in financial year 2018 amounting to 29.5 million euros (previous year: 30.1 million euros) that resulted from income tax payments and refunds.

32.2. CASH FLOWS FROM INVESTING ACTIVITIES

In financial year 2018, the cash flows from investing activities developed from −42.1 million euros in the previous year to −332.9 million euros. This was primarily due to the outflow of funds amounting to 277.4 million euros for the acquisition of a 9.1 per cent equity interest in CECONOMY in July 2018.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets, increased in 2018 by 0.8 million euros compared with the previous year from 42.5 million euros to 43.3 million euros. The cash investments were financed entirely out of the company's retained earnings, and mainly related to property, plant and equipment of the Media Broadcast Group. Proceeds from asset disposals changed from 18.6 million euros in the previous year to 13.9 million euros in the reporting period and in each case resulted from the sale of the analogue radio infrastructure. In this context, it should be noted the payment for the majority of the analogue radio systems sold in 2018 has been agreed to be spread over the next eight financial years.

With effect from 1 January 2019, the freenet Group acquired 100 per cent of the shares in The Cloud Networks Germany GmbH, Munich and The Cloud Networks Nordics AB, Stockholm, Sweden. The resulting payments to acquire subsidiaries amounted to 12.4 million euros in the past financial year.

32.3. CASH FLOWS FROM FINANCING ACTIVITIES

Cash flows from financing activities changed from −338.6 million euros in the prior-year period to −233.1 million euros. In total, the cash inflow to the Group from the bridge loan for the acquisition of the shares in CECONOMY and from raising a borrower's note loan amounted to 376.3 million euros in the reporting period.

Repayments on borrowings of 332.3 million euros relate mainly to the early repayment of the bridge loan raised in July 2018 in the amount of 277.8 million euros and the repayment of the borrower's note loan from 2012 with a nominal value of 54.5 million euros. There were also repayments of 21.8 million euros relating to the master lease agreement of the Media Broadcast Group classified as a finance lease.

Higher dividend payments had a negative impact on cash flows from financing activities in the financial year ended in the amount of 211.2 million euros (previous year: 204.8 million euros).

32.4. CALCULATING THE UNDERLYING FIGURE FOR THE CONSOLIDATED STATEMENT OF CASH FLOWS

The underlying figure for the statement of cash flows is earnings before interest and taxes (EBIT) generated by continuing and discontinued operations. The following shows the way in which this EBIT figure is derived from the consolidated income statement.

In EUR '000s	1.1.2018 – 31.12.2018	1.1.2017 – 31.12.2017
Earnings before taxes	234,002	322,690
Interest and similar expenses	56,042	51,132
Interest and similar income	–164	–830
Other financial result	47,218	0
EBIT	**337,098**	**372,992**

32.5. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

The following reconciliation shows the liabilities from financing activities for the period from 1 January 2018 to 31 December 2018:

In EUR '000s	01.01.2018	Cash changes[1]	Changes in fair value[2]	Other changes[3]	31.12.2018
Non-current borrowings	1,666,001	44,001	3,410	–13,988	1,699,424
Current borrowings	0	0	0	14,985	14,985
Current financial borrowings from interest accruals	7,145	0	0	1,346	8,491
Liabilities from finance leases	281,955	–21,754	0	0	260,201
Total liabilities from financing activities	**1,955,101**	**22,247**	**3,410**	**2,343**	**1,983,101**

[1] The cash changes within borrowings include proceeds from new borrowings (376.3 million euros) as well as cash repayments of borrowings (–332.3 million euros).
[2] This includes the non-cash unwinding of discounts in accordance with the effective interest method.
[3] This includes non-cash changes due to reclassifications and interest accruals.

Liabilities from financing activities for the period from 1 January 2017 to 31 December 2017 break down as follows:

In EUR '000s	01.01.2017	Cash changes[1]	Changes in fair value[2]	Other changes[3]	31.12.2017
Non-current borrowings	1,673,871	–11,964	4,094	0	1,666,001
Current borrowings	54,518	–54,575	57	0	0
Current financial borrowings from interest accruals	5,784	0	0	1,361	7,145
Liabilities from finance leases	306,335	–24,380	0	0	281,955
Total liabilities from financing activities	**2,040,508**	**–90,919**	**4,151**	**1,361**	**1,955,101**

[1] The cash changes within borrowings include cash repayments of borrowings (–64,612 thousand euros) as well as cash repayments of finance costs due to the prolonging of borrowings (–1,927 thousand euros).
[2] This includes the non-cash unwinding of discounts in accordance with the effective interest method.
[3] This includes non-cash changes due to interest accruals.

33. INFORMATION ON FINANCIAL INSTRUMENTS

33.1. DISCLOSURES IN ACCORDANCE WITH IFRS 7

This section provides an overview of the significance of financial instruments for the Group, while also providing additional information on balance sheet items containing financial instruments.

We are setting out the following information for the purpose of presenting the financial instruments in the Group as at 31 December 2018 and 31 December 2017, their allocation to categories and the reconciliation with the corresponding measurement categories under IFRS 9:

Financial instruments according to categories as at 31 December 2018

In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement				Fair value of financial instruments
		31.12.2018	Amortised cost	Cost	Fair value through profit or loss	Fair value through other comprehensive income	31.12.2018
Assets							
Cash/liquid assets	AC	126,332	126,332				—[1]
Trade accounts receivable		306,394					
At amortised cost	AC	230,386	230,386				—[1]
Fair value through profit or loss	FVTPL	76,008			76,008		—[1]
Other financial assets		161,123					
Non-derivative financial assets							
At amortised cost	AC	22,054	22,054				—[1]
Other financial assets							
At amortised cost	AC	9,188	9,188				—[1]
Fair value through profit or loss	FVTPL	24,273			24,273		
Other equity instruments							
Fair value through profit or loss	FVTPL	654			654		—[1]
Fair value through other comprehensive income	FVOCI	104,954				104,954	104,954
Equity and liabilities							

[1] No fair value has been determined for the items; however, the carrying amount is a reasonable approximation of the fair value. This means that the aggregate fair value for the measurement categories AC and FVTPL are considerably lower than the corresponding aggregate carrying amounts in the balance sheet.

In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement				Fair value of financial instruments
		31.12.2018	Amortised cost	Cost	Fair value through profit or loss	Fair value through other comprehensive income	31.12.2018
Trade accounts payable		523,174	523,174				
Other trade accounts payable	AC	500,149	500,149				
Borrowings		1,722,900	1,722,900				
Borrowings from promissory notes	AC	1,106,751	1,106,751				1,112,651
Other borrowings	AC	616,149	616,149				
Other financial liabilities		357,805					
Non-derivative financial liabilities	AC	120,629	120,629				—[1]
Thereof aggregated by IFRS 9 measurement category							
Assets							
At amortised cost	AC	387,960	387,960				—[1]
Fair value through profit or loss	FVTPL	100,935			100,935		—[1]
Fair value through other comprehensive income	FVTOCI	104,954				104,954	104,954
Equity and liabilities							
At amortised cost	AC	2,343,678	2,343,378				1,112,651[1]

[1] No fair value has been determined for the items; however, the carrying amount is a reasonable approximation of the fair value. This means that the aggregate fair value for the measurement categories AC and FVTPL are considerably lower than the corresponding aggregate carrying amounts in the balance sheet.

Financial instruments according to classes as of 31 December 2017 – restated

In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement				Fair value of financial instruments
		31.12.2017	Amortised cost	Cost	Fair value through profit or loss	Fair value through other comprehensive income	31.12.2017
Assets							
Cash/liquid assets	AC	322,816	322,816				—[1]
Trade accounts receivable		532,781					
At amortised cost	AC	410,357	410,357				—[1]
Fair value through profit or loss	FVTPL	122,424			122,424		—[1]
Other financial assets		22,203					
Non-derivative financial assets							
At amortised cost	AC	18,671	18,671				—[1]
Other equity instruments							
Fair value through profit or loss	FVTPL	793			793		—[1]
Fair value through other comprehensive income	FVOCI	2,739				2,739	2,739

[1] No fair value has been determined for the items; however, the carrying amount is a reasonable approximation of the fair value. This means that the aggregate fair value for the measurement categories AC and FVTPL are considerably lower than the corresponding aggregate carrying amounts in the balance sheet.

In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement				Fair value of financial instruments
		31.12.2017	Amortised cost	Cost	Fair value through profit or loss	Fair value through other comprehensive income	31.12.2017
Equity and liabilities							
Trade accounts payable		517,276	517,276				
Other trade accounts payable	AC	495,522	495,522				
Borrowings		1,673,146	1,673,146				
Borrowings from promissory notes	AC	1,060,637	1,060,637				1,065,876
Other borrowings	AC	612,509	612,509				
Other financial liabilities		381,339					
Non-derivative financial liabilities	AC	121,138	121,138				—[1]
Thereof aggregated by IFRS 9 measurement category							
Assets							
At amortised cost	AC	751,844	751,844				—[1]
Fair value through profit or loss	FVTPL	123,217			123,217		—[1]
Fair value through other comprehensive income	FVTOCI	2,739				2,739	2,739
Equity and liabilities							
At amortised cost	AC	2,289,806	2,289,806				1,065,876[1]

[1] No fair value has been determined for the items; however, the carrying amount is a reasonable approximation of the fair value. This means that the aggregate fair value for the measurement categories AC and FVTPL are considerably lower than the corresponding aggregate carrying amounts in the balance sheet.

The non-financial assets constitute that part of the balance sheet item “Other receivables and other assets” which is not covered by the scope of IFRS 7. The carrying amount of the financial liability resulting from the put option in conjunction with the acquisition of MOTION TM corresponds to the fair value as of 31 December 2018.

The non-financial liabilities constitute the balance sheet item “Other liabilities and deferrals”, which is not covered by the scope of IFRS 7.

The fair value of cash and cash equivalents, trade accounts receivable, other current financial assets and other current financial liabilities is roughly equivalent to the carrying amount. This is due to the short remaining terms of these financial instruments.

The fair values of the non-current trade accounts receivable and other financial assets with remaining terms of more than one year correspond to the present values of the payments associated with the assets, with due consideration being given to the relevant interest parameters. The other equity instruments measured at fair value through profit or loss do not include listed shares; there is no active market for them. If there are indications that fair values are lower, these are recognised.

For other equity instruments measured at fair value through other comprehensive income, the Group recognises the fair value as the market value in an active market. The other equity instruments relate to the investment in CECONOMY (carrying amount as at 31 December 2018: 104.4 million euros) and securities to back pension obligations.

