freenet GROUP

ANNUAL REPORT

2019

OVERVIEW OF KEY FINANCIALS[1] GROUP

OPERATIONS

In EUR millions/as indicated	2019	2018 restated[2]	Q4/2019	Q3/2019	Q4/2018 restated[2]
Revenue	2,932.5	2,897.5	802.5	741.0	794.2
Gross profit	896.2	903.7	230.1	219.4	235.1
EBITDA	426.8	441.2	101.0	110.3	113.3
EBIT	270.0	312.0	59.7	72.1	81.4
EBT	238.1	234.0	48.7	66.2	71.4
Consolidated profit	184.7	212.2	15.5	57.6	64.1
Earnings per share in EUR[3]	1.49	1.74	0.11	0.46	0.52
Dividend per share in EUR	1.65[4]	1.65	—	—	—

BALANCE SHEET

In EUR millions/as indicated	31.12.2019	31.12.2018	31.12.2019	30.09.2019	31.12.2018
Total equity and liabilities	4,839.6	4,634.7	4,839.6	4,894.5	4,634.7
Equity	1,321.6	1,280.8	1,321.6	1,281.0	1,280.8
Equity ratio in %	27.3	27.6	27.3	26.2	27.6

FINANCES AND INVESTMENTS

In EUR millions	2019	2018 restated[2]	Q4/2019	Q3/2019	Q4/2018 restated[2]
Free cash flow	249.0	263.8	49.8	72.4	53.7
Depreciation, amortisation and impairment	156.8	129.2	41.3	38.3	31.9
Net investments[5] (CAPEX)	40.6	43.3	13.6	11.4	9.7
Net debt	2,031.1	1,856.8	2,031.1	2,102.5	1,856.8
Adjusted net debt	1,078.0	904.3	1,078.0	1,151.1	904.3

SHARE

as indicated	31.12.2019	31.12.2018	31.12.2019	30.09.2019	31.12.2018
Closing price Xetra in EUR	20.44	16.95	20.44	18.89	16.95
Number of issued shares in ’000s	128,061	128,061	128,061	128,061	128,061
Market capitalisation in EUR millions	2,617.6	2,170.6	2,617.6	2,419.1	2,170.6

EMPLOYEES

	31.12.2019	31.12.2018	31.12.2019	30.09.2019	31.12.2018
Employees	4,238	4,183	4,238	4,222	4,183

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[1] Unless indicated otherwise, key financials are defined in the section “Corporate management” of the Group management report.
[2] The comparative figures were adjusted due to the refocusing of the internal corporate management system effective from 2019 and the associated redefinition of various performance measures.
[3] Basic and diluted.
[4] The dividend will be paid subject to a resolution at the Annual General Meeting.
[5] Investments in property, plant and equipment and intangible assets, less the proceeds from the disposal of intangible assets and property, plant and equipment.
[6] At the end of the period.

MOBILE COMMUNICATIONS SEGMENT

CUSTOMER FIGURES[6]

In millions	2019	2018	Q4/2019	Q3/2019	Q4/2018
Postpaid	6.903	6.896	6.903	6.866	6.896
Net change postpaid	0.007	0.185	0.037	0.032	0.027
freenet FUNK	0.034	—	0.034	0.031	—
Net change freenet FUNK	0.034	—	0.004	0.010	—

OPERATIONS

In EUR millions	2019	2018 restated[2]	Q4/2019	Q3/2019	Q4/2018 restated[2]
Revenue	2,658.9	2,606.7	730.2	672.7	714.3
Gross profit	691.8	718.5	174.0	169.3	178.5
EBITDA	367.3	366.0	85.4	94.9	84.4

MONTHLY AVERAGE REVENUE PER USER (ARPU)

In EUR	2019	2018	Q4/2019	Q3/2019	Q4/2018
Postpaid ARPU without hardware	18.7	19.0	18.5	18.8	18.9

TV AND MEDIA SEGMENT

CUSTOMER FIGURES[6]

In ’000s	2019	2018	Q4/2019	Q3/2019	Q4/2018
freenet TV subscribers (RGU)	1,021.1	1,014.2	1,021.1	1,036.6	1,014.2
Net change freenet TV subscribers (RGU)	6.9	112.2	– 15.5	– 0.9	112.8
waipu.tv subscribers	408.3	251.8	408.3	365.8	251.8
Net change waipu.tv subscribers	156.5	149.5	42.5	33.9	49.4

OPERATIONS

In EUR millions	2019	2018	Q4/2019	Q3/2019	Q4/2018
Revenue	253.9	282.6	66.1	63.8	71.3
Gross profit	166.2	147.4	45.8	40.6	46.7
EBITDA	73.5	86.3	20.9	19.4	32.8

SELECTED KEY FINANCIALS

2,932.5 EUR millions
REVENUES

426.8 EUR millions
EBITDA

249.0 EUR millions
FREE CASH FLOW

8,367,000
SUBSCRIBERS

4,238
EMPLOYEES

↖ Overview of key financials

FREENET.DE AG TURNS 20

On 3 December 2019 we celebrated the 20th anniversary of the stock exchange listing of freenet.de AG. This listing laid the foundations for today's freenet Group. What was once freenet.de, a small web portal that harnessed the stock market boom on the "Neuer Markt" or New Market to become a listed company just a month after it was formally founded, has evolved into a large, diversified corporation over the past two decades.

At the time of its listing, the business model of freenet.de AG consisted of features such as call-by-call internet, where customers paid based on their internet use. In 2003, freenet.de AG acquired the fixed network business of mobilcom AG in Büdelsdorf. The company introduced its first DSL services in the same year and offered internet telephony via DSL with freenet iPhone as far back as 2004. The merger of mobilcom AG and freenet.de AG eventually resulted in the creation of freenet AG or the freenet Group in 2007.

Today, the company's core business consists of the provision of mobile services supplemented by a diverse range of digital lifestyle products and services. In addition to mobile phone accessories and home entertainment (e.g. music and video offerings), this most recently also includes two innovative TV products in freenet TV und waipu.tv. Although the DSL business, with its own infrastructure and call-by-call internet, has since been discontinued, the freenet.de portal still exists.

CONTENTS

A 360-degree view of 365 days in mobile communications, TV and media, and digital lifestyle

A REVIEW

20 YEARS OF THE FREENET GROUP

SOME THOUGHTS ON FREENET'S 20TH BIRTHDAY

Panta rhei – everything flows! Greek philosopher Heraclitus believed that the nature of existence is subject to constant, dynamic change. He illustrated his oft-quoted formula for continuous changes in material and form with the image of a river, teaching us that "no man ever steps in the same river twice" because there is always new and different water flowing.

Roughly two-and-a-half thousand years since it was first formulated, Heraclitus's revelation remains as relevant as ever. If anything, we now experience our world as a place of downright dramatic change at a similarly frantic pace more than ever before. This state of permanent flux also applies to freenet. Although we celebrated our 20th birthday in 2019, we are now barely recognisable as the start-up company that successfully listed its shares almost as soon as it was founded as an integrated DSL internet provider in 1999. Today, as the largest network-independent telecommunications provider in Germany, we serve the market for mobile voice and data services, digital lifestyle products and linear television via antenna and IPTV – our comparatively young business areas in the TV and Media segment – with around two dozen brands and corresponding subsidiaries.

Another way in which freenet has changed is that it has matured over the past two decades, with all the hallmarks usually seen in human development. Our company is stable, structured, self-assured in the truest sense of the word, and has clear, ambitious targets for its continued development. In particular, the growth of the past 20 years has been strongly shaped by extrinsic factors – by acquisitions large and small, together with changes in ownership and management. To stick with Heraclitus's metaphor, the river has been fed by significant new streams along the way that have enabled it to grow, gain momentum and strike out in new directions.

As a result, freenet is now a company that rightly defines itself as a Group – with nine offices across Germany. Encompassing both cities such as Hamburg, Berlin, Munich and Stuttgart as well as the more rural locations of Büdelsdorf and the Brandenburg district of Oberkrämer, the company is epitomised by its geographic diversity. There is a similarly varied array of working styles within the Group. Our teams in Swabia and Bavaria operate differently than our Rhinelander's at Media Broadcast in Cologne and at the Düsseldorf data centre, while Berliners contrast considerably with the staff at our head office in Schleswig-Holstein. As well as resulting in divergent mentalities, this also means most of our more than 4,000-strong workforce are at completely different stages in their personal lives and careers.

Leading a Group like this one in an efficient and skilful way is a critical task and a constant challenge for our company – day after day, year after year. This has never been more apparent than in the current environment, where globalisation, artificial intelligence and digitalisation as well as social, climate and demographic change are primarily perceived as threats, and where people across the world are turning to supposed "leaders" who promise simple solutions but ultimately fail to deliver. After all, there are no simple solutions either in politics and society or in the economy.

Even here at freenet, we cannot foresee the effects that trends such as artificial intelligence and digitalisation will eventually have on working processes, customer relationships, employees and hierarchy levels in the future. However, we can do our best to adapt our structures, staff and management to respond to the latest developments and prepare for future changes. To do this, we are creating conditions within our company that will allow us to successfully keep up with the big players and leave our mark over the next 20 years. We are doing this by…

- … encouraging management to make coherent strategic decisions to safeguard future growth and the future of our locations;
- … consistently supporting and encouraging all our employees at every level of our hierarchy, combined with ongoing learning with a "fail-fast" approach and continuous improvement at every workplace;
- … scope, flexibility and responsibilities for every individual employee in order to facilitate entrepreneurial action and creativity;
- … a unique corporate culture driven by a desire for success and a bold outlook for the future, transparency and communication, colleagues working for one another rather than alongside or even against one another;
- … sustainable action in terms of our social and environmental responsibility as a company.

Reading the following genuine statements from some of our employees in different business units and at different stages of life, we appear to have succeeded in striking a good balance between management requirements, factors and success in recent years.

However, we also know that any human activity is always accompanied by mistakes; our ultimate responsibility as an employer is to draw the right conclusions from these mistakes and work tirelessly to optimise our processes, products and services. We promise that we will continue to strive to do this in the years and decades to come.

After all, as another Ancient Greek philosopher once realised: "The gods have not, of course, revealed all things to mortals from the beginning; but rather, seeking over the course of time, they discover what is better."

"GOOD COMPANIES DRIVE CHANGE."

Christoph Vilanek

I WAS LUCKY TO FIND FREENET!

I began working as a trainee at freenet AG last autumn immediately after graduating from university, and within a few weeks I realised that I was lucky to find freenet! The process management trainee programme consists of ten modules and is very well thought out, professional and balanced, and I am supervised and supported by a team leader from Logistics who acts as my personal mentor. What's more, I have already been given my own project – to draft a welcome handbook for the Logistics department at our Büdelsdorf site. The fact that all the previous trainees have stayed at the company also speaks volumes for the training.

I want to aim high here, I'm very ambitious – and confident, because freenet offers career advancement opportunities for its employees, which mean that even internal staff can end up at the Executive Board level.

What impresses me most is the communication within the company: it is genuinely a top priority. It starts with the informal corporate culture, which really helps new joiners to quickly overcome any fears and inhibitions they may have when they arrive. Employees always consult each other directly if any questions or problems arise, talk to each other a lot, give each other feedback – they even offer criticism when called for, although they always remain focused on facts and goals. You feel so embedded within the company, almost as if you are an integral part of a living thing. And this harmonious coexistence does not stop at the Executive Board level – far from it!

Christoph's blog allows me to keep up with the latest developments as well as the future targets and plans of the company and management, and even ask him questions directly if required. I always read all the open articles. The Executive Board and its ideas and strategies are tangible for me, which means I can really identify with "my company".

"THE EXECUTIVE BOARD IS TANGIBLE."

Carolin Eisner

Carolin Eisner joined freenet AG's process management trainee programme in October 2019 at the age of 22, immediately after completing her studies at Kiel University (CAU).

ONE OF THE COMPANY'S FIRST-EVER EMPLOYEES

I have been with freenet for more than 20 years including a period of parental leave. Like our Chief Technology Officer Stephan Esch, I was one of the company's first employees in 1999, when I worked as an online editor for our then-web catalogue as freenet.de was being founded and listed on the stock exchange.

Of course, a great deal has changed over the years, but some fundamental elements of our very special corporate culture are still the same. The work was – and still is – never boring and no day is the same. There has always been plenty of scope for personal creativity and rapid decision-making, a high degree of flexibility and a great deal of trust. In all my years at the company, there has hardly ever been a moment where my superiors gave me specific instructions on how to organise my workday. That's very important for me personally; I have a high level of intrinsic motivation and see myself as a dedicated person providing a service for all our employees.

On the other hand, our corporate processes have become much more structured over the last decade – mainly as a result of systematically digitising as many of our processes as possible. At the same time, however, transparency, communication between management and employees and the corresponding necessary structures have all grown. For me, these are important aspects, and it's great that leadership today is high on the agenda at freenet. After all, while I think rules and structures are fantastic, I also want to understand the reasons and goals behind them.

I am always particularly impressed that members of the Executive Board still greet us by name whenever we pass each other in the hallway on a normal working day and that there is often time for a short chat. That makes me feel like a person rather than a worker bee!

"IT'S GREAT THAT LEADERSHIP IS ON THE AGENDA!"

Michaela Šarman-Lein

Michaela Šarman-Lein is the Team Leader of Fleet Management at freenet AG. The fleet comprises around 1,200 vehicles and has required continuous standardisation in recent years in the wake of several acquisitions, investments and sales of parts of the business.

In my opinion, the unique character and lasting success of our group is down to several factors. Firstly, it now combines the best of many worlds, with the “original” freenet at the Hamburg site retaining a real start-up mentality that has since been perfectly supplemented by debitel and its structures as a subsidiary of a global corporation. Each of these diverse acquisitions was accompanied by a necessary shift in perspective – you must put yourself in the acquired company’s shoes. Today, this approach still brings a great deal of openness, acceptance, willingness to learn and communication to the Group.

Above all, however, it has always forced freenet to reinvent and redefine itself to some extent. Fortunately, we have a senior management team that takes clear decisions with care and sensitivity before implementing these decisions with both pragmatism and consistency, and without letting them be debated for months on end by project groups. After all, our competitive environment is changing rapidly, and we simply cannot allow ourselves to stagnate.

In this respect, I also very much welcomed the decision to enlarge the Executive Board two years ago. By spreading the burden of responsibility for day-to-day business onto several pairs of shoulders, management has created the scope required to look at the bigger picture. Put simply, a CEO who steps back slightly sees more – and across greater distances and longer periods!

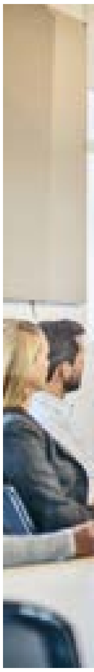
FROM DUG TELECOM TO FREENET

I have been working in this sector since 1998 and helped to build a mobile communications retail chain that was subsequently bought out by what was then debitel in 2006/2007. This is just one example of how freenet has continually grown in the two decades since it was founded, not least thanks to various acquisitions and investments. As the person responsible for reselling products who regularly visits all our locations, what I can say is that the company has also become more mature with each purchase!

“THE COMPANY HAS BECOME MATURE WITH EACH PURCHASE.”

Thomas Woitella

Thomas Woitella (42) trained as a mason before moving into the mobile communications sector in 1998, where he helped to build the DUG Telecom retail chain. He is now responsible for the Resell Products division within the freenet Group.



NOTHING VENTURED, NOTHING GAINED!

"I REALLY APPRECIATE OUR LEARNING AND NO-BLAME CULTURE."

Celina Werner

Celina Werner successfully completed her office manager training at mobilcom-debitel in February 2020. She currently works at the Büdelsdorf site in hardware management – traditionally a key business and currently a particularly sensitive one that involves purchasing and selling smartphones, tablets and accessories.

I found my way to the company via a four-week internship at mobilcom-debitel, and a few weeks ago I successfully completed my third year of training as an office manager at the Büdelsdorf office.

I have only positive things to report about my three years as an apprentice; the training really was fantastic. I spent time in many different departments, from reception, HR and the travel centre to accounting and payroll, to name just a few examples. I and the other apprentices were given responsibility from the start; my colleagues had so much confidence in me that I was even able to carry out complex tasks. I now work in hardware management – an interesting environment given the fierce competition between manufacturers and the current international trade frictions.

I really appreciate the specific learning and no-blame culture at freenet, in keeping with the motto: "Nothing ventured, nothing gained". We need and want to think and act like entrepreneurs to be successful amid the intense competition in our sector. That includes having the freedom to make mistakes, learning from them and improving processes as much as possible, but also to swiftly abandoning things that aren't working rather than spending forever trying to optimise them.

Our Büdelsdorf site promotes cooperation between colleagues simply because of its architectural style – with open-plan offices and mostly glass walls that ensure maximum transparency. That sense of community extends well beyond our productivity. Management offers an array of additional activities to encourage us to share experiences during both our leisure time and office hours. For example, this includes company sports activities and financial support for fitness classes, Büdelsdorf health days and active weeks themed around issues such as healthy eating, restful sleep and ergonomic working. mobilcom-debitel is an attractive employer all round!

MEDIA BROADCAST – ALWAYS IN RECEPTION MODE

"FREENET IS BRINGING NEW DRIVE TO OUR BUSINESS."

Alfred Lobenstein

Alfred Lobenstein (56) joined the precursor to Media Broadcast GmbH (Deutsche Bundespost Telekom) as a qualified telecommunications engineer in 1991 and has held a wide variety of roles – most recently Key Account Manager for the RTL Deutschland media group, QVC and Deutsche Telekom.

After completing my studies in 1991, I joined Deutsche Bundespost Telekom and became a civil servant. At that time, the work there was very official in nature due to the company's affiliation with Deutsche Post – and each individual's personal commitment was heavily regulated by hierarchies and responsibilities that even went so far as to stipulate the ink colour to be used for signatures. I quickly had my "wings clipped" when, full of youthful enthusiasm, I tried to organise meetings between departments or with customers independently – without first involving my superiors.

However, my areas of responsibility were always extremely varied and interesting and became ever larger as the years and decades passed. For example, they initially included mobile network planning (the now ancient "C" network), then the digitalisation of the modulation and replacement distribution networks for ARD's regional studios and the ZDF studios, before moving on to sales with support for commercial stations such as RTL and Vox with respect to DVB-T – with globally coordinated satellite transmissions of major international events as one of the highlights.

As a company, we have certainly experienced many different organisational, ownership and name changes. Before we were acquired by freenet, we were part of French group TDF for nine years – a time dominated by financial controlling and endless reporting. However, this did not alter our exceptional technological expertise and market standing; Media Broadcast is an extremely competent company with significant external appeal and a strong connection with our B2B customers, the broadcasters.

In 2016, freenet brought a fresh mindset, a different drive and highly cooperative colleagues to the company. You can ask them for help with projects at any time, and you genuinely get it. The informal corporate culture is honest and authentic rather than artificial. It encourages direct interaction, discourages hierarchical thinking and is fast becoming second nature for us. And with freenet TV, we are working together to offer end customers a very good, uncomplicated TV product with great quality and technical coverage. Everything feels good!

TO OUR SHARE-HOLDERS

360-DEGREE

VIEW OF THE FREENET GROUP

A 360-DEGREE VIEW OF 365 DAYS IN MOBILE COMMUNI-CATIONS, TV AND MEDIA, AND DIGITAL LIFESTYLE

FREENET FUNK – THE REVOLUTION IN MOBILE COMMUNICATIONS

The first purely digital mobile communications product in Germany with almost 34,000 customers since May 2019

MOBILE COMMUNICATIONS

NEW TARIFFS AND FRESH MOMENTUM IN

“Movement in the market at last” thanks to “Germany’s most exciting mobile tariff”, one that is “turning the mobile phone market on its head” and “amounts to a seismic shift”. These were just some of the reactions in the trade press to freenet FUNK, an innovative tariff that freenet began marketing in May 2019. Indeed, the tariff represents a completely new approach in a sector that for the last three decades has been dominated by two tariff models: contracts for postpaid customers, many of them with two-year fixed terms, and prepaid cards with call and data volumes paid for in advance.

By contrast, freenet FUNK is completely flexible and affordable to use and can be cancelled on a day-to-day basis. Customers have two options. For a daily fee of 69 cents, they can have 1GB of data including LTE of up to 225 Mbit/s with a call and SMS flat rate on the Telefónica network. Alternatively, they can enjoy unlimited data with the same flat rates and conditions for 99 cents per day. This results in maximum monthly costs of between 20 euros and just under 30 euros if using the tariff daily for 30 days a month.