As a result of the discounting carried out using the effective interest rate method and based on the current level of interest rates, there are only minor differences between the carrying amounts of the financial instruments and the corresponding fair values. Because of the maturity involved, the fair value of the current borrowings corresponds to the carrying amount. The fair value of the non-current borrowings exceeds their carrying amount by 5,900 thousand euros as at 31 December 2018 (previous year: 5,239 thousand euros). This difference results from the measurement of the promissory note loan at fair value; this was ascertained as at the measurement date using up-to-date estimates of the company's own credit risk and the interest rate level.

A different fair value has been determined for the amount of the finance lease liabilities within trade accounts payable and within other financial liabilities; this fair value has been determined on the basis of current assessments of the company's own credit risk and the level of interest rates at the measurement date.

The fair value of the other equity instruments that are not traded on an exchange is determined by the Group on the basis of recognised actuarial methods (discounted cash flow method or option price models). The expected future cash flows from the financial instrument are calculated on the basis of the relevant interest rate structure and forward curves and are then discounted as of the closing date. The market value confirmations received from the external partners are periodically compared with the internally determined market values. The Group had no derivative financial instruments as at 31 December 2018.

The following overview shows the major parameters on which the assessment of the fair value of financial instruments, and the assessment of the financial instruments shown at fair value in accordance with IFRS 7 are based. The individual levels are defined in accordance with IFRS 13 as follows:

- Level 1

Unchanged use of prices from active markets for identical financial assets or financial liabilities (Deutsche Börse AG, Frankfurt stock exchange).

- Level 2

Use of inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3

Use of inputs for the measurement of the financial asset or financial liability that is not based on observable market data (unobservable inputs). As was the case in the previous year, there were no transfers between the individual levels in 2018.

Fair value hierarchy as of 31 December 2018

In EUR '000s	Total	Level 1	Level 2	Level 3
Assets				
Trade accounts receivable, at fair value through profit or loss	76,008	0	0	76,008
Other financial assets, at fair value through profit or loss	24,273	0	0	24,273
Other equity instruments, at fair value through profit or loss	654	0	0	654
Other equity instruments, at fair value through other comprehensive income	104,954	104,954	0	0
Equity and liabilities				
Borrowings from promissory notes	1,112,651	0	0	1,112,651

Fair value hierarchy as of 31 December 2017 – restated

In EUR '000s	Total	Level 1	Level 2	Level 3
Assets				
Trade accounts receivable, at fair value through profit or loss	122,424	0	0	122,424
Other equity instruments, at fair value through profit or loss	793	0	0	793
Other equity instruments, at fair value through other comprehensive income	2,739	2,739	0	0
Equity and liabilities				
Borrowings from promissory notes	1,065,876	0	0	1,065,876

As a result of the transition to IFRS 9, some trade accounts receivable were reclassified from the AC category to the FVTPL category as at 1 January 2018. The opening balance on 1 January 2018 was 71,061 thousand euros. There were no changes in fair value in the financial year. Instead, additions totalled 108,929 thousand euros and disposals stood at 97,608 thousand euros. This results in an ending balance as at 31 December 2018 of 82,382 thousand euros for trade accounts receivable measured at fair value through profit or loss.

For the individual categories of financial instruments in accordance with IFRS 9, the following net gains/losses were shown in financial year 2018 and in the previous year:

Net gains/losses by measurement category 2018

2018	From interest	From subsequent measurement		From disposals	Net gain/loss
In EUR '000s		At fair value through other comprehensive income	Loss allowance/ losses on receivables		
Assets measured at amortised cost (AC)	164	0	0	0	164
Assets measured at fair value through profit or loss (FVTPL)	–1,140	0	–5,876	2,727	–4,289
Assets measured at fair value through other comprehensive income (FVTOCI)	0	–125,353	0	0	–125,353
Liabilities measured at amortised cost (AC)	–47,068	0	0	0	–47,068
Total	**–48,044**	**–125,353**	**–5,876**	**2,727**	**–176,546**

Net gains/losses by measurement category 2017 – restated

2017	From interest	From subsequent measurement		From disposals	Net gain/loss
In EUR '000s		At fair value through other comprehensive income	Loss allowance/ losses on receivables		
Assets measured at amortised cost (AC)	830	0	–47,626	0	–46,796
Assets measured at fair value through profit or loss (FVTPL)	–1,027	0	–2,744	–420	–4,191
Assets measured at fair value through other comprehensive income (FVTOCI)	0	–35	0	0	–35
Liabilities measured at amortised cost (AC)	–45,955	0	0	0	–45,955
Total	**–46,152**	**–35**	**–50,370**	**–420**	**–96,977**

Net gains and losses from assets measured at amortised cost include changes in the loss allowances, gains and losses from derecognition, as well as payments received and reversals of impairment losses on previously written-off receivables.

Net gains or losses from the category of financial liabilities measured at amortised cost mainly comprise interest expense to banks and interest expense in connection with a master lease agreement classified as a finance lease.

The carrying amount of the financial liability resulting from the put option in conjunction with the acquisition of MOTION TM as of 31 December 2018 amounts to 13,543 thousand euros (previous year: 12,487 thousand euros). A sensitivity calculation regarding the enterprise value has established that the figure stated for the financial liability would have been 1.2 million euros higher if the enterprise value increased by 10 per cent, and that it would have been 1.2 million euros lower if the enterprise value declined by 10 per cent.

Net gains and losses from financial liabilities measured at amortised cost consist of interest expense.

Disclosures concerning interest income and interest expense from the financial assets and financial liabilities not measured at fair value through profit or loss are based on the application of the effective interest rate method.

Offsetting of financial assets and liabilities 2018

31.12.2018 In EUR '000s	Gross amount before offsetting	Offsetting amounts	Net amount shown in the balance sheet	Fair value of financial collateral	Total net amount
Financial assets					
Trade accounts receivable	471,660	165,266	306,394	0	306,394
Other financial assets	168,229	7,106	161,123	0	161,123
Total	**639,889**	**172,372**	**467,517**	**0**	**467,517**
Financial liabilities					
Trade accounts payable	688,980	165,266	523,714	4,020	519,694
Other provisions	80,966	7,106	73,860	0	73,860
Total	**769,946**	**172,372**	**597,574**	**4,020**	**593,554**

Netting of financial assets and liabilities 2017

31.12.2017 In EUR '000s	Gross amount before offsetting	Offsetting amounts	Net amount shown in the balance sheet	Fair value of financial collateral	Total net amount
Financial assets					
Trade accounts receivable	538,481	5,700	532,781	0	532,781
Other financial assets	30,705	8,502	22,203	0	22,203
Total	**569,186**	**14,202**	**554,984**	**0**	**554,984**
Financial liabilities					
Trade accounts payable	522,976	5,700	517,276	4,000	513,276
Other provisions	84,406	8,502	75,904	0	75,904
Total	**607,382**	**14,202**	**593,180**	**4,000**	**589,180**

In 2018, trade accounts receivable from network operators (e.g. from bonuses, commissions) were for the first time offset against trade accounts payable and other liabilities to the same network operators. The amount set off as at 31 December 2018 was 160,166 thousand euros. The conditions for offsetting were met upon the introduction of IFRS 15 as, in this context, the various receivables from and liabilities to two network operators were remeasured, with the result that with some insignificant exceptions, there is basically one large credit balance with those network operators.

Based on an agreement with a network operator to adjust the terms of payment, monthly advance payments are made for the mobile communications services rendered by the network operator in question. These are offset on the balance sheet date and settled in the subsequent month. In addition to the offsetting amount of 5,100 thousand euros, there is also a long-term collateral payment of 4,020 thousand euros.

As a result of the acquisition of the Media Broadcast Group in 2016, the company has also taken on obligations for semi-retirement and long-term work accounts. These obligations are netted with the fair values of the corresponding plan assets as of every balance sheet date. As of the balance sheet date, the netted provisions for long-term work accounts amounted to 0 thousand euros (31.12.2017: 0), and the corresponding provisions for semi-retirement amounted to 546 thousand euros (31.12.2017: 851 thousand euros). Please refer to our explanations in note 29, Other provisions.

33.2. PRINCIPLES AND OBJECTIVES OF FINANCIAL RISK MANAGEMENT AND CAPITAL RISK MANAGEMENT

With regard to its assets, liabilities and planned transactions, the freenet Group is exposed in particular to market risks, liquidity risks and default risks.

The objective of financial risk management is to constantly monitor these risks and to limit them with operational and finance-oriented activities.

The basic characteristics of financial policy, whose components are explained below, are determined by the Executive Board. In addition, certain financial transactions require the Executive Board's prior approval.

The Group Treasury department renders services to the business units and coordinates access to the financial markets. It also monitors and manages the market and liquidity risks associated with the Group's business units by way of regular internal risk reporting, which analyses the risks in terms of their degree and scale. The overriding priority for the Group Treasury department is the principle of minimising risk; another important objective is to optimise net interest expense. Prudent liquidity management controlled by the Group Treasury department involves holding an adequate reserve of liquid assets, the possibility of obtaining financing by way of adequate credit line commitments, and the possibility of closing open market positions. Liquidity risks are reduced by constantly monitoring the financial status and by maintaining adequate reserves in the form of credit lines.

The Group Treasury department is responsible for monitoring the default risks of major debtors (in particular distributors, dealers and other B2B partners), as well as regular internal reporting for these risks. Receivables due from end customers are monitored in the Receivables Management department. One of the department's primary objectives is to minimise the costs attributable to the default or impairment of receivables due from end customers and sales partners.

The Group's capital risk management is related to the equity as shown in the consolidated balance sheet and to ratios derived therefrom.

The foremost objective of the Group's capital risk management is to monitor the financial covenants specified in the loan agreements, where failure to fulfil such financial covenants might lead to the loans being called immediately. The freenet Group conducts its capital risk management on the basis of the equity ratio and the debt ratio. The equity ratio is the ratio of equity to total assets; as at 31 December 2018, it was below the target of 50 per cent (31 December 2018:27.7 per cent; previous year: 33.9 per cent). The internal debt ratio relevant for management purposes (31 December 2018:1.3; previous year: 0.9) is calculated as the ratio of net debt to EBITDA generated in the last twelve months. Net debt are defined as borrowings in the balance sheet, less liquid assets, less the share of the market capitalisation of Sunrise (11,051,578 shares multiplied by the closing price of 76.74 euros) and CECONOMY (32,633,555 shares multiplied by the closing price of 3.20 euros) as at the reporting date.