As a purely digital product, freenet FUNK can only be ordered and managed via the app. The SIM card is also activated via the app after being delivered by a courier service free of charge within just a few hours in Germany’s major cities and metropolitan areas. Billing is carried out on a calendar day basis by being debited from the customer’s PayPal account – with none of the usual credit checks associated with fixed-term contracts. Another new development is that the tariff can be cancelled on a day-to-day basis at the touch of a button. Customers can also take a break from the tariff for up to 14 days while still being able to receive incoming connections.

As a result, freenet FUNK has been extremely well received by both the trade and business press and market players.

Nevertheless, at the start of the year freenet completed a quality-related restructuring of the tariff mix in its core business, focusing on postpaid customers with a two-year contract. While this meant that the number of highly profitable contract customers dropped slightly in the first half of 2019 after years of steady growth, it made up for this decline in the second half of the year. Several different initiatives and special promotions contributed to this performance.

ALMOST 100 PER CENT SURF THE LTE NETWORK

Nearly all postpaid customers were successfully migrated to the LTE networks of the three network operators in 2019.

FURTHER PARTNERSHIPS AND ACTIVITIES

In July, mobilcom-debitel reached a partnership agreement with Expert SE, expanding the potential sales network to include Expert's retail partners, with 190 members and around 420 electronics stores across Germany.

At the same time, both mobilcom-debitel and the Group's discount brands worked hard once again to improve their tariff conditions and special proximity to customers. In the second half of the year, freenet also activated the LTE network free of charge for all customers whose contracts previously only allowed them to surf the internet via UMTS. This affected existing callmobile, debitel light, freenet mobile, klarmobil and mobilcom-debitel customers.

As a result, individual freenet Group brands once again came out on top in comparison tests and customer surveys. For example, mobilcom-debitel was recognised as the best mobile provider in the specialist segment and for best customer advice according to Handelsblatt, while klarmobil was again awarded the best value for money in FOCUS online's prepaid comparison test and named top specialist service provider by readers of "Telecom Handel".

In addition to its traditional private customer business, mobilcom-debitel is also increasingly addressing the business customer segment. Supported by reseller training, freenet Business was launched as a separate division in the spring of 2019, in addition to two new mobile device management solutions. Going forward, freenet Business will offer companies a range of cloud-related services such as Infrastructure as a Service, Platform as a Service and Software as a Service. freenet will use the capacity of its own ISO 27001 certified data centre in Düsseldorf for this purpose. In the mobile device management business, small and medium-sized enterprises can take up a new mobilcom-debitel offer in one of two ways: either by purchasing a licence and administering it in their own IT departments or by using the service as an external service.

TV AND MEDIA

TV AND MEDIA SEGMENT CONTINUES TO EXPAND

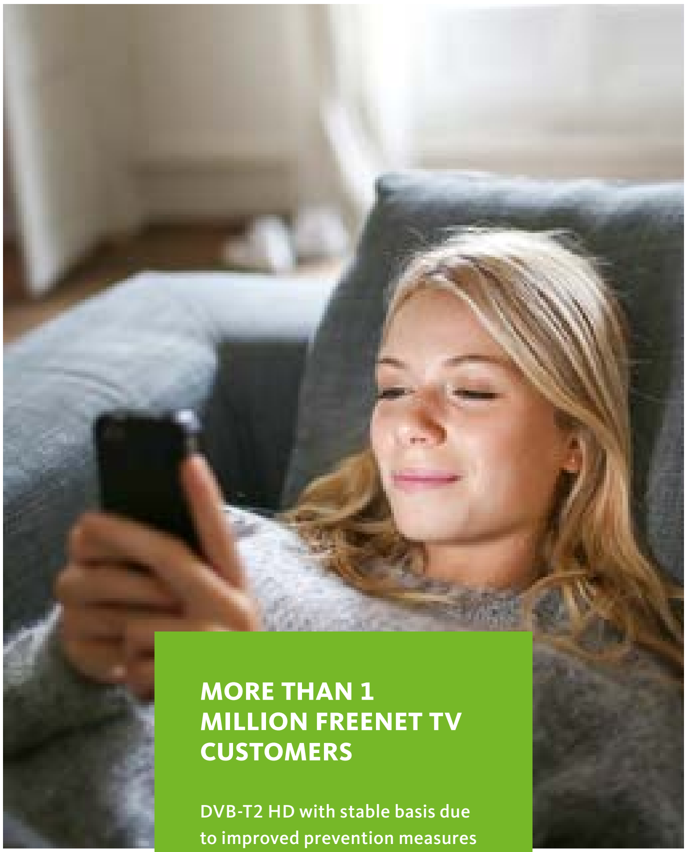
TV CUSTOMER BASE GROWS BY 13 PER CENT IN 2019

1.43 million revenue-generating TV customers

STABLE DVB-T2 HD & GROWING IPTV

Once the switch to DVB-T2 HD was largely complete in 2018, the number of German households using terrestrial TV stabilised at just under 2.3 million. This is equivalent to a market share of 6 per cent. At the same time, around 55 per cent of TV households in Germany now have their TV receiver connected to the internet. Smartphones, laptops, PCs and tablets are also becoming increasingly popular for watching video broadcasts.

The smartphone is gaining ground in the 14 – 29 age group, with almost a third of this group already considering it as their most important platform for watching video content.



365 DAYS AT MEDIA BROADCAST

This change in usage behaviour is reflected in the momentum of the TV and Media segment. freenet is capitalising on its tried-and-tested subscriber model with monthly fee payments on both freenet TV and waipu.tv, with work during the 2019 financial year focusing on consistently expanding the scope and quality of these two products.

As the operator of freenet TV, freenet subsidiary Media Broadcast largely completed the switch to the new DVB-T2 HD standard in late 2018 and early 2019. With a total of 63 transmitter sites, some 62 million people – or four-fifths of the population – now have access to more than 40 commercial stations and programming in HD via antenna. Once this technical infrastructure was complete, the focus of our activities increasingly shifted to perfecting and continuing the content on offer during 2019. In April, Ran Fighting joined Sportdigital, Kicker, Motorvision.TV and Sportdeutschland.TV as the fifth sports channel in freenet TV's programme portfolio.

MORE THAN 1 MILLION FREENET TV CUSTOMERS

DVB-T2 HD with stable basis due to improved prevention measures

Towards the end of the first half of the year, Media Broadcast then extended its collaboration with ARD-Sportschau for another two seasons. As part of this deal, the freenet subsidiary will transmit the TV signal for a total of 178 Bundesliga matches from the stadiums to the WDR broadcasting centre in Cologne using its own fleet of outside broadcast vehicles. This was followed by another technology partnership with MagentaSport agreed in September for an initial period of four years, during which Media Broadcast will provide MagentaTV's broadcasting centre with footage from the Basketball Bundesliga's arenas from the 2019/2020 season onwards.

freenet TV's content activities were supported by several advertising campaigns during the year. To generate growth among younger target audiences, freenet TV first launched an Instagram-based campaign in the first quarter of 2019. It specifically targeted younger viewers, with actor and pop rapper Jimi Blue Ochsenknecht as the face of the campaign.

freenet TV then began its summer season of television with a 360 degree campaign. Using the slogan "So entspannt kann Fernsehen sein" ("This is how relaxing television can be"), this campaign showed how easy and convenient it is to use the portfolio of channels in full HD quality via prepaid cards – without the need for a subscription. Another 360 degree campaign kicked off in mid-October to showcase the end-of-year deal. This time, the brand used the slogan "Scharf und günstig" ("Sharp and affordable") to highlight the inexpensive and uncomplicated access to freenet TV's HD picture quality. At the same time, freenet TV reduced the new CI module price to around 35 euros including a free month at the start of IFA 2019.

365 DAYS AT EXARING AG

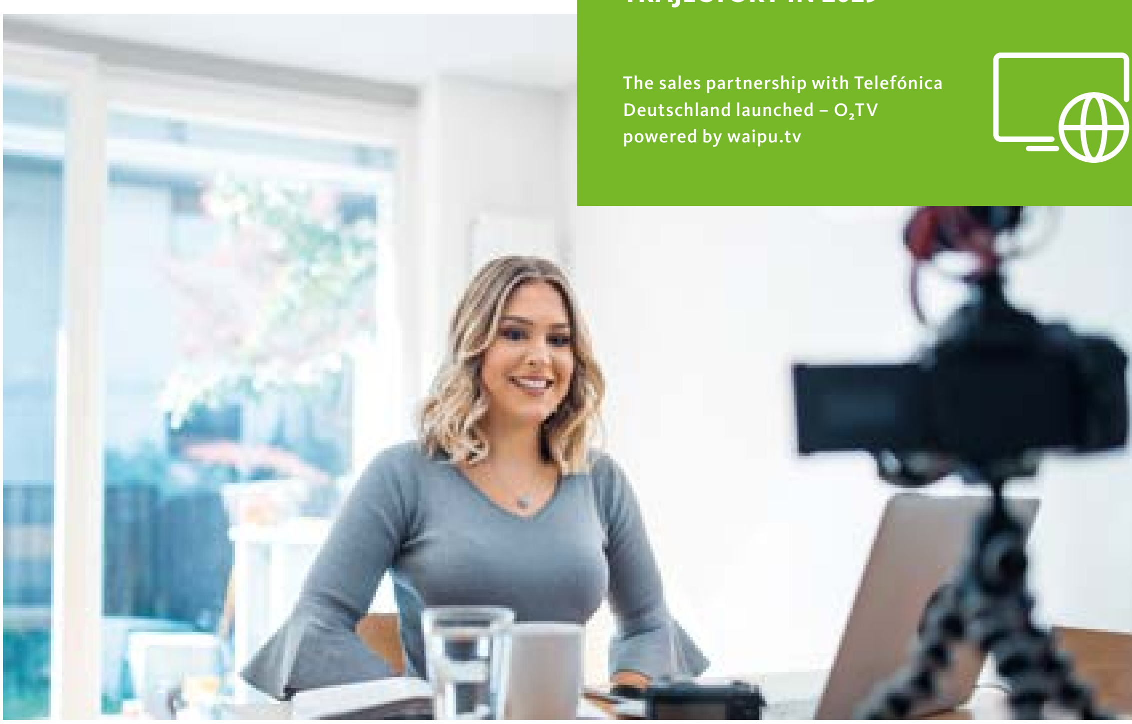
EXARING AG also entered into important new collaborations for its waipu.tv product during 2019. The launch of "O_2 TV – powered by waipu.tv" in partnership with Telefónica Deutschland in May was particularly significant. EXARING also forged new partnerships with major media companies and hardware manufacturers during the year, as well as Apple TV and Amazon. For example, BILD launched its own channel on waipu.tv in April, allowing customers to stream the best content from BILD, ComputerBild and AUTO BILD on their televisions or smartphones. In addition, waipu.tv was also directly available to buyers and owners of smart TVs during 2019 and has been available via app on Apple TV (for Version 4 onwards) since May. Since the start of July, waipu.tv can also be used on Android-based televisions and streaming boxes such as those offered by Sony, Philips or Sharp.