All covenants are fulfilled as at the balance sheet date. All other agreed undertakings and covenants in the loan agreement were also met as of the balance sheet date. The main financial covenants are defined in relation to the Group's equity and debt.

In order to actively manage the capital structure, management is permitted to sell assets to reduce debt, and to implement measures such as issuing new shares.

The following information concerning specific risks is based on information presented to the Executive Board.

33.3. MARKET RISK

Our Group's activities are primarily exposed to financial risks resulting from changes in interest rates and currency exchange rates.

33.3.1. Interest rate risk

The liabilities shown under borrowings relate to four promissory note loans (disclosed as a total net amount of 1,114.2 million euros as of 31 December 2018 (previous year: 1,067.0 million euros) – including 450.4 million euros in relation to the floating-rate tranches) and a floating-rate bank loan which is due upon final maturity (shown as a total net amount of 608.6 million euros as of 31 December 2018) (previous year: 606.1 million euros). The Group also has a revolving credit line amounting to 300.0 million euros (previous year: 100.0 million euros) which has a term of five years and had again not been drawn on by the end of the year.

As at 31 December 2018, the Group reported variable-interest financial liabilities amounting to 1,059.1 million euros (previous year: 1,044.3 million euros). In this respect, the Group is exposed to interest rate risks. Although the interest rate risks are not explicitly hedged, the cash holdings (which are invested mainly at variable interest rates) serve as a natural hedge and accordingly mitigate interest rate risks arising from the variable-interest borrowings.

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

In order to present market risks, the Group uses a sensitivity analysis that shows the effects of changes in interest rates on earnings and on equity.

The periodic effects are determined by relating the hypothetical changes in the risk variables to the portfolio of financial instruments as at the balance sheet date.

In the balance sheet, liabilities of 1,722.9 million euros are shown under short-term and long-term borrowings as at 31 December 2018 (previous year: 1,673.1 million euros), 1,059.1 million euros (previous year: 1,044.3 million euros) of which have variable interest rates. The variable-interest liabilities to banks as at the closing date carried interest of 1.6 per cent. Of the aggregate amount shown for borrowings as at 31 December 2018, 23.5 million euros are shown as current. Of this amount, 8.5 million euros are deferred expected payments of accrued interest, and 15.0 million euros are earmarked for repayment of financial liabilities in 2019. As of 31 December 2018, the variable portion of the loans bears interest within a corridor of 1.0 to 1.9 per cent. On the basis of market estimates, we are predicting a corridor of between 1.3 and 1.9 per cent for the variable portion in 2019. This means that the cash outflows for the entire borrowings in 2019 would amount to 29.6 million euros. Based on the net position of variable-interest assets and liabilities measured at fair value, a parallel upward shift of 50 basis points in the interest rate curve would have an impact of –2.0 million euros on earnings before tax (previous year: –2.8 million euros), while a downward shift of 50 basis points in the interest rate curve would have an impact of 0.3 million euros on earnings before tax (previous year: 0.2 million euros).

Money market funds are subject to marginal interest rate fluctuations, so there is always a possibility of price losses. There is no significant risk, however, as the money has been invested in funds on a very short-term basis. There are no contractually defined maturity dates or interest adjustment dates, with returns coming from changes in the price of the instrument and any dividend payments. Based on the financial investments in money market funds and bonds shown in the balance sheet under other receivables and other assets and other financial assets, an upward shift of 5 per cent in the price of the acquired shares would have an impact of 26 thousand euros (previous year: 137 thousand euros) on equity, while a downward shift of 5 per cent would have an impact of –26 thousand euros (previous year: –137 thousand euros) on equity.

The risk of interest rate changes is negligible for the other interest-bearing assets and liabilities.

Changes in interest rates have an impact on fixed-income financial instruments only if they are recognised at fair value. The financial liabilities of freenet are therefore not exposed to an interest rate risk because they are recognised at amortised cost.

33.3.2. Foreign currency risk

Commercial transactions in foreign currencies are conducted to a limited extent in the Group. The foreign currency risk is generally hedged by entering into forward exchange contracts, or, if necessary, by way of cash holdings denominated in foreign currency.

All in all, the Group regards the foreign currency risk as negligible.

33.3.3. Exchange rate risk

With regard to the exchange rate risks, one must bear in mind that the company holds an interest of 24.56 per cent in the share capital of Sunrise. Sunrise uses the Swiss franc (CHF) as the reporting currency for preparing its consolidated financial statements. The exchange rate risk between the euro and Swiss franc has an impact on determining both elements of the position of our consolidated income statement “Profit or loss of equity-accounted investments”, namely the share in the current profit or loss of Sunrise and also the write-downs resulting from the shadow purchase price allocation regarding Sunrise. Accordingly, this exchange rate also has an influence on the results of operations of the freenet Group; however, this is considered to be minor at present.

33.4. LIQUIDITY RISK

The Group’s general liquidity risk resides in the possibility that the company might possibly be unable to meet its financial obligations, for example the repayment of borrowings, the fulfilment of purchasing obligations and the obligations from leases.

Extensive financial planning instruments are used throughout the Group to monitor and control liquidity. Different planning horizons of up to one year are considered in connection with this. Short-term liquidity planning and control are carried out on a daily basis, each for the subsequent three months. This planning is updated daily by the Group Treasury department following liaison with the Accounting and Controlling departments on the basis of current data.

The Group also controls its liquidity risk by holding appropriate bank balances and credit lines at banks, and by monitoring continuously the forecast and actual cash flows. Reconciliations are also performed for the maturity profiles of the financial assets and liabilities. The Group uses a wide range of different financing instruments to reduce liquidity risk.

The need for and investment of liquid assets in the Group is controlled centrally on the basis of several existing internal Group cash pooling agreements in which the significant companies in the freenet Group participate.

The Group anticipates that it will be able to meet its other obligations arising from operating cash flows and the proceeds of maturing financial assets.

As at the balance sheet date, the Group had not utilised its revolving credit line of 300.0 million euros (previous year: 100.0 million euros). Within narrow limits, the company may borrow for a period of five years outside of the loan agreements in order to finance future strategic investments, for example.

Securities (money market funds and bonds in the securities deposit account) can be liquidated at short notice. There are no plans to sell any of the equity investments. If it became necessary to sell these equity investments, their sale at short notice might possibly be more difficult because there is no organised capital market for these interests.

The Group's financial and operational scope is restricted by certain provisions of the loan agreements. These impose restrictions on the company, for example regarding changes in the Group's business operations, the implementation of internal Group measures to change its structure under company law, the provision of collateral, and any acquisitions or disposals of assets, especially equity interests. The following tables show the contractually agreed undiscounted interest and principal payment on the Group's original financial liabilities at the end of financial years 2018 and 2017:

Financial liabilities

In EUR '000s	Carrying amount	Cash flows 2019			Cash flows 2020			Cash flows 2021 and later		
	31.12. 2018	Interest fixed	Interest variable	Payments of principal	Interest fixed	Interest variable	Payments of principal	Interest fixed	Interest variable	Payments of principal
Trade accounts payable	523,174	10,719	0	523,174	0	0	0	0	0	0
Borrowings (liabilities to banks)	1,722,900	10,572	18,979	23,476	11,070	18,465	273,806	21,312	37,454	1,425,618
Other non-derivative financial liabilities	120,629	0	0	51,167	0	0	55,919	0	0	13,543
Other financial liabilities	237,176	0	0	0	9,771	0	24,350	36,911	0	212,826

Financial liabilities

In EUR '000s	Carrying amount	Cash flows 2018			Cash flows 2019			Cash flows 2020 and later		
	31.12. 2017	Interest fixed	Interest variable	Payments of principal	Interest fixed	Interest variable	Payments of principal	Interest fixed	Interest variable	Payments of principal
Trade accounts payable	517,276	11,616	0	517,276	0	0	0	0	0	0
Borrowings (liabilities to banks)	1,673,146	9,363	13,746	7,145	11,193	13,746	54,463	29,248	3,428	1,611,538
Other non-derivative financial liabilities	121,138	0	0	49,121	0	0	29,780	0	0	42,237
Other financial liabilities	260,201	0	0	0	10,719	0	23,024	46,682	0	237,177

33.5. DEFAULT RISK

The Group takes into consideration the probability of default at the date of initial recognition of assets and the existence of a significant increase in default risk during the reporting periods. To assess whether the default risk has increased significantly, the risk of a default occurring on the asset as at the reporting date is compared with the risk of a default occurring on the asset as at the date of initial recognition, giving consideration to the reasonable and supportable forward-looking information available. In this context, please refer to the explanatory notes on the IFRS 9 impairment model in note 2.7.7, Impairment of financial assets, and note 21, Receivables, other assets and other financial assets.

The assessment of the risk of default in the freenet Group is focused primarily on trade accounts receivable owed by end customers. For further information, please refer to our comments under note 20, Receivables, other assets and other financial assets. Here, particular attention is devoted to the credit standing of customers and sales partners in our Group's large-scale business activities. For important contract customer sectors, credit assessments are carried out for the customers before the contract is signed.

In the ongoing contractual relationship, the implementation of a swift and regular reminder and debt collection process involving a number of debt collection companies in the benchmarking area, together with long-term debt collection monitoring and high-spender monitoring, are essential measures for minimising default risk in our Group.

An ongoing reminder and debt collection process is likewise used for receivables owed by dealers and franchise partners. Credit limits are also established and monitored. Where appropriate, a delivery block is imposed when the limit is reached.

Commercial credit insurance, moreover, safeguards us against significant default risks vis-à-vis major customers (dealers and distributors in Mobile Communications). In order to minimise credit default risk, the Group has insured a certain percentage of this revenue. Every month, the Group Treasury department notifies the insurer of the current revenue of each key account. The insurer uses this notification to calculate the revenue volume to be insured. The risks associated with uninsured customers are restricted by an internal limit system – generally, customers with a poor credit standing must pay cash in advance or the business relationship will not materialise. Default risks vis-à-vis end customers have not been hedged.

In order to determine the intrinsic value of trade accounts receivable, due account is taken of any change in creditworthiness between the point at which the terms of payment were granted and the balance sheet date. There is no significant concentration of credit default risk because the customer base is broad, and because there are no correlations.

The appropriate recognition of loss allowances takes the default risks into account. Receivables and other assets are derecognised if the Group regards the receivable as irrecoverable.

Securities and liquid assets are invested mainly at major German banks. The default risk has been limited significantly as a result of the risk being spread over various banks. The Group Treasury department constantly monitors the investments' current and expected future yields.

33.6. TRANSFER OF FINANCIAL ASSETS

For some time now, the freenet Group has been offering its customers the opportunity to choose higher-value devices for an additional monthly fee with its mobile phone upgrade option. Contracts with this mobile phone upgrade option continue to be accounted for as follows: freenet has an unconditional right to payment from the customer receiving the mobile phone as part of the mobile phone upgrade option. freenet records a receivable in the amount of the present value of the additional monthly amounts to be paid by the customer for the higher-value mobile phone over the term of the contract when the contract is signed and the mobile phone is handed over. As customers' willingness to pay more for higher-value smartphones has increased, the number of postpaid customers selecting this mobile phone upgrade option has risen steadily over the past few financial years. This also means that the figure for deferred receivables relating to the mobile phone upgrade option recognised under non-current and current trade accounts receivable has climbed continuously. For the freenet Group, this means that capital tied up in assets has been increasing for years: today's higher-value smartphones are more expensive to purchase than the mobile phones of the past, and while cash outflows to acquire these devices occur before or when a contract is signed with the end customer, cash inflows from the mobile phone upgrade option are spread over the 24 months of the contract with the end customer.

In 2014, the Group entered into a factoring agreement with a bank against this background. The agreement is a master agreement with an indefinite term. The sale of mobile phone option receivables is possible on a quarterly basis. The bank purchases the receivables with a defined del credere discount and it also bills freenet for interest and fees. The relevant risks (such as the risk of bad debt losses in particular) and opportunities are transferred to the bank, with the result that the receivables sold are derecognised in their entirety. The freenet Group continues to bear the risk of late payment, as well as being responsible for the collection and administration of the receivables sold (known as "servicing").

In the course of the financial year, income of 2.7 million euros was incurred from the sale of receivables (previous year: costs of 420 thousand euros). All major opportunities and risks associated with ownership of these receivables were transferred to the purchaser.

Of the sales carried out on a quarterly basis in the reporting year (nominal volume 106.7 million euros, previous year: 150.0 million euros), a total of 2.5 million euros (previous year: 2.8 million euros) was expensed. 1.4 million euros (previous year: 1.8 million euros) of this amount concerns the default risk taken on from the bank (del credere discount and fees) and 0.8 million euros (previous year: 1.0 million euros) concern interest expenses from the late payment risk. As at the balance sheet date, receivables amounting to 82.5 million euros (previous year: 103.4 million euros) were sold and derecognised but not yet paid for. The expenses of 10 thousand euros (previous year: 15 thousand euros) to be anticipated from the late payment risk and the servicing will be realised over the residual term of the receivables (6 months). The maximum loss risk for the Group is 0.8 million euros (previous year: 1.0 million euros).

The bank automatically assigns the newly defaulted receivables from the financial period ended to freenet at a fixed price each month. The buyback has no effect on either the apportionment of the risk of bad debt losses or the freenet Group's liquidity.

34. RELATED PARTY TRANSACTIONS

34.1. OVERVIEW

The following significant transactions took place between the Group and related parties:

In EUR '000s	2018	2017
Revenue attributable to billing of services		
Joint ventures		
Jestoro GmbH, Hamburg	413	351
Total	**413**	**351**

In EUR '000s	2018	2017
Expenses from the purchase of services		
Joint ventures		
Jestoro GmbH, Hamburg	24	0
Funview GmbH, Hamburg (subsidiary of Jestoro GmbH)	104	0
Check Tech Service GmbH, Hamburg (subsidiary of Jestoro GmbH)	92	0
Total	**220**	**0**

The following significant receivables from and liabilities to related parties existed as at 31 December 2018:

In EUR '000s	31.12.2018	31.12.2017
Receivables from current service transactions		
Joint ventures		
Jestoro GmbH, Hamburg	59	50
Total	**59**	**50**

In EUR '000s	31.12.2018	31.12.2017
Liabilities from current service transactions		
Joint ventures		
Check Tech Service GmbH, Hamburg (subsidiary of Jestoro GmbH)	16	0
Total	**16**	**0**

Total remuneration of 385 thousand euros (previous year: 365 thousand euros) was granted to the employees' representatives on the Supervisory Board in financial year 2018.

All transactions were based on market prices. No collateral has been provided.

34.2. EXECUTIVE BOARD REMUNERATION

The remuneration paid to the members of the Executive Board consists of an annual fixed salary, annual variable benefits, and benefits with a long-term incentive effect. There are also pension commitments. The annual variable benefits each result from an annual target agreement in which regularly determined figures indicating the freenet Group's significant financial and non-financial performance indicators are defined as individual targets. With regard to benefits with a long-term incentive effect, please refer to the explanations made in relation to the LTIP programmes in notes 25.1 and 25.2 of these notes.

The remuneration for the members of the company's Executive Board was comprised as follows in the reporting year and in the previous year:

Executive Board benefits for 2018

In EUR '000s	Fixed benefits	Other variable benefits	Subtotal	Variable benefits with long-term incentive effect[1]	Total benefits[2]
Christoph Vilanek	765	572	1,337	–381	956
Joachim Preisig	544	457	1,001	–285	716
Stephan Esch	494	229	723	–123	600
Rickmann v. Platen[3]	298	167	465	235	700
Antonius Fromme[3]	297	167	464	235	699
Total	**2,398**	**1,592**	**3,990**	**–319**	**3,671**

Executive Board benefits for 2017

In EUR '000s	Fixed benefits	Other variable benefits	Subtotal	Variable benefits with long-term incentive effect[1]	Total benefits[2]
Christoph Vilanek	765	703	1,468	1,571	3,039
Joachim Preisig	544	562	1,106	716	1,822
Stephan Esch	493	301	794	490	1,284
Total	**1,802**	**1,566**	**3,368**	**2,777**	**6,145**

[1] This relates to variable remuneration under the LTIP programme, including non-cash benefits and payments measured in accordance with IFRS 2 in the financial year.
[2] The amount of total benefits in the above table does not include pension expenses of 1,177 thousand euros (previous year: 1,101 thousand euros) and expenses for severance payments due to the premature termination of Mr Preisig's work on the Executive Board in the amount of 930 thousand euros (previous year: EUR 0). Please refer to the following explanations.
[3] Benefits in each case for the period from appointment as a member of the Executive Board, i. e. from 1.6.2018 to 31.12.2018.

The composition of the variable benefits with long-term incentive effect was as follows:

Variable benefits with long-term incentive effect 2018

In EUR '000s	LTIP Programme Benefits from changes in provision (non-cash)	LTIP Programme Benefits from payments received	Total variable benefits with long-term incentive effect
Christoph Vilanek	–381	0	–381
Joachim Preisig	–285	0	–285
Stephan Esch	–123	0	–123
Rickmann v. Platen	235	0	235
Antonius Fromme	235	0	235
Total	**–319**	**0**	**–319**

Variable benefits with long-term incentive effect 2017

In EUR '000s	LTIP Programme Benefits from changes in provision (non-cash)	LTIP Programme Benefits from payments received	Total variable benefits with long-term incentive effect
Christoph Vilanek	1,571	0	1,571
Joachim Preisig	387	329	716
Stephan Esch	490	0	490
Total	**2,448**	**329**	**2,777**

On 26 February 2014, agreements concerning the contracts of employment that grant new long-term variable salary components (LTIPs) were entered into with the members of the Executive Board. For this LTIP programme, which is also designated as "Programme 2", please refer to note 25.2 of these notes to the financial statements.

When the employment contract was extended (with Mr Vilanek; granted on 4 April 2018) and the appointment to the Executive Board made (for both Mr v. Platen and Mr Fromme with effect from 1 June 2018), supplemental agreements to the employment contracts granting new LTIPs were entered into with the aforementioned members of the Executive Board. For information on this LTIP programme, which is also designated "Programme 3", please refer to note 25.3 in these notes to the consolidated financial statements.

No cash payments were made from the current LTIP programmes (Programmes 2 and 3) in financial year 2018. In the previous year, cash payments of 329 thousand euros were made from Programme 2 and related to Mr Preisig.

As at 31 December 2018, the provision for the LTIP programmes amounted to 4,627 thousand euros (previous year: 5,008 thousand euros) for Mr Vilanek, 1,781 thousand euros (previous year: 2,066 thousand euros) for Mr Preisig, 1,486 thousand euros (previous year: 1,609 thousand euros) for Mr Esch, 235 thousand euros (previous year: 0) for Mr v. Platen and 235 thousand euros (previous year: 0) for Mr Fromme.

In 2018, Executive Board benefits in accordance with section 314 (1) no. 6a of the German Commercial Code/German Accounting Standard no. 17 (GAS 17) amounted to a total of 6,630 thousand euros (previous year: 3,368 thousand euros). For 2018, this includes benefits with a long-term incentive effect from the grant of LTIP Programme 3 in the amount of 2,640 thousand euros (of which 1,776 thousand euros for Mr Vilanek and 432 thousand euros in each case for Mr v. Platen and Mr Fromme). The total amount for 2017 does not include any benefits with long-term incentive effects, as these had already been reported in the financial years in which the remuneration instruments were granted.

Due to the early termination of his employment on the Executive Board on 31 December 2018, Mr Preisig was granted severance payments totalling 1,010 thousand euros, of which 930 thousand euros are in settlement of the fixed benefits and variable cash benefits for financial year 2019; these are not included in the table above entitled “Executive Board benefits for 2018”. An amount of 80 thousand euros is to compensate for the loss of entitlements under LTIP Programme 2 for the tranche relating to financial year 2019. This amount increased the LTIP provision for Mr Preisig and is therefore included in the variable benefits with a long-term incentive effect of remuneration in the table entitled “Executive Board benefits for 2018”. The severance payments of 1,010 thousand euros were paid in cash in January 2019.

In November 2004, Mr Esch was granted an indirect pension commitment. In financial year 2009, Mr Vilanek was granted an indirect pension commitment on the occasion of his appointment as chairman of the Executive Board as of 1 May 2009. freenet AG had taken on the pension commitment granted to Mr Preisig from the former debitel AG as of 1 September 2008. In February 2014, adjustments were made to all three Executive Board members’ pension commitments. For further details, see the section “Remuneration rules in the event of a termination of employment” in the Executive Board remuneration report within the Group management report. Mr v. Platen and Mr Fromme were each granted defined contribution benefits as at 1 June 2018 on the occasion of their appointment as members of the Executive Board, with the pension benefits being reinsured by a life insurance policy.