EXARING also introduced the programmatic marketing of connected TV products and services during the first quarter, giving advertising customers the opportunity to book their video commercials in high-calibre TV environments. At the same time, waipu.tv integrated the TV channels of influencers such as JP Performance, Gronkh, Sophia Thiel and Sarazar into its portfolio. In September, EXARING also began a sales collaboration with broadband provider NetCom BW. This followed the joint development of a collaboration model between EXARING and BREKO, the purchasing group of the Bundesverband für Breitbandkommunikation e.V. (German Federal Broadband Communication Association) with the aim of being able to offer the association's members an attractive IPTV product for private customers.

waipu.tv's programme portfolio also grew further during the year under review, with additions including Western channel Bronco, sports magazine channel EdgeSport, a package of around 30 Turkish channels, local Bavarian TV stations and three Burda channels.

WAIPU.TV CONTINUES ON ITS GROWTH TRAJECTORY IN 2019

The sales partnership with Telefónica Deutschland launched – O_2TV powered by waipu.tv



DIGITAL LIFESTYLE
DIGITALISING OUR CUSTOMERS

REVENUE OF 189.9 MILLION WITH DLS PRODUCTS

As in previous years, the digital lifestyle business outperformed the previous year in 2019.

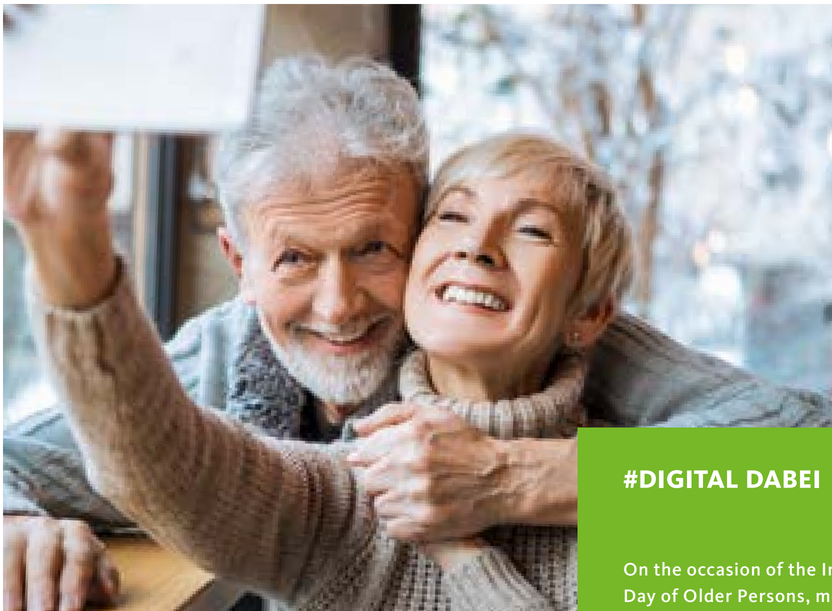
DIGITAL LIFESTYLE PORTFOLIO MAKING STEADY CONTRIBUTIONS

In addition to the Mobile Communications and TV and Media segments, devices, products and services in the areas of entertainment/infotainment and security represent the third revenue pillar of the freenet Group – and are grouped together under the Digital Lifestyle umbrella. These products and services are generally distributed via mobilcom-debitel and GRAVIS's shops and online channels.

For almost four years now, the "price deals" and "Sunday deals", all offered on highly competitive terms, have played an important role here. During the 2019 financial year, the focus was once again on smartphones from market leaders Apple and Samsung, as well as various accessories, tablets, laptops and smart TVs, but also niche smartphones such as those from Google and Chinese manufacturer Xiaomi.

mobilcom-debitel also entered into a partnership with emporia in the first quarter. The Linz-based company produces a clamshell smartphone aimed at senior citizens called the emporiaTOUCHsmart. Mobilcom-debitel and freenet also launched a pilot project in the first quarter to test marketing opportunities for freenet's digital Ojom product as part of a collaboration in the Group's test shops. Ojom is an online kiosk for selected apps and online services that offers discounts on various fee-based products that are otherwise only available online.

As in previous years, the digital lifestyle business made a significant contribution to revenue in the Mobile Communications segment in 2019 with revenue up from the previous year at 189.9 million euros.



#DIGITAL DABEI

On the occasion of the International Day of Older Persons, mobilcom-debitel held around 1,000 smartphone training courses for the 60+ generation

SALES AND SERVICE STRENGTHENED

In addition to the Group's own shops and online channels, independent contract partners provide another important sales pillar for freenet's main brand mobilcom-debitel. The company has also worked hard to steadily improve its sales and marketing support for dealers over the past financial year.

As the requirements in this area are becoming increasingly specific, this support is primarily provided via collaborations, particularly those with Supernova and Euronics. During the first half of 2019, we added instore TV as a digital point-of-sale display system as well as a free Facebook service recorded each week in consultation with specialist retailers. This intensive support is reinforced by regular joint working groups.

In addition, Moon Fachhandel from freenet subsidiary Motion TM introduced an online mobile communications shop for retail partners in the second half of 2019. Subscribers to the Prime package receive a fully equipped webshop including their own company logo, while Moon Fachhandel takes care of the shop's maintenance. This eliminates the storage risk and financial commitment for dealers.

mobilcom-debitel also entered into another partnership to strengthen the insurance and service management services offered by its own chain of stores, reaching an agreement with Clickrepair in March 2019. With more than 1,000 workshops, this online repair platform is Germany's leading marketplace for mobile and smartphones. The deal means that internet-savvy users can benefit from the first-class range of services offered at mobilcom-debitel's shops, either with while-you-wait on-site repairs or via Clickrepair's dedicated repair centres in the event of more complex problems.

Discount subsidiary klarmobil also enhanced its direct service for end customers during the year under review. Since June 2019, WhatsApp Messenger has been available to customers as an additional support channel. A specially designed bot trained with the TensorFlow machine learning tool can answer questions on tariffs and products in a matter of seconds or direct an enquiry to a member of staff.

mobilcom-debitel also hosted around 1,000 smartphone workshops aimed at the "Best Ager" target audience – the 60+ generation – at its 524 shops to mark the International Day of Older Persons on 1 October 2019. Under the slogan "Digital dabei" ("Going digital"), staff at the brand's stores advised customers on setting up their smartphones, copying address books and activating and using WhatsApp. In addition, customers were offered their own Gold tariff with a monthly fee starting of 9.99 euros that included a 60-minute setup service at the point of sale, a block on third-party providers and premium-rate numbers and invoicing by mail.

FOCUS ON CUSTOMER SATISFACTION

In a test conducted by the German Institute for Service Quality, mobilcom-debitel shops achieved a very strong second place, with the same quality score as the test winner.

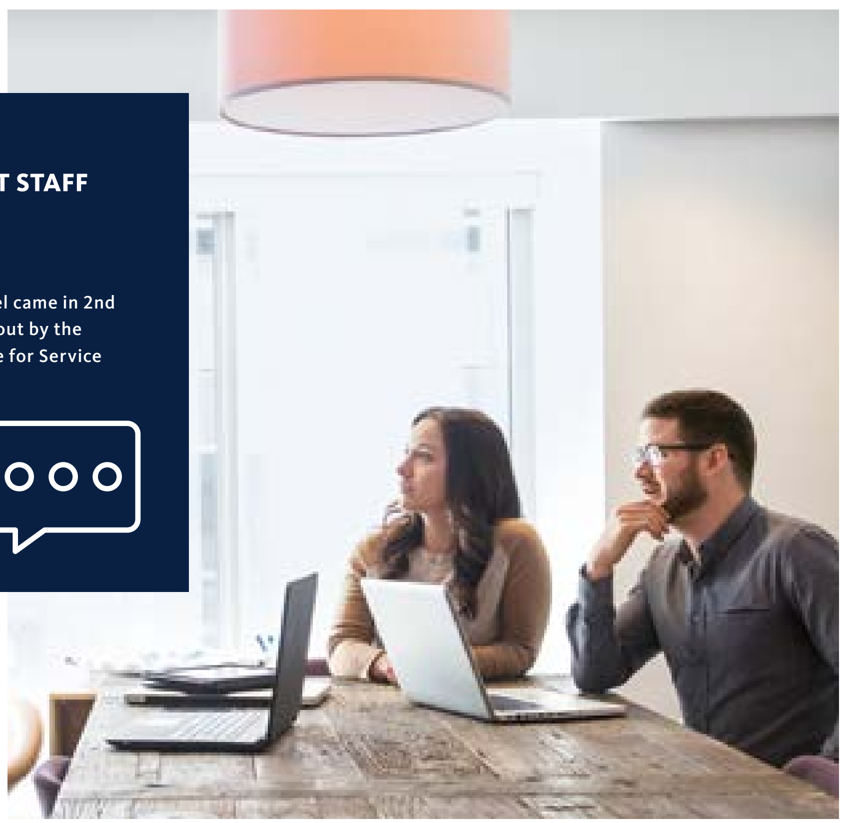
The Institute highlighted the brand's "friendly and knowledgeable staff", "comprehensive and accurate answers to mobile communications questions", as well as its appropriate tariff and smartphone recommendations and customer-focused responses to complaints.

Ensuring optimal customer satisfaction was also our aim when we fundamentally overhauled the freenet email service at the start of the year. "freenet.de" has been available to users for around two decades, both as a free service and as part of fee-based packages, making it one of the most established email services in Germany.

With a responsive design approach, the new email beta version adapts to the device and browser being used and is thus simpler and more intuitive to operate – for desktop, tablet or mobile use. For example, emails can be deleted on smartphones or tablets with touch events or gestures such as "swipe to delete". The design received a fresher, more modern look, while state-of-the-art technology significantly improved the loading speed of the email interface.

FRIENDLY & COMPETENT STAFF

mobilcom-debitel came in 2nd in a test carried out by the German Institute for Service Quality



INTERVIEW

EIGHT QUESTIONS FOR THE EXECUTIVE BOARD

Interview with Christoph Vilanek, Chief Executive Officer (CEO) of freenet AG, and Ingo Arnold, Chief Financial Officer (CFO), on the 2019 financial year

IN THE LONG TERM, WE WILL BENEFIT FROM THE ELECTRONICS STORES' IMPROVED SELLING POWER NOT JUST WITH OUR MOBILE COMMUNICATIONS PRODUCTS.