As at 31 December 2018, the defined benefit obligation (DBO) for Mr Vilanek amounted to 4,612 thousand euros (previous year: 4,108 thousand euros), with Mr Preisig receiving 4,899 thousand euros (previous year: 4,343 thousand euros) and Mr Esch receiving 4,024 thousand euros (previous year: 3,722 thousand euros). The DBOs for Messrs Spoerr, Krieger and Berger, as former Executive Board members, totalled 9,180 thousand euros as at 31 December 2018 (previous year: 9,092 thousand euros). Due to the nature of the selected commitment, there are no defined benefit obligations for Messrs Platen and Fromme.

Current service costs of 1,177 thousand euros (previous year: 1,101 thousand euros) were recognised in total in personnel expenses for the members of the Executive Board as a result of the pension commitments. In 2018, Mr Vilanek accounted for 463 thousand euros (previous year: 482 thousand euros) of this amount, Mr Preisig for 328 thousand euros (previous year: 338 thousand euros), Mr Esch for 270 thousand euros (previous year: 281 thousand euros), Mr v. Platen for 58 thousand euros (previous year: euros 0) and Mr Fromme for 58 thousand euros (previous year: euros 0). The 58 thousand euros each for Mr v. Platen and Mr Fromme relate to amounts paid into a pension scheme for the defined contribution benefits granted in the 2018 financial year. These benefits are not included in the above table “Executive Board benefits for 2018”.

In 2018, the personnel expenses for the members of the Executive Board related to the pension commitments did not include any past service costs.

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

34.3. SUPERVISORY BOARD REMUNERATION

The Supervisory Board's remuneration is governed by the articles of association and consists of three components:

- Basic remuneration
- Attendance fees
- Performance-related remuneration

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

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

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

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

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

For their activities during financial year 2018, the members of the company's Supervisory Board received fixed remuneration of 405 thousand euros plus attendance fees amounting to 115 thousand euros. In addition, performance-related remuneration of 405 thousand euros was also expensed. The extent to which this performance-related remuneration will be paid out depends on the profit appropriation resolution for the financial year 2018. The aggregate expenses for Supervisory Board activities thus amounted to 926 thousand euros.

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

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

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

Remuneration for financial year 2018

In EUR '000s	Basic remuneration	Attendance fees	Performance-related remuneration	Total
Active members				
Prof Dr Helmut Thoma	60.0	24.0	60.0	144.0
Knut Mackeprang[1]	45.0	12.0	45.0	102.0
Claudia Anderleit[1]	30.0	8.0	30.0	68.0
Thorsten Kraemer	30.0	8.0	30.0	68.0
Marc Tüngler	30.0	9.0	30.0	69.0
Robert Weidinger	30.0	14.0	30.0	74.0
Sabine Christiansen	30.0	7.0	30.0	67.0
Thomas Reimann[1]	30.0	7.0	30.0	67.0
Fränzi Kühne	30.0	4.0	30.0	64.0
Theo-Benneke Bretsch[1]	18.7	3.0	18.8	40.5
Bente Brandt[1]	18.7	6.0	18.8	43.5
Gerhard Huck[1]	18.7	5.0	18.8	42.5
	371.1	**107.0**	**371.4**	**849.5**
Former members				
Ronny Minak[1]	11.4	3.0	11.3	25.7
Michael Stephan[1]	11.4	3.0	11.3	25.7
Gesine Thomas[1]	11.4	2.0	11.3	24.7
	34.2	**8.0**	**33.9**	**76.1**
Total	**405.3**	**115.0**	**405.3**	**925.6**

[1] Employee representative in accordance with section 7 (1) clause 1 no. 1 Co-determination Act (Mitbestimmungsgesetz–MitbestG) of 4 May 1976.

Remuneration for financial year 2017

In EUR '000s	Basic remuneration	Attendance fees	Performance-related remuneration	Total
Active members				
Prof Dr Helmut Thoma	47.4	6.0	47.6	101.0
Knut Mackeprang[1]	45.0	4.0	45.0	94.0
Claudia Anderleit[1]	30.0	5.0	30.0	65.0
Thorsten Kraemer	30.0	5.0	30.0	65.0
Ronny Minak[1]	30.0	8.0	30.0	68.0
Michael Stephan[1]	30.0	8.0	30.0	68.0
Gesine Thomas[1]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	7.0	30.0	67.0
Robert Weidinger	30.0	11.0	30.0	71.0
Sabine Christiansen	30.0	4.0	30.0	64.0
Thomas Reimann[1]	22.5	3.0	22.6	48.1
Fränzi Kühne	17.5	3.0	17.6	38.1
	372.4	**68.0**	**372.8**	**813.2**
Former members				
Dr Hartmut Schenk	25.2	3.0	25.0	53.2
Birgit Geffke[1]	7.5	2.0	7.4	16.9
	32.7	**5.0**	**32.4**	**70.1**
Total	**405.1**	**73.0**	**405.2**	**883.3**

[1] Employee representative in accordance with section 7 (1) clause 1 no. 1 Co-determination Act (Mitbestimmungsgesetz–MitbestG) of 4 May 1976.

35. ACQUISITIONS

On 19 December 2018, the Group entered into a purchase agreement to acquire all shares and voting rights in The Cloud Networks Germany GmbH, Munich, and The Cloud Networks Nordics AB, Stockholm, Sweden (these companies are hereinafter referred to together as “The Cloud Group”). Once approved by the antitrust authorities, the takeover was completed on 1 January 2019 and the Group thus obtained control of this subsidiary. The date of its initial consolidation in the freenet Group is therefore 1 January 2019.

The Cloud Group’s business activities consist mainly of setting up and operating a network of WiFi hotspots. The hotspots put into operation so far are primarily Internet access points in hotels, petrol stations, airports, catering outlets and other public buildings and spaces.

A fixed cash purchase price of 12,439 thousand euros was agreed. The Group may also pay an earn-out of between 0 and 10,000 thousand euros, the exact amount of which will be measured by reference to the attainment of defined targets for financial performance indicators in The Cloud Group for financial years 2019 to 2021.

As the date of The Cloud Group’s acquisition is before these consolidated financial statements were prepared, but the initial accounting for the business combination was incomplete at the time the consolidated financial statements were prepared, the freenet Group has elected to apply the practical expedient in IFRS 3.B66. In particular, the disclosures about acquired receivables, amounts recognised as at the acquisition date for each major class of assets acquired and liabilities assumed, contingent liabilities, the total amount of goodwill and transactions that are required to be recognised separately from the acquisition of assets and assumption of liabilities in the business combination cannot be made owing to a lack of valid data.

We expect goodwill that is attributable mainly to future earnings opportunities in connection with the expansion of the freenet Group’s offering. A decision has not yet been made regarding the allocation of the expected goodwill to a cash-generating unit. In our segment reporting, The Cloud Group will be allocated to the Mobile Communications segment.

The most recent consolidated balance sheet of The Cloud Group available to the Group and prepared on the basis of audited financial statements is dated 31 December 2017, prepared in accordance with HGB. This is as follows:

Balance sheet of "The Cloud Group" according to HGB as of 31 December 2017 at carrying amounts

ASSETS

In EUR '000s	31.12.2017
Non-current assets	
Intangible assets	250
Fixed assets	3,623
	3,873
Current assets	
Inventories	697
Trade accounts receivable	1,495
Other receivables and other assets, and other financial assets	144
Liquid assets	1,886
	4,222
Total	**8,095**

EQUITY AND LIABILITIES

In EUR '000s	31.12.2017
Equity	
	6,586
Current liabilities	
Trade accounts payable	334
Other liabilities and deferrals, and other financial liabilities	1,175
	1,509
Total	**8,095**

36. DISCLOSURES PURSUANT TO SECTION 315A HGB

The average number of employees in the Group (section 314 (1) no. 4 HGB) has been shown in note 8, Personnel expenses, in these notes.

With regard to the disclosures concerning remuneration of the company's executive bodies (section 314 (1) 1 no. 6 HGB), please refer to note 34, Related party transactions.

In accordance with section 314 (1) no. 8 HGB, we hereby declare that the Declaration of Conformity in accordance with section 161 AktG was submitted by the company's Executive Board and Supervisory Board on 8 December 2016. It has been made permanently available to shareholders on the Internet at the following address: https://www.freenet-group.de/investor/corporate-governance/index.html.

A total of 1,230 thousand euros in fees was paid to the auditor in accordance with section 314 (1) no. 9 HGB during financial year 2018. Of this figure, 1,176 thousand euros is attributable to auditing services (thereof 1,045 thousand euros for the current audit for 2018, 55 thousand euros for project-related audits in connection with the introduction of IFRS 15, as well as 76 thousand euros for project-related audits in connection with the introduction of IFRS 16), 25 thousand euros is attributable to other assurance services (e. g. reading of quarterly reporting, plausibility assessments regarding the covenants for the loan agreements and the attainment of targets of the Executive Board for the financial year ended), and 29 thousand euros is attributable to tax consultancy services provided for a subsidiary (tax audit assistance).

In accordance with section 313 (2) to (3) HGB, we provide the following overview of the companies included in the consolidated financial statements (see table on the following page):

	Share in capital in per cent
Fully-consolidated companies	
freenet Cityline GmbH, Hamburg	100.00
freenet.de GmbH, Hamburg	100.00
01019 Telefondienste GmbH, Hamburg	100.00
01024 Telefondienste GmbH, Hamburg	100.00
01050.com GmbH, Hamburg	100.00
freenet Datenkommunikations GmbH, Hamburg	100.00
mobilcom-debitel GmbH, Büdelsdorf	100.00
mobilcom-debitel Logistik GmbH, Schleswig	100.00
MobilCom Multimedia GmbH, Schleswig	100.00
klarmobil GmbH, Hamburg	100.00
new directions GmbH, Hamburg	100.00
freenet Direkt GmbH, Hamburg	100.00
freenet Energy GmbH, Berlin	100.00
Stanniol GmbH für IT & PR, Oberkrämer	100.00
mobilcom-debitel Shop GmbH, Oberkrämer	100.00
callmobile GmbH, Hamburg	100.00
freenet Shopping GmbH, Hamburg	100.00
Gravis-Computervertriebsgesellschaft mbH, Berlin	100.00
MOTION TM Vertriebs GmbH, Troisdorf	51.00
freenet digital GmbH, Berlin	100.00
Ilove GmbH, Berlin	100.00
Lorena Medienagentur GmbH, Berlin	100.00
Ojom International GmbH, Berlin (formerly Quaid Media International GmbH)	100.00
freenet digital Espana S.L., Barcelona (Spain)	100.00
freenet digital Entretentimendo do Brasil Ltda., Sao Paulo (Brazil)	100.00
Vene International GmbH, Berlin (formerly Motility GmbH)	100.00
freenet digital Holdings Inc., Wilmington (USA)	100.00
freenet digital Entertainment Inc., Los Angeles (USA)	100.00
freenet digital LLC, Wilmington (USA)	100.00
freenet digital North America Inc., Wilmington (USA)	100.00
Seedline Studios, LLC, Wilmington (USA)	100.00
Aldine Productions LLC, Wilmington (USA)	100.00
Seedling Productions LLC, Los Angeles (USA)	100.00
freenet digital Group US Holdings Inc., Wilmington (USA)	100.00
Motility Ads LLC, Los Angeles (USA)	100.00
RS Games, LLC, Los Angeles (USA)	100.00
Quaid Media, LLC, Los Angeles (USA)	100.00
Sure Yield Inc. Limited, Hong Kong (China)	100.00

	Share in capital in per cent
EXARING AG, Munich	50.01
Synergy Networks GmbH, Leipzig	50.01
Taunus Beteiligungs GmbH, Cologne	100.00
MEDIA BROADCAST GmbH, Cologne	100.00
MEDIA BROADCAST Services GmbH, Cologne	100.00
MEDIA BROADCAST TV Services GmbH, Cologne	100.00
Companies accounted for using the equity method	
Jestoro GmbH, Hamburg (formerly FunDorado GmbH)	50.00
Sunrise Communications Group AG, Zurich (Switzerland)	24.56

37. EVENTS OF MATERIAL IMPORTANCE AFTER THE REPORTING DATE

Regarding the acquisition of The Cloud Group, please refer to note 35 of the notes to the consolidated financial statements. There were no other events of material importance for the freenet Group after the reporting date.

38. DEVELOPMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Development of intangible assets and property, plant and equipment as at 31 December 2018

In EUR '000s	Cost					
	1.1.2018	Change in the basis of consolidation	Additions	Reclassi-fications	Disposals	31.12.2018
Intangible assets						
Internally generated software	106,436	0	15,095	0	280	121,251
Software, licenses and right-of-use assets	171,817	0	4,897	24	674	176,064
Trademarks	346,352	0	0	0	0	346,352
Customer relationships	113,520	0	0	0	0	113,520
	738,125	**0**	**19,992**	**24**	**954**	**757,187**
Goodwill						
Goodwill	1,379,919	137	0	0	0	1,380,056
	1,379,919	**137**	**0**	**0**	**0**	**1,380,056**
Property, plant and equipment						
Land, property facilities and buildings	37,983	0	138	0	1	38,120
Switches and networks	929	0	0	–3	0	926
Technical equipment and machinery	513,595	0	20,099	660	13,032	521,322
Other operating and office equipment	90,494	0	17,482	264	7,224	101,016
Prepayments made and assets under construction	1,143	0	2,277	–945	4	2,471
	644,144	**0**	**39,996**	**–24**	**20,261**	**663,855**
Total	**2,762,188**	**137**	**59,988**	**0**	**21,215**	**2,801,098**

Depreciation, amortisation and impairment					Carrying amounts	
1.1.2018	Additions	Reclassi-fications	Disposals	31.12.2018	31.12.2018	1.1.2018
73,241	11,138	0	280	84,099	37,152	33,195
37,792	39,207	0	666	76,333	99,731	134,025
44,124	801	0	0	44,925	301,427	302,228
19,461	7,014	0	0	26,475	87,045	94,059
174,618	**58,160**	**0**	**946**	**231,832**	**525,355**	**563,507**
0	0	0	0	0	1,380,056	1,379,919
0	**0**	**0**	**0**	**0**	**1,380,056**	**1,379,919**
12,022	1,161	0	0	13,183	24,937	25,961
906	20	0	0	926	0	23
136,177	55,668	–3	7,809	184,033	337,289	377,418
59,221	14,187	3	6,522	66,889	34,127	31,273
0	0	0	0	0	2,471	1,143
208,326	**71,036**	**0**	**14,331**	**265,031**	**398,824**	**435,818**
382,944	**129,196**	**0**	**15,277**	**496,863**	**2,304,235**	**2,379,244**

Development of intangible assets and property, plant and equipment as at 31 December 2017

In EUR '000s	Cost				
	1.1.2017	Additions	Reclassi-fications	Disposals	31.12.2017
Intangible assets					
Internally generated software	93,603	14,284	0	1,451	106,436
Software, licenses and right-of-use assets	219,345	103,733	621	151,882	171,817
Trademarks	346,352	0	0	0	346,352
Customer relationships	113,520	0	0	0	113,520
	772,820	**118,017**	**621**	**153,333**	**738,125**
Goodwill					
Goodwill	1,379,919	0	0	0	1,379,919
	1,379,919	**0**	**0**	**0**	**1,379,919**
Property, plant and equipment					
Land, property facilities and buildings	38,656	26	0	699	37,983
Switches and networks	929	0	0	0	929
Technical equipment and machinery	492,145	29,028	4,682	12,260	513,595
Other operating and office equipment	118,258	12,658	1,117	41,539	90,494
Prepayments made and assets under construction	6,474	1,097	–6,420	8	1,143
	656,462	**42,809**	**–621**	**54,506**	**644,144**
Total	**2,809,201**	**160,826**	**0**	**207,839**	**2,762,188**

Depreciation, amortisation and impairment						Carrying amounts	
1.1.2017	Additions	Impairments	Reclassi-fications	Disposals	31.12.2017	31.12.2017	1.1.2017
62,482	11,963	211	0	1,415	73,241	33,195	31,121
129,825	38,993	0	0	131,026	37,792	134,025	89,520
41,832	2,292	0	0	0	44,124	302,228	304,520
12,447	7,014	0	0	0	19,461	94,059	101,073
246,586	**60,262**	**211**	**0**	**132,441**	**174,618**	**563,507**	**526,234**
0	0	0	0	0	0	1,379,919	1,379,919
0	**0**	**0**	**0**	**0**	**0**	**1,379,919**	**1,379,919**
11,149	1,205	0	0	332	12,022	25,961	27,507
854	52	0	0	0	906	23	75
64,068	74,070	0	3	1,964	136,177	377,418	428,077
87,259	12,434	0	–3	40,469	59,221	31,273	30,999
0	0	0	0	0	0	1,143	6,474
163,330	**87,761**	**0**	**0**	**42,765**	**208,326**	**435,818**	**493,132**
409,916	**148,023**	**211**	**0**	**175,206**	**382,944**	**2,379,244**	**2,399,285**

Büdelsdorf, 8 March 2019

freenet AG
The Executive Board

Christoph Vilanek | Ingo Arnold | Stephan Esch | Antonius Fromme | Rickmann v. Platen

INDEPENDENT AUDITOR’S REPORT

To freenet AG, Büdelsdorf

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the consolidated financial statements of freenet AG, Büdelsdorf, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, schedule of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of freenet AG, for the financial year from 1 January to 31 December 2018. We have not audited the content of those parts of the group management report listed in the “Other Information” section of our auditor’s report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the “Other Information” section of our auditor’s report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB , we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537 /2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1 Revenue recognition and impact of the initial application of IFRS 15
2 Recoverability of goodwill and intangible assets
3 Recoverability of deferred tax assets on loss carryforwards

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

- Revenue recognition and impact of the initial application of IFRS 15

1. In the consolidated financial statements of freenet AG, revenue amounting to EUR 2.9 billion is reported. This significant item in terms of its amount is subject to considerable risk due to the complexity of the systems necessary for properly recording and identifying revenue and the impact of ever-changing business, price and tariff models (including tariff structures, customer discounts, incentives).

In addition, the initial application of the new accounting standard on revenue recognition (IFRS 15) resulted this financial year in significant impacts on the consolidated financial statements and the systems and processes established at the Group for revenue recognition and deferral. Revenue recognition has changed primarily in the mobile communications area. Mobile communications contracts with sold terminal equipment lead to higher revenue recognition in the postpaid segment at the time of hardware delivery, as the transaction price agreed over the entire contract term is to be allocated to the hardware delivery and mobile communications service obligations on the basis of the relative individual sales prices. Contract acquisition costs are now capitalized and must be amortized over the underlying contract term instead of being recognized immediately in cost of materials. Network operator commissions received are recognized as reductions in the cost of materials and therefore no longer represent revenue. To the extent that these relate to the term of the contract, they must be deferred and recognized as expenses on a straight-line basis over the term of the contract. If sales partners in indirect sales provide hardware or other services to end customers in order to acquire customers, this does not constitute sales revenue for the freenet Group if the freenet Group does not have a principal position due to the lack of actual control over the hardware or other services provided. Any hardware or other customer acquisition services provided to end customers by the sales partner in indirect sales are subject to capitalization as other assets and are amortized on a straight-line basis over the term of the contract to reduce sales. The Company has exercised the option to use a practical expedient on initial application and recognize the cumulative effect of the transition directly in equity as of 1 January 2018 in accordance with the transitional provisions. The cumulative adjustments to equity (after deferred taxes) in the Company's opening balance sheet as of 1 January 2018, amounted to EUR 45.5 million. The largest portion of this effect amounting to EUR 761.7 million (after deferred taxes) resulted from the initial recognition of the costs of obtaining contracts and has resulted in a corresponding increase in retained earnings.

The initial application of IFRS 15 made it necessary to adjust certain accounting processes and reassess existing agreements. In particular, the requirements for analyzing customer agreements during the product creation process had to be specified in greater detail to meet the requirements of IFRS 15. An IT tool was also introduced to calculate the adjustments as part of IFRS 15. The initial application of IFRS 15 also resulted in a significant expansion of disclosure requirements.

As a significant item in terms of its amount, revenue is based to a large extent on estimates and assumptions of the executive directors. Recognizing and deferring revenue correctly in accordance with the Group-wide application of the new accounting standard IFRS 15 is considered to be complex. Against this background and taking into consideration the associated considerable uncertainties, revenue recognition was of particular significance during our audit.