Christoph Vilanek, Chief Executive Officer (CEO)

01 If you read the papers, the freenet Group's 2019 financial year was particularly affected by the turbulence surrounding Swiss telecommunications provider Sunrise and MediaMarkt/Saturn's holding company CECONOMY. How have both of these freenet equity investments performed as of the year-end?

INGO ARNOLD: "That is certainly the impression that has been portrayed. And, of course, we have invested a good deal of time and energy in both of these issues. However, it is important to differentiate between our two equity investments. As one of freenet's purely financial investments, Sunrise had been operating very much independently in recent years. In light of this, you have to ask yourself the same question you do for every acquisition: does it really make economic sense? After all, not every acquisition lives up to your initial expectations, particularly as in this case, the purchase price offered by Sunrise for cable operator UPC seemed vastly inflated in our view. While this was one of the main reasons why we vehemently opposed the planned takeover, we also felt a particular responsibility our shareholders and those of Sunrise. Eventually, the other major shareholders took a similar view and the deal was scrapped."

CHRISTOPH VILANEK: "Again, we saw our CECONOMY investment as a strategic investment from the start; MediaMarkt and Saturn are very strong brands with considerable selling power and an important distribution channel for our main brand mobilcom-debitel's products. Without wishing to go into more detail on the quarrelling and decision-making within the organisation, we used our influence to introduce important new courses of action via the Supervisory Board. Over the past few months and quarters, more rigid management of issues such as promotions and commissions is already paying off. In the long term, we want to and will benefit from the electronics stores' improved selling power via our mobile communication products – particularly our products and services in the TV and Media segment."

02 That brings us to freenet's operating business. One new mobile communications product has also made huge waves over the past year.

CHRISTOPH VILANEK: "Yes – freenet FUNK. "Turning the mobile phone market upside down", "a seismic shift in the industry" and "a revolution in mobile communications" from "Germany's most exciting tariff" were some of the reactions from the trade press. Indeed, freenet FUNK marks a fundamental innovation in every respect – from the ordering process and the completely flexible and very inexpensive digital usage to the option to cancel the tariff on a day-to-day basis. The team, led by our Chief Technology Officer Stephan Esch and product manager Felix Bommer, have done an incredible job with this fully digital tariff."

03 Has your innovation been as well received by customers as it has in the press?

INGO ARNOLD: "As we were entering completely uncharted territory with this tariff, we were initially cautious with our sales and marketing efforts. The option to cancel the tariff on a day-to-day basis also meant that the figures were difficult to fit into our system of long-standing postpaid customers, so they were counted separately. There were around 34,000 active users at the end of 2019. Nevertheless, freenet FUNK helped us to offset the slight dip in postpaid customer growth in the first half of the year. Notwithstanding this, however, our important postpaid customer segment ultimately ended the year with a slight increase to 6.903 million customers. This development is due not least to the excellent work done by the Executive Board divisions of Antonius Fromme and Rickmann von Platen."

04 This once again suggests stable performance overall for 2019.

INGO ARNOLD: "That's right. We can summarise our performance by saying that we have accomplished or, in some cases, slightly exceeded our annual targets – just like we did every year for the past decade. Revenue remained stable compared to the previous year as forecast at 2.93 billion euros. At 426.8 million euros, EBITDA fell exactly into the anticipated range for the financial year – which is also true for free cash flow at 249.0 million euros. One thing that is particularly pleasing is that the number of subscribers including freenet FUNK rose to 8.367 million across all business areas and segments as of the end of December. As already mentioned, 6.903 million of this figure is attributable to postpaid customers in the Mobile Communications segment. Postpaid ARPU is also stable at 18.7 euros, after 19.0 euros in the previous year. As in previous years, our shareholders were also able to profit from freenet AG's quality and profitability-driven strategy, receiving a dividend of 211.2 million euros for the 2018 financial year – that's 1.65 euros per share."

05 How much did the TV and Media segment contribute to customer figures?

INGO ARNOLD: "Again, it's important to differentiate here. freenet TV, our full-HD product with a platform operated by freenet subsidiary Media Broadcast, contributes 1,021,000 RGUs – that means active, revenue-generating users. This is a solid figure that we are happy with given the limited potential for traditional linear terrestrial television in Germany. Meanwhile waipu.tv is performing very well in the attractive IPTV growth market, significantly exceeding the targets we set for 2019. Our subsidiary EXARING AG registered 408,000 paying subscribers for waipu.tv as of the end of December, with the service also contributing higher revenues."

06 Surely the continuous refinement of the product has also contributed to this success.

CHRISTOPH VILANEK: "Yes, and there have also been some absolutely spectacular developments. One particularly important breakthrough here is the sales collaboration with Telefónica Deutschland, which has been marketing "O_2 TV – powered by waipu.tv" to their own customer base since May. EXARING entered into more new partnerships during the year with major media companies such as Springer and Burda, as well as hardware manufacturers Samsung, Sony, Philips and Sharp and, last but not least, Apple TV and Amazon. Our package of around 30 Turkish channels means we are now reaching millions of fellow citizens with a migrant background in Germany for the first time.

The Company also expanded its products, services and partnerships for freenet TV. In September, Media Broadcast agreed a technology partnership with MagentaSport for an initial four-year period. The collaboration with ARD Sportschau was also extended for another two seasons, enabling us to continue transmitting the TV signal for a total of 178 Bundesliga matches from the stadiums to the WDR broadcasting centre in Cologne using our own fleet of outside broadcast vehicles."

07 Are there any other exciting developments within the company?

CHRISTOPH VILANEK: "Of course – in all areas and at all of our subsidiaries! We are working continuously on improvements big and small. In the Mobile Communications segment, for example, mobilcom-debitel reached a partnership agreement with Expert SE last summer, expanding the potential sales network to include Expert's retail partners and around 420 electronics stores across Germany. Notwithstanding many other individual initiatives, in the second half of the year we also activated the LTE network free of charge for all customers whose contracts previously only allowed them to surf the Internet via UMTS. As a result of all of our activities and promotions, several of our individual brands once again came out on top in comparison tests and customer surveys.

Nor did we rest on our laurels in the area of services after our success in recent years. For example, mobilcom-debitel strengthened the insurance and service management services offered by its own chain of stores by entering into a partnership with Clickrepair. With more than 1,000 workshops across Germany, this online repair platform is the leading marketplace for mobile and smartphones, helping to significantly extend their lifecycle. As part of the "Digital dabei" ("Going digital") initiative, mobilcom-debitel also hosted around 1,000 smartphone workshops aimed at the "Best Ager" target audience in around 525 of its shops on 1 October to mark International Day of Older Persons. A range of tariffs was also created specifically for senior citizens. However, our discount brand klarmobil also further enhanced its direct service for end customers, adding WhatsApp Messenger as a quick and direct support channel."

WE HAVE ACHIEVED ALL OUR TARGETS FOR THE YEAR, EVEN EXCEEDING SOME OF THEM SLIGHTLY – ESPECIALLY WITH OUR PRODUCTS IN THE TV AND MEDIA SEGMENT.

Ingo Arnold,
Chief Financial Officer (CFO)

08 These are also very positive signs for the current financial year. What are your plans and goals here for 2020?

INGO ARNOLD: “We are on the right track! This is why we are confident that, in financial year 2020, we will be able to sustain the overall performance seen in recent years, which has generally been marked by stability and continuity.

In Mobile Communications, we want to continue focusing on expanding the particularly valuable postpaid customer base and are anticipating moderate growth as in 2019. In the TV and Media segment, we are in good shape with around 1.43 million revenue-generating TV customers. We expect to expand this customer base further during the 2020 financial year. The waipu.tv IPTV project will once again drive growth in this segment. Overall, we expect EBITDA (at 415 to 435 million euros) and free cash flow (at 235 to 255 million euros) to remain stable.”

TO THE ANNUAL GENERAL MEETING

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

In the reporting period, the Supervisory Board fulfilled all the duties assigned to it by law, the articles of association and the rules of procedure. We supervised and advised the Executive Board in its management of the company based on the in-depth oral and written reports provided by the Executive Board. Outside of the meetings, too, the Executive Board kept the Supervisory Board members informed about business developments and current issues. Moreover, information was regularly exchanged between the chairman of the Supervisory Board and the chairman of the Executive Board as well as the other Executive Board members. This allowed the Supervisory Board to remain continually informed about the company's strategic direction, corporate planning including financial planning, the course of business, and the position of the company and the group. The Supervisory Board was involved directly and at an early stage in all decisions of material importance for the company and discussed these with the Executive Board thoroughly and in detail. In cases where decisions or measures to be taken required the approval of the Supervisory Board in accordance with the law, the articles of association or the rules of procedure, the members of the Supervisory Board issued their approval after an extensive review and discussion.

Prof. Dr Helmut Thoma,
Chairman of the Supervisory Board

ISSUES CONSIDERED BY THE FULL SUPERVISORY BOARD

In the 2019 financial year, four regular in-person meetings were held along with three telephone conferences. One resolution was voted on and passed in writing.

The subject of the meetings of the full Supervisory Board was the company's current business performance, the market and competitive situation, the financial position and results of operations as well as the financing situation of the company, and the performance of group companies and the group's investees.

A focus of our activities in 2019 was a discussion of the possible effects of a planned capital increase at Sunrise Communications Group AG on freenet AG, in which the freenet AG holds a nearly 25 per cent interest. The capital increase had been intended to finance the ultimately cancelled acquisition of UPC Schweiz by Sunrise Communications Group AG. In all in-person meetings, we deliberated intensively on current developments and the resulting consequences for the company. We held three additional meetings on 11 March 2019, 1 April 2019 and 23 October

2019, each by telephone, in which we exclusively discussed the current situation at Sunrise Communications Group AG and its relevance for freenet AG.

At the first meeting requiring personal attendance held on 20 March 2019, the main subject of the discussion was the annual and consolidated financial statements as at 31 December 2018. We discussed the findings of the annual financial statements audit and the effects of amended financial reporting standards together with representatives of the auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main (PwC GmbH WPG). 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 2018. As in the previous year, 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 again 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.

After preparation by the steering committee, the Supervisory Board also approved a capital increase at EXARING AG as a result of which freenet AG's equity interest in EXARING AG rose to approximately 59 per cent.

In addition to preparing for the Annual General Meeting on 16 May 2019, another item covered at this meeting was the extension of an Executive Board term. The Supervisory Board extended the appointment of Executive Board member Stephan Esch for another five years. The Supervisory Board also adopted a resolution in writing on 17 April 2019 regarding the targets agreed with members of the Executive Board for 2019.

In the meeting after the Annual General Meeting on 16 May 2019, the Executive Board reported to the full Supervisory Board about current developments in the key business areas.

On 24 September 2019, the Supervisory Board talked over fundamental strategic concerns and reviewed the current situation and prospects of the core business and the TV and Media segment. The Executive Board also reported on the significant investees.

In its meeting on 3 December 2019, the Supervisory Board discussed and noted with approval the planning for the 2020 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.

After financial year 2019 had come to an end, a Supervisory Board meeting was held on 25 March 2020, mainly for the purpose of discussing the annual and consolidated financial statements as at 31 December 2019. The details concerning this matter are the subject of the separate section "Audit of the annual and consolidated financial statements for financial year 2019" in this report. Further topics were the agenda for the Annual General Meeting to be held on 27 May 2020, including the resolutions proposed to the Annual General Meeting, and the effects of the current coronavirus pandemic (SARS-CoV-2) on the Company.

WORK OF THE SUPERVISORY BOARD COMMITTEES

The Supervisory Board has set up five committees. They prepare information on issues and for resolutions to be handled by the full Supervisory Board. Within the scope permitted by law, the Supervisory Board has transferred its authority to make decisions to the committees. The committee chairs report to the full Supervisory Board about the work of the committees in the subsequent meeting in each case. 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 2019, the steering committee met once and discussed strategic issues. The focus was on the performance of the equity investment in CECONOMY AG and in Sunrise Communications Group AG. The members also deliberated on the interest in EXARING AG and prepared the resolution on participation in EXARING AG's cash capital increase.

PERSONNEL COMMITTEE

The members of the personnel committee held three meetings in 2019, including two meetings conducted by telephone conference. The committee prepared the Supervisory Board resolution to extend the appointment of Stephan Esch and conducted negotiations regarding his employment contract. The committee also established whether and to what extent the parameters for the variable remuneration of the Executive Board members for 2018 were reached, set new parameters for the targets agreed for the 2019 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. Together with the auditor, the committee regularly discussed current accounting issues. One further topic in the committee was providing support for the review of the non-financial statement conducted by Mazars WPG.

The committee also dealt with the non-audit services provided by the auditor, adopted a new catalogue of generally pre-approved non-audit services provided by the auditor and granted one approval in writing. For the review of the 2019 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. The status of the internal control system, risk management and fraud management were also presented to the committee.

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 2019.

NOMINATION COMMITTEE

The nomination committee did not convene in 2019.

DISCLOSURE ON INDIVIDUAL MEMBERS' ATTENDANCE AT MEETINGS

The attendance rate of the members of the Supervisory Board and its committees was over 99 per cent. Apart from one full Supervisory Board meeting which one Supervisory Board member did not attend, the Supervisory Board and its committees always held meetings with all members present. As a result, no member of the Supervisory Board participated in just half of the meetings or fewer. The attendance of individual members in the meetings of the Supervisory Board and its committees is disclosed below.

	Full Supervisory Board		Steering committee		Audit committee		Personnel committee	
	Number	in %	Number	in %	Number	in %	Number	in %
Prof. Dr Helmut Thoma Chairman	7/7	100	1/1	100			3/3	100
Knut Mackeprang Vice Chairman	7/7	100	1/1	100			3/3	100
Claudia Anderleit	7/7	100					3/3	100
Bente Brandt	7/7	100			4/4	100		
Theo-Benneke Bretsch	7/7	100						
Sabine Christiansen	7/7	100					3/3	100
Gerhard Huck	7/7	100	1/1	100				
Thorsten Kraemer	6/7	86	1/1	100				
Fränzi Kühne	7/7	100						
Thomas Reimann	7/7	100			4/4	100		
Marc Tüngler	7/7	100			4/4	100		
Robert Weidinger	7/7	100			4/4	100		
		98.81		100		100		100

Supervisory Board member Thorsten Kraemer disclosed a potential conflict of interest first to the chairman and then to the full Supervisory Board on 1 April 2019 resulting from his indirect investment in Sunrise Communications Group AG. This potential conflict of interest related exclusively to the stance of freenet AG regarding the capital increase planned by Sunrise Communications Group AG at that time in connection with its acquisition of UPC Switzerland. In order to avoid any risk of a possible conflict of interest, Thorsten Kraemer did not take part in any consultations or receive any information or documents regarding this issue at his own request. Accordingly, Thorsten Kraemer did not participate in the Supervisory Board meetings after 1 April 2019 to the extent that the deliberations involved issues concerning the acquisition of UPC switzerland by Sunrise Communications Group AG and the associated plans for a capital increase at Sunrise Communications Group AG. This was also true of the telephone conference on 23 October 2019, the only meeting in which all the Supervisory Board members did not participate for this reason. Likewise, no oral or written information, Supervisory Board documentation or meeting minutes regarding this issue were made available to him.

No other circumstances that might constitute conflicts of interest involving Executive or Supervisory Board members and must be disclosed to the Supervisory Board and about which the Annual General Meeting must be informed were disclosed to the Supervisory Board.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2019

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 2019 to 31 December 2019 and the freenet AG management report were audited by PwC GmbH WPG. The audit assignment had been awarded by the chair of the audit committee in accordance with the resolution adopted by the Annual General Meeting on 16 May 2019. The auditor issued an unqualified auditor's report. The consolidated financial statements of freenet AG as at 31 December 2019 were prepared in accordance with section 315e HGB based on 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, PwC GmbH WPG, was signed by Niklas Wilke in his capacity as the responsible auditor. Niklas Wilke was responsible for the audit of the company for the second year in a row. PwC GmbH WPG 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 25 February 2020 and at the Supervisory Board meeting on 25 March 2020. 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 25 March 2020. The annual financial statements were thus adopted. At its meeting on 25 March 2020, the Supervisory Board also examined the Executive Board's proposal for the appropriation of net retained profits and discussed it with the auditor.

REVIEW OF THE NON-FINANCIAL STATEMENT FOR THE 2019 FINANCIAL YEAR

The non-financial statement for the financial year from 1 January to 31 December 2019 which was prepared by the Executive Board as part of the management report of freenet AG and the group management report and in accordance with the standards of the Global Reporting Initiative (GRI) was reviewed by Mazars WPG, Hamburg. The limited assurance engagement was awarded based on the Supervisory Board resolution of 3 December 2019. 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 were not prepared, in all material respects, in compliance with the legal requirements and the requirements of the GRI framework (limited assurance engagement). The auditor reported on the limited assurance engagement procedures and results in the audit committee meeting on 25 February 2020. The Supervisory Board agreed with the results of the auditor following a corresponding recommendation by the audit committee.

CHANGES TO THE SUPERVISORY BOARD AND EXECUTIVE BOARD

SUPERVISORY BOARD

In financial year 2019, there were no changes in the composition of the Supervisory Board.

EXECUTIVE BOARD

Ingo Arnold had been appointed Chief Financial Officer in the previous year, effective 1 January 2019.

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 the Group companies for their personal commitment and good work.

Büdelsdorf, 25 March 2020

For the Supervisory Board

Prof. Dr Helmut Thoma
Chairman of the Supervisory Board

FREENET AND THE CAPITAL MARKETS

THE FREENET SHARE

- 2019 – a successful year for the stock markets draws to a close
- Dividend payment of 1.65 euros in May 2019 for financial year 2018
- Syndicated bank loan again extended by five years

CAPITAL MARKET ENVIRONMENT

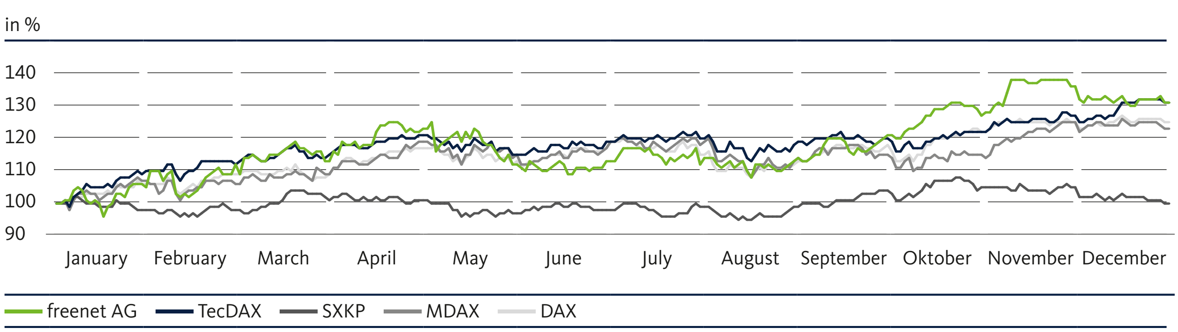
Despite factors such as recession fears, the trade dispute between the USA and China and uncertainty about Brexit, stock market performance was encouraging in 2019. It was the most successful year for the stock markets since 2013. The 18 per cent downturn in the DAX had an extremely negative effect in 2018, making that the year with the largest loss since the international financial crisis in 2008. However, as at 31 December 2019, the DAX stood at 13,249 points, up around 25.5 per cent from the start of the year.

Gaining more than 30 per cent over the year, the MDAX, on which freenet shares are listed, significantly outperformed the leading German DAX index. Last year was somewhat more sluggish for the TecDAX, on which freenet AG shares are also listed. Although the TecDAX was up considerably (+23 per cent), its performance lagged that of the other two indices.

The multi-segment STOXX Europe 600 Telecommunications (SXKP) index measures the performance of the European telecommunications industry. This industrial barometer had no clear direction over the year. On the last trading day of 2019, the index closed at almost exactly the level of the prior year and therefore, relatively speaking, greatly underperformed the market.

Figure 1: Performance of the freenet share in 2019

(indexed; 100 = Xetra closing price on 31 December 2018)



FREENET SHARE PERFORMANCE

In 2019, freenet saw its share price rise by around 31 per cent. The share price performance over twelve months was thus comparable to or better than that of the benchmark MDAX and TecDAX indices.