2. In the knowledge that the complexity and the estimates and assumptions that have to be made give rise to an increased risk of accounting misstatements, our audit included assessing the processes and controls established by the Group and adjusted for IFRS 15 for recognizing revenue. Furthermore, in order to mitigate the inherent audit risk in this audit area, we ensured that audit procedures were consistently carried out throughout the Group by issuing the relevant instructions to the component auditors. Our audit approach included testing the controls and substantive audit procedures, in particular:

- Evaluating the environment of the IT systems related to invoicing and measurement, as well as other relevant systems supporting the accounting of revenue, including the implemented controls of system changes.
- Assessing the invoicing and measurement systems up to entries in the general ledger.
- Examining customer invoices and receipts of payment on a test basis and obtaining external balance confirmations.

With regard to the impact of the initial application of IFRS 15, we assessed the impact determined during the Group-wide project for implementing the new standard. In order to take into account the complexity of implementing the new standard, we ensured that audit procedures were consistently carried out throughout the Group by issuing the relevant instructions to the component auditors. Our audit approach included, among others things:

- Evaluating the impact analysis and the accounting estimates made for the different business models of the Group companies.
- Assessing the design of the processes set up to map the transactions in accordance with the new standard and of the IT systems to support the implementation of the new requirements.
- Assessing the appropriateness of the method used to determine the impact of the initial application of IFRS 15.
- Assessment of changes made to systems and controls implemented for this purpose.
- Evaluation of customer contracts and assessment of the identification of performance obligations, and whether these services are performed over a certain period of time or at a certain point in time.
- Assessment of the disclosure requirements arising from the initial application of IFRS 15, taking into account the appropriateness of the procedure used including the impact analyses conducted within the Group and the estimates and judgments made by the executive directors with respect to the recognition and deferral of revenue.

We were able to satisfy ourselves that the systems, processes, and controls adjusted for IFRS 15 in place are appropriate and that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that revenue is properly recognized in accordance with IFRS 15 as applied for the first time.

3. The Company's disclosures on revenue are contained in note 4 of the notes to the consolidated financial statements of freenet AG.

- Recoverability of goodwill and intangible assets

1. In the Company's consolidated financial statement, an amount of EUR 1,380.1 million (29.8 % of consolidated total assets and 107.8 % of Group equity) is reported under the "Goodwill" balance sheet items. Assets amounting to EUR 525.4 million (11.3 % of consolidated total assets and 41.0 % of Group equity) are reported under "Intangible assets". The Company allocates goodwill to the cash-generating units within the freenet AG Group. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually or if there are indications of impairment. Intangible assets with finite useful lives are tested for impairment if there are indications of impairment. The impairment tests are carried out by comparing the carrying amounts of the cash-generating units or intangible assets with their respective recoverable amounts. The recoverable amount is calculated on the basis of fair value less costs to sell. This is based on the present value of future cash flows since market values are not generally available for the individual cash-generating units. The discounted cash flow models are based on planning approved by the executive directors for the period up to 2022, which is extrapolated on the basis of assumptions about long-term growth rates. The discount rate used is the weighted average cost of capital for the relevant cash-generating units. The result of this measurement depends to a large extent on the executive directors' assessment of future cash inflows of the respective cash-generating unit and the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the measurement models, this matter was of particular significance for our audit.

2. As part of our audit, we assessed the methodology employed for the purposes of performing the impairment tests, among other things. We evaluated the appropriateness of the future cash inflows used in the measurement, among other things by comparing this data with the current budgets in the planning approved by the executive directors, and reconciling it against general and sector-specific market expectations. With the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amounts calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. Furthermore, we assessed the additional sensitivity analysis for the cash-generating units and, taking into account the information available, determined that the respective goodwill and intangible assets were adequately covered by the discounted future cash flows. Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3. The Company's disclosures on goodwill and intangible assets are contained in notes 15 and 16 to the consolidated financial statements.

- Recoverability of deferred tax assets on loss carryforwards

1. freenet AG’s consolidated financial statements include deferred tax assets on loss carryforwards amounting to EUR 292.7 million, which the Company's executive directors believe can likely be utilized in the future. The projected results in accordance with IFRSs, which serve as a starting point for tax planning, are derived from the multi-year projections for 2019 to 2022. From our point of view, this matter is of particular significance, as the multi-year projections serving as the basis for the recoverability of deferred tax assets on loss carryforwards are highly dependent on the estimates and assumptions of the executive directors and are subject to a high level of uncertainty.

2. In our audit of the recoverability of deferred tax assets, we included specialists from our Tax department in our audit team. With their support, we assessed, among other things, the methodological process to carry out recoverability testing on tax assets recognized in relation to loss carryforwards. In addition, we assessed the recoverability of the deferred tax assets on loss carryforwards, as described above, on the basis of the projections prepared by the executive directors with respect to freenet AG’s future taxable income and that of its consolidated income tax group subsidiaries, and we assessed the appropriateness of the planning premises used. Our assessment also covered the correctness of the reconciliation of the projected results to the tax result, compliance of the method used to calculate deferred taxes with IAS 12 and the mathematical accuracy of the calculations. We were able to satisfy ourselves as of the assumptions made by the executive directors and the method applied.

3. The Company’s disclosures pertaining to deferred tax assets on loss carryforwards are contained in notes 2.14 and 18 to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section „Corporate Governance“ of the group management report
- the non-financial group statement pursuant to § 315b Abs. 1 HGB included in section „Non-financial statement freenet Group“ of the group management report.

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor’s report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to the going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION
We were elected as group auditor on 17 May 2018. We were engaged by the supervisory board on 6 November 2018. We have been the group auditor of the freenet AG, Büdelsdorf, without interruption since the financial year 2014.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Niklas Wilke.

Hamburg, 11 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

signed
Niklas Wilke
Wirtschaftsprüfer
(German Public Auditor)

signed
ppa. Benjamin Röhe
Wirtschaftsprüfer
(German Public Auditor)

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Büdelsdorf, 8 March 2019

freenet AG
The Executive Board

Christoph Vilanek Ingo Arnold Stephan Esch Antonius Fromme Rickmann v. Platen

2018

FURTHER INFORMATION

OF FREENET AG

INDEPENDENT PRACTITIONER'S REPORT[1]

ON A LIMITED ASSURANCE ENGAGEMENT ON NON-FINANCIAL GROUP STATEMENT

To freenet AG, Büdelsdorf

We have performed a limited assurance engagement on the disclosures in the non-financial group statement of freenet AG, Büdelsdorf, for the period from 1 January to 31 December 2018.

RESPONSIBILITIES OF THE OFFICERS

The officers of the freenet AG are responsible for the preparation of the selection of the disclosures of the "CSR-Richtlinie-Umsetzungsgesetz" (CSR-RUG) to be evaluated.

This responsibility of the Company's officers includes the selection and application of appropriate methods of sustainability reporting as well as making assumptions and estimates related to individual sustainability disclosures, which are reasonable in the circumstances. Furthermore, the officers are responsible for such internal control as they have considered necessary to enable the preparation of a report that is free from material misstatement.

PRACTITIONER'S DECLARATION RELATING TO INDEPENDENCE AND QUALITY

We are independent of the entity in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other ethical responsibilities in accordance with the relevant provisions within these requirements.

Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft applies the German national legal requirements and the German profession's pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession (Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer) as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in Audit Firms (IDW QS 1), that are consistent with the International Standard on Quality Control 1 issued by the International Auditing and Assurance Standards Board (IAASB).

PRACTITIONER´S RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion based on the assurance engagement we have performed. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance

[1] We have a limited assurance engagement on the German version of the sustainability report and issued an independent assurance report in the German language, which is authoritative. The following text is a convenience translation of the independent practitioner's assurance report.

that no matters have come to our attention that cause us to believe that the information for the period from 1 January to 31 December 2018 was not prepared, in all material respects, in accordance with CSR-RUG.

In a limited assurance engagement, the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's professional judgment.

Within the scope of our assurance engagement, we performed, amongst others, the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of personnel involved in the preparation of the non-financial statement regarding the preparation process and the internal control system relating to this process
- Analytical evaluation of selected disclosures in the non-financial statement
- Evaluation of the presentation of the selected disclosures regarding sustainability performance

ASSURANCE CONCLUSION

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the disclosures in the company's report for the period from 1 January to 31 December 2018 were not prepared, in all material aspects, in accordance with the legal requirements of the CSR-RUG.

INTENDED USE OF THE ASSURANCE REPORT

We issue this report on the basis of the engagement agreed with freenet AG. The assurance engagement was performed for the purposes of freenet AG and the report is solely intended to inform freenet AG as to the results of the assurance engagement.

LIMITATION OF LIABILITY

The report is not intended to provide third parties with support in making (financial) decisions. Our responsibility lies solely with freenet AG. We do not assume any responsibility towards third parties.

Hamburg, 11 March 2019

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dirk Driesch Wirtschaftsprüfer (German Public Auditor)	Kai M. Beckmann

MULTI-YEAR OVERVIEW OF KEY FINANCIALS[1]

In EUR million/as indicated	2018	2017	2016	2015	2014
Operations					
Revenue (without IFRS 15 effects)	3,659.2	3,507.3	3,362.4	3,117.9	3,040.6
Revenue	2,897.5	3,507.3	3,362.4	3,117.9	3,040.6
Gross profit	903.7	949.8	898.7	790.4	778.1
EBITDA	485.5	541.2	438.8	370.2	365.6
EBITDA exclusive of Sunrise	441.3	408.0	402.3	370.2	365.6
EBIT	337.1	373.0	298.8	298.8	301.2
EBT	234.0	322.7	244.0	254.7	260.6
Consolidated profit	212.2	275.6	216.4	221.5	248.2
Earnings per share in EUR[2]	1.74	2.24	1.78	1.73	1.93
Dividend per share in EUR[3]	1.65	1.65	1.60	1.55	1.50
Balance Sheet					
Total equity and liabilities	4,634.7	4,314.1	4,284.8	2,724.0	2,498.3
Equity	1,280.8	1,462.9	1,402.3	1,379.0	1,293.6
Equity ratio in %	27.6	33.9	32.7	50.6	51.8
Finances and investments					
Free cash flow	326.1	342.8	341.5	284.5	266.6
Free cash flow exclusive of Sunrise	289.2	308.4	311.4	284.5	266.6
Net investments (CAPEX)[4]	43.3	42.5	48.1	30.4	27.9
Net debt	644.1	510.0	725.8	369.2	426.6
Pro forma net debt	1,596.6	1,350.3	1,416.0	369.2	426.6
Leverage	1.3	0.9	1.7	1.0	1.2
Customer-related key figures					
Postpaid ARPU	21.6	21.4	21.4	21.4	21.4
Postpaid ARPU without hardware (IFRS 15)	19.0	—	—	—	—
Postpaid customers[5]	6.896	6.711	6.513	6.310	6.012
freenet TV subscribers (RGU)[5]	1.014	0.902	0.0	—	—
waipu.tv subscribers[5]	0.252	0.102	0.0	—	—

QUARTERLY FIGURES FOR 2018

In EUR million/as indicated	Q1/2018	Q2/2018	Q3/2018	Q4/2018
Revenue (without IFRS 15 effects)	873,7	894,0	902,7	988,9
Revenue	689,6	696,6	717,0	794,2
Gross profit	223,5	222,2	222,9	235,1
EBITDA	106,5	117,9	133,0	128,0
EBITDA exclusive of Sunrise	96,6	108,1	123,2	113,4
EBIT	65,2	83,0	97,7	91,3
EBT	54,2	70,8	37,5	71,4
Consolidated profit	46,7	61,3	40,0	64,1
Earnings per share in EUR[2]	0,39	0,50	0,33	0,52

[1] Unless indicated otherwise, we refer to the section "Definition of alternative performance measures" for the definition of the key financials.