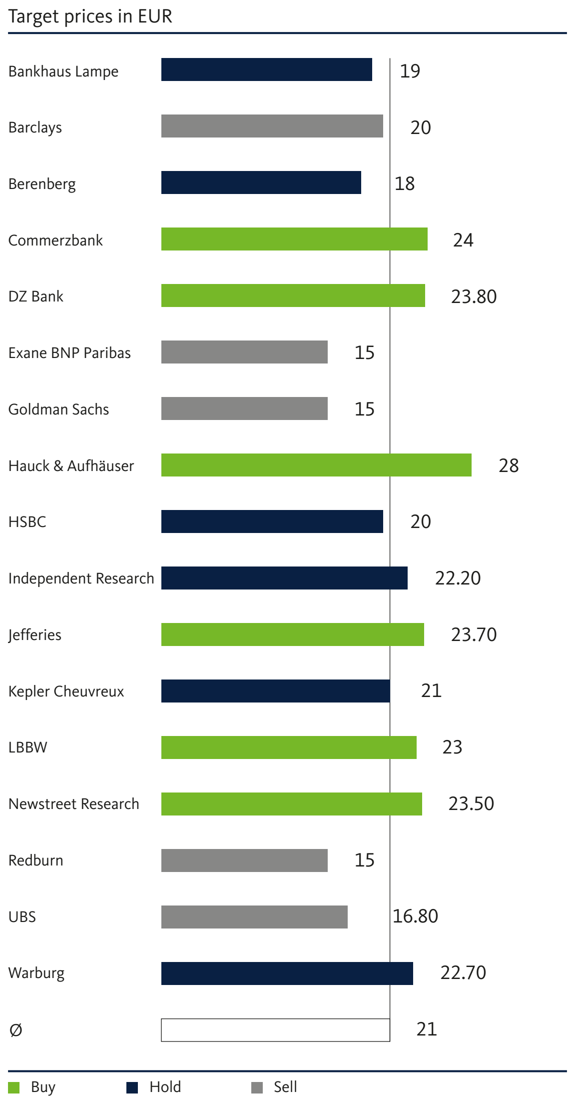
At the beginning of the year, our shares were quoted at 15.59 euros, only to decline to their low for the year at 14.96 euros in mid-January 2019. This short-term negative trend then reversed, enabling freenet AG shares to register positive performance by mid-May 2019. The upward trend was interrupted for a time in mid-May 2019 as a result of the dividend payment approved by the Annual General Meeting amounting to 1.65 euros per share. As the year progressed, our share price performance improved and closed out the year at 20.44 euros.

ANALYSTS' RECOMMENDATIONS

A total of 17 (2018: 19) international investment firms regularly published studies and recommendations regarding the current performance of freenet AG in financial year 2019. During the year, analysts published around 72 comments and recommendations on the freenet share, representing an increase compared with the previous year (2018: 52).

Analysts' recommendations on freenet AG were rather mixed during 2019. At the end of 2019, six analysts issued a "buy" recommendation (2018: four analysts) for freenet's shares, while six others advised investors to "hold" (2018: eleven analysts). The other five analysts said "sell" (2018: four analysts). As at 31 December 2019, the average target price of the analysts was 20.63 euros (2018: 24.58 euros).

Figure 2: Current recommendations for the freenet share



As per 31 December 2019

CONFERENCES AND ROADSHOWS

freenet AG's investor relations activities focus above all on honest and transparent market communications. The Executive Board and the Investor Relations team aim to ensure that current and potential shareholders, retail and institutional investors, financial analysts, banks, business partners, employees as well as all other interested stakeholders are regularly provided with comprehensive and current information about the company.

In financial year 2019, the Executive Board and the Investor Relations team once again held numerous meetings with investors. This transparent exchange of information took place in face-to-face meetings at international conferences and road shows as well as by telephone conference. In addition, conference calls and webcasts were organised following the publication of financial reporting in which the Executive Board provided extensive reports on the development of the freenet Group's business. In total, we interacted with investors nearly 420 times during the year (2018: 380).

The 2019 goal of providing an even more complete picture of strategic issues and the general financial situation was met from the point of view of the Executive Board and the Investor Relations team and received positively by the financial community. Capital market communications will be stepped up again in the 2020 financial year.

CHANGES IN SHAREHOLDER STRUCTURE

SHAREHOLDER STRUCTURE AND GEOGRAPHICAL DISTRIBUTION

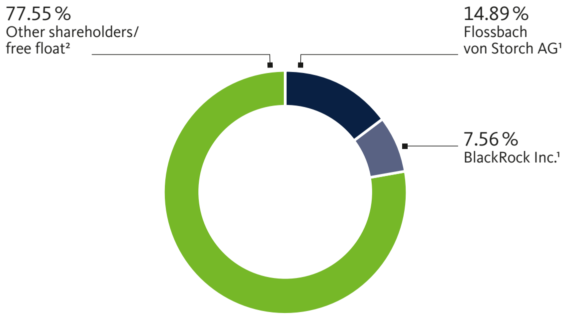
As at 31 December 2019, freenet AG had around 99,000 shareholders, a year-on-year increase of nearly 30.0 per cent (previous year: 77,000 shareholders). Institutional investors again held most of the issued shares, accounting for approximately 57 per cent (2018: 57 per cent).

At 14.89 per cent, German asset management firm Flossbach von Storch AG held the largest interest at year-end 2019, followed by the world's largest asset manager, BlackRock Inc., which held 7.56 per cent of the issued shares of freenet AG. The remaining 77.55 per cent was held by institutional or retail investors whose interest in freenet each total less than three per cent (free float according to Deutsche Börse AG's definition). The aforementioned and other voting rights notifications pursuant to Section 21 of the German Securities Trading Act (WpHG) for the 2019 financial year have been published at www. freenet-group. de/investor-relations.

In the 2019 financial year, there were no managers' transactions in accordance with Art. 19 of the Market Abuse Regulation (MAR).

Figure 3: Shareholder structure of freenet AG on 31 December 2019

in %



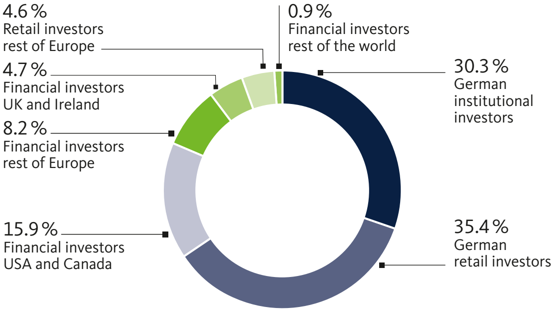
¹ incl. attributions according to the German Securities Trading Act (Wertpapierhandelsgesetz–WpHG).
² The free float according to Deutsche Börse AG amounts to 77.55 per cent.

Based on an analysis carried out in December 2019, Germany again represents the largest regional group of freenet investors with a share of around 66 per cent (2018: 66 per cent). About half of these are institutional investors, the other half are private shareholders. At 16 per cent, institutional financial investors from the USA and Canada make up the second largest group of financial investors, followed by institutional investors from the rest of Europe at 8 per cent. The remaining portion is accounted for by institutional investors from Great Britain and Ireland (5 per cent), private shareholders from the rest of Europe (1 per cent) and financial investors from other countries (4 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 (54 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 4: Geographical distribution of the shareholder structure of freenet AG on 31 December 2019

in %



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

DIVIDEND AND EARNINGS PER SHARE

On 16 May 2019, 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 2018 financial year. This corresponds to a payout ratio of 80.1 per cent of free cash flow. The dividend was distributed to the shareholders on 21 May 2019 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). This means that the dividend was again paid out without any deduction of withholding tax and the solidarity surcharge.

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.

The basic/diluted earnings per share of 1.49 euros in the 2019 reporting year were lower than in the previous year (1.74 euros). The basis for calculating the earnings per share is the weighted average of shares outstanding.

Table 1: Earnings per share

In EUR as indicated	2019	2018
Basic earnings per share	**1.49**	**1.74**
Diluted earnings per share	**1.49**	**1.74**
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

FINANCING ACTIVITIES

SYNDICATED BANK LOAN AGAIN EXTENDED BY FIVE YEARS

In 2018, freenet AG had successfully extended the syndicated bank loan originally signed in March 2016 at the same terms and conditions until November 2023; two one-year options to extend the loan were also agreed. freenet exercised the first extension option in November 2019. The syndicated bank loan now runs until November 2024.

EARLY REPAYMENT OF PROMISSORY NOTE LOANS

In 2019, no tranches of the existing promissory note loans were due for repayment. freenet made voluntary repayments at regular interest payment dates amounting to 15.0 million euros in March 2019 and 16.0 million euros in November 2019. This reduced the outstanding nominal volume of the corresponding promissory note loan tranches due in March 2021 and in November 2020 by 31.0 million euros for the next two calendar years.

SUSTAINABLE ACTION

For the Executive Board of freenet AG, corporate responsibility means more than just a narrow focus on accepting commercial and thus economic responsibility. The freenet Group is aware of its external impact and the various roles associated with this and focuses on the different requirements and interests of its stakeholders when addressing its responsibilities. Responsible action is part of our company's culture and the key to its success and sustainability.

We also maintain an ongoing long-term dialogue with various stakeholders built on a spirit of trust. This dialogue enables us to identify new trends and changing requirements for the company at an early stage and to incorporate this into our corporate governance. The frequency and nature of this dialogue is based on the specific needs and expectations of our key stakeholders. These can be broadly divided into the groups of capital providers (e.g. shareholders, analysts and banks), partners (e.g. service providers, customers, suppliers and employees), public institutions and society.

As economic success is the prerequisite for delivering reliable and measurable value for all these stakeholders, the company's actions are primarily focused on economic principles. This enables us to deliver measurable value for our employees by ensuring that they are appropriately remunerated based on performance and are involved in the company's success in varied ways. Capital providers are kept continually and comprehensively informed about the freenet Group's performance and receive interest and dividends. In turn, tax payments make a direct monetary value contribution to public institutions and thus to society.

During the 2019 financial year, the freenet Group generated revenue of 2,932.5 million euros (2018: 2,897.5 million). Investments totalling 40.6 million euros (2018: 43.3 million euros) were made, payments of 236.5 million euros (2018: 219.7 million euros) were made to employees (personnel expenses) and taxes of 30.6 million euros (2018: 29.5 million euros) were paid. An unchanged dividend of 211.2 million euros (2018: 211.2 million euros) was distributed to capital providers and interest payables of 48.0 million euros (2018: 40.8 million euros) were satisfied.