[2] Diluted and basic.

[3] The dividend will be paid subject to a resolution at the Annual General Meeting in May 2019. For more information on the dividend, see the section "freenet AG and the capital markets".

[4] Investments in property, plant and equipment and intangible assets, less the proceeds from the disposal of intangible assets and property, plant and equipment.

[5] At the end of the period.

GLOSSARY

Adjusted EBITDA To provide information and facilitate the transparent assessment of operating earnings performance, the freenet Group will report EBITDA adjusted for one-time effects as a financial performance indicator in addition to EBITDA (see "EBITDA") from financial year 2019 onwards. See the sections "Internal management system" and "Alternative performance measures" in the current Group management report.

App Add-on program for smartphones that is downloaded from the Internet onto one's mobile phone. Application examples: Image editing, web browsers or computer games.

ARPU (mobile communications) abbr., Average revenue per user The customer group-specific usage fee divided by the average number of customers on the relevant reference date.

Bundle In the context of mobile phone contracts, bundle means entering into a contract that also includes (subsidized) hardware CGU Cash generating unit.

Cloud Cloud computing refers to the provisioning, use and billing of IT services over a network that is dynamically adapted to demand. The range of services offered as part of cloud computing covers the entire spectrum of information technology, including the provision of infrastructure (e.g. computing power, storage space), platforms and software, etc.

Compliance Compliance with laws, regulations and company policies as an integral part of management and corporate culture with the aim of preventing damage.

Customer ownership Aggregation of customers in the Mobile Communications segment who use one of freenet's own tariffs or a tariff of the network operators in the form of a postpaid or no-frills agreement. For this customer group, the freenet Group handles all material services of the network operators, i.e. particularly own account billing as well as customer service. Discount Price reduction or rebate

EBIT Earnings before interest, other financial result, including the shares of the profit or loss of equity-accounted investments. The definition has been changed as of financial year 2019: see the sections "Internal management system" and "Alternative performance measures" in the current Group management report.

EBITDA EBIT (see "EBIT") exclusive of write-downs and deferred taxes arising from the subsequent accounting for equity-accounted investments, plus depreciation, amortisation and impairment. The definition has been changed as of financial year 2019: see the sections "Internal management system" and "Alternative performance measures" in the current Group management report.

EBITDA exclusive of Sunrise EBITDA (see "EBITDA") less the recognised shares of the profit or loss of equity-accounted Sunrise.

EBT Earnings before taxes.

Equity interests Market value of Sunrise Communications Group AG and CECONOMY AG on the reporting date. The market value of Sunrise Communications Group AG 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 translated into euros using an officially defined reference date rate based on Bloomberg data. The market value of CECONOMY AG is calculated by multiplying the closing price of the CECONOMY share on the Frankfurt stock exchange by the number of CECONOMY AG shares held by the freenet Group (32,633,555 no par value shares) as of the relevant reference date.

Equity ratio Ratio between equity to total equity and liabilities.

Earnings per share The portion of consolidated profit or loss which is attributable to an individual share. It is calculated by dividing consolidated profit/loss by the weighted average number of issued shares.

Fair value A value concept for the measurement of assets or liabilities.

Finance lease In a finance lease, the investment risk is transferred to the lessee.

Free cash flow Cash flows 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 definition has been changed as of financial year 2019: see the sections "Internal management system" and "Alternative performance measures" in the current Group management report.

Free cash flow exclusive of Sunrise Free cash flow (see"Free cash flow") less the dividend received from Sunrise.

freenet TV subscribers Customers who have purchased freenet TV access in the form of a prepaid card or via a direct debit arrangement.

freenet TV subscribers (RGU) RGU means "revenue generating unit"; refers to freenet TV subscribers who not only purchased freenet TV access but have also activated it.

freenet TV ARPU Average monthly revenue per freenet TV subscriber – i.e. the monthly freenet TV revenue divided by the average number of revenue-generating customers (see "freenet TV subscribers (RGU)") at the respective reference date.

Goodwill Value of a business entity not directly attributable to identifiable assets.

HGB abbr. of Handelsgesetzbuch, the German Commercial Code.

IFRIC abbr. International Financial Reporting Interpretations Committee. The IFRIC is a group within the International Accounting Standards Committee Foundation. The task of the IFRIC is to publish IFRS and IAS interpretations for the international financial reporting standards in cases where it becomes apparent that the standard can be interpreted differently or incorrectly, or where new circumstances have not been sufficiently taken into account in the existing standards.

IFRS abbr. International Financial Reporting Standards. Collection of standards for external reporting by (publicly traded) companies issued by the International Accounting Standards Board.

Interest cover Ratio between EBITDA and net interest expense in the last 12 months.

IPTV abbr. Internet protocol television; refers to the transmission of television programmes and films using the Internet Protocol – as opposed to other broadcasting channels such as cable television, DVB-T2 or satellite.

ISIN abbr., International securities identification number.

Latency The time between an action (or event) and the occurrence of a delayed reaction.

Long term incentive account See "LTIP".

LTE abbr. Long-term evolution. A mobile communications standard enabling very high transfer speeds of up to 300 megabits per second.

LTIP abbr. Long-term incentive programme. Remuneration programme with long-term incentive effect.

MitbestG abbr. of Mitbestimmungsgesetz, the German Co-determination Act.

Mobile service provider Provider of mobile communications services without their own mobile network. They sell mobile telephony minutes, SIM cards and mobile phones, as well as value added services, such as text, in their own name and for their own account.

Net debt Long-term and short-term borrowings shown in the balance sheet, less liquid assets, less equity interests (see "Equity interests").

Net interest expense Interest and similar expenses less interest and similar income.

Net investments (CAPEX) Investments in property, plant and equipment and intangible assets, less proceeds from the disposal of intangible assets and property, plant and equipment.

No-frills Traditionally, no-frills describes the direct distribution of mobile communications contracts (e.g. online) and not via specialist outlets. No-frills tariffs deliberately have a simple structure, and in general do not include a subsidised device.

Out-of-home measures Advertising in public spaces (outdoor advertising).

Portal Central website which generally comprises a comprehensive range of navigation functions, aggregated content and additional services, such as e-mail.

Postpaid Mobile services billed subsequently (usually 24-month contracts).

Prepaid Mobile services billed in advance.

Pro forma net debt Long-term and short-term borrowings less liquid assets.

Pro forma debt ratio Ratio between pro forma net debt (see "Pro forma net debt") and EBITDA (see "EBITDA") generated in the last 12 months.

Roaming The ability of a mobile customer to receive or make calls, send and receive data, or access other mobile network services on a network other than their home network. Roaming can refer to domestic networks of various network operators (national roaming) and to international network operators (international roaming).

Gross profit Revenue less cost of materials.

Gross profit margin Ratio between revenue and gross profit.

SIM card abbr. Subscriber identity module. Chip card with a processor and memory for mobile devices, storing various pieces of information, including the user number allocated by the network operator. The SIM card also identifies the user in the mobile network.

Smart home Smart home refers to the automation and interconnection of in-house electricity (light, shutters etc.), electric appliances (washing machines, fridges, etc.) and entertainment electronics (TV, radio and audio system, etc.).

Smartphone Mobile device with touch and/or qwerty keyboard and feature set for easy Internet access and/or e-mail transfer.

Smartwatch Wristwatch that is “networked” with the smartphone and can quickly provide an overview of important news. These devices often include modern health trackers that can record and process data such as blood pressure, heart rate or movement patterns.

Social media General term describing websites and other online means of communication that are used by large groups of people to share information and to develop social and professional contacts.

Streaming Refers to a data transmission method in which the data can be viewed or listened to not only after complete transmission and storage, but during the transmission.

TV customers Customers of the freenet Group in the TV and Media segment who are freenet TV subscribers (RGU) (see “freenet TV subscribers (RGU)”) or waipu.tv subscribers (see “waipu.tv subscribers”).

Diluted earnings per share Diluted earnings per share are calculated by dividing the profit attributable to the shareholders by the weighted average number of shares outstanding increased by potentially dilutive shares. The number of potentially dilutive shares is calculated as the difference between the potential ordinary shares attributable to employee incentive programmes measured at the subscription price and the ordinary shares issuable at fair value.

Debt ratio Ratio between net borrowings (see “Net borrowings”) and EBITDA (see “EBITDA”) generated in the last 12 months.

WACC abbr. Weighted average cost of capital.

waipu.tv registered customers Customers who use the service of waipu.tv free-of-charge or in connection with one of the fee-based tariffs offered (see “waipu.tv subscribers”).

waipu.tv subscribers Customers who use the service of waipu.tv in connection with one of the fee-based tariffs offered (e.g. Comfort or Perfect).

FINANCIAL CALENDAR

Date	Event
9 May 2019[1]	Quarterly Statement as of 31 March 2019 – First quarter 2019
16 May 2019[1]	Annual General Meeting of freenet AG (Halle A4, Messeplatz 1), Hamburg, Germany
8 August 2019[1]	Interim Report as of 30 June 2019 – Second quarter 2019
7 November 2019[1]	Quarterly Statement as of 30 September 2019 – Third quarter 2019

[1] All dates are subject to change.

PUBLISHING INFORMATION

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CONSULTING, CONCEPT & DESIGN

Silvester Group
www.silvestergroup.com

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

The English version of the annual report is a convenience translation of the German version of the annual report. The German version of this annual report is legally binding.

Current information regarding freenet AG and the freenet shares is available on our homepage at:
www.freenet-group.de/en

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

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