To meet increasing demand for transparency and comparability in sustainability reporting, the GRI Standard was applied to the freenet Group's non-financial statement, a GRI Index was introduced and dialogue with sustainability-focused ratings agency was stepped up during the 2019 financial year.

This means that sustainable action forms an integral part of the freenet Group's corporate culture.

The Executive Board

Christoph Vilanek   Ingo Arnold   Stephan Esch

Antonius Fromme   Rickmann v. Platen

INVESTOR RELATIONS CONTACT

The Investor Relations team is available to answer additional questions by phone or in writing:

Phone: +49 (0)40 / 513 06 – 779

Fax: +49 (0)40 / 513 06 – 970

Email: investor.relations@freenet.ag

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

Table 2: 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

GROUP MANAGE-MENT REPORT

GROUP MANAGEMENT REPORT 37

GROUP MANAGEMENT REPORT

BUSINESS MODEL AND ORGANISATION

- Digital lifestyle provider with a customer base of approximately 8.4 million subscribers
- Long-term customer contracts with constant value added generate stability and predictability
- IPTV as growth driver

OVERVIEW OF THE FREENET GROUP

As a digital lifestyle provider, the freenet Group offers its approximately 8.4 million subscribers innovative products for life on the go. The Group's operating activities are limited mainly to private customers and to the German market. freenet AG, the parent company of the freenet Group, is a listed German public limited company (Aktiengesellschaft – AG) with its registered office in Büdelsdorf and administrative headquarters in Hamburg. The company's financial year is the calendar year (1 January to 31 December).

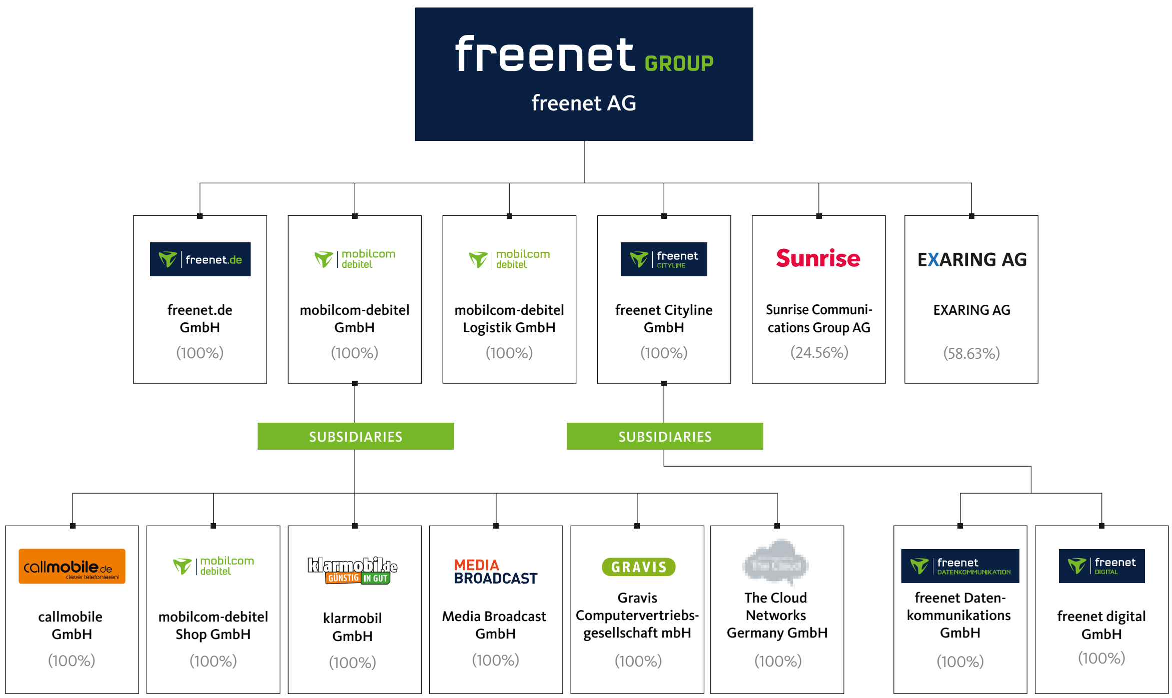
As of 31 December 2019, there were five Executive Board departments:

Executive Board Member	Department
Christoph Vilanek	Chief Executive Officer (CEO)
Ingo Arnold	Chief Financial Officer (CFO)
Stephan Esch	Chief Technical Officer (CTO)
Antonius Fromme	Chief Customer Experience Officer (CCE)
Rickmann v. Platen	Chief Commercial Officer (CCO)

The freenet Group conducts its core business activities in two operating segments, Mobile Communications and TV and Media; both are described below. In addition, the Other/Holding segment comprises other activities, which are only of minor importance for the purpose of assessing the company's net assets, financial position and results of operations. The segments are divided by product and not by customer segment or geographical areas in line with the structure of the internal management system.

Effective 1 January 2019, the entities The Cloud Networks Germany GmbH, Munich, and The Cloud Networks Nordic AB, Stockholm, Sweden, were included in the Mobile Communications segment. The freenet Group also divested its majority interest (51 per cent) in Troisdorf-based MOTION TM Vertriebs GmbH in December 2019. The shares were sold back to the previous shareholders. The main Group companies as of 31 December 2019, measured in terms of their contribution to the financial performance indicators of the Group, are set out as follows:

Figure 5: Material Group companies of freenet AG as of 31 December 2019



MOBILE COMMUNICATIONS SEGMENT

The freenet Group's core business is mobile communications. Its products and services include mobile telecommunications and mobile internet products, services and hardware. This portfolio is also being expanded to encompass a diverse range of digital lifestyle products and services. For the freenet Group these include mobile phone accessories, home entertainment (music and video offerings) and all services, applications and devices that are connected to the internet or controllable by a mobile end device (e.g. smart home or WiFi services).

In providing mobile communications services, the freenet Group follows a business model unique in Germany without a mobile network of its own. Unlike mobile network operators (MNOs), the Group is able to do business without operating an expensive and capital-intensive mobile network. Compared to other competitors, the freenet Group does not acquire any (network) capacity (mobile virtual network operator or MVNO model) from an MNO, thus avoiding resale risk. Instead, the Group mainly applies a reselling model in which mobile customer data is not transferred to the network operator, but instead remains with the freenet Group (service provider model). This creates a direct relationship with customers, enabling the freenet Group to also provide all downstream customer services (e.g. customer management, billing, marketing, etc.) and to also offer the possibility of generating further business from customers through cross-selling and up-selling.

Another unique selling proposition of the freenet Group on the German market is the fact that its mobile tariff portfolio includes the original tariffs of the three German network operators – Telekom, Vodafone and Telefónica Deutschland – as well as its own tariffs. The tariffs are marketed using a multi-brand strategy, i.e. including its own discount and premium brands, allowing the freenet Group to meet the needs of nearly every customer group. These tariffs are sold both online and/or offline via an extensive network of branches depending on the brand strategy. Under its main brand mobilcom-debitel, the freenet Group operates both an online shop and a chain of high-street branches consisting of more than 560 stores. mobilcom-debitel also holds exclusive marketing rights for mobile communication services on the Telekom and Vodafone networks in more than 430 electronics stores operated by Media-Saturn-Deutschland GmbH (Media Markt and Saturn).

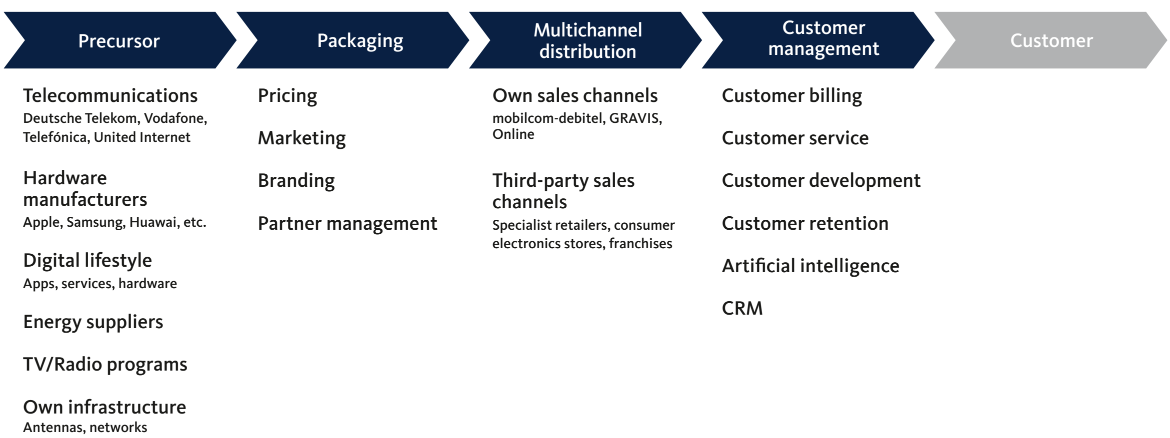
TV AND MEDIA SEGMENT

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 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 in Germany stretching over 13,000 km. The IPTV product is purchased and marketed to private users in a subscription model via the freenet Group's distribution channels, among others. EXARING AG supplements its business with private customers with an offering for business users including addressable TV and web-to-TV services.

Fast, stable transmission to smartphones, tablets, laptops or home televisions combined with exceptional picture quality and an intuitive user interface has enabled waipu.tv to gain a notable position in the growing German IPTV market within just a few years. The TV and Media segment's products round out the Mobile Communications segment's digital lifestyle products and services. The freenet Group's business model and value chain can be summarised as follows:

Figure 6: Customer-focused value creation and business model



GROUP MANAGEMENT REPORT

CORPORATE STRATEGY AND GOALS

The freenet Group's vision is "Always the Right Choice". Service quality and lasting customer satisfaction and loyalty are therefore vitally important. 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 and established a separate Executive Board department for these activities in 2018.

CUSTOMER EXPERIENCE IS MORE THAN JUST MEETING CUSTOMER EXPECTATIONS

The goal is to improve customer experience by sustainably designing and linking various individual customer-facing initiatives. The freenet Group believes that interacting with customers responsibly and taking into account their individual needs provide a basis for long-term commercial success. This is particularly true of the Mobile Communications segment, which continues to be the major driver of the freenet Group's business and where the strategic focus is on establishing profitable long-term relationships with postpaid customers (customers with 24-month contracts). As a result, maintaining market share in the saturated German mobile communications market is a priority. Active customer experience management, a consistent multi-brand strategy and tight integration with the multi-channel distribution network contribute to this effort. The objective is to increase customer loyalty, optimise the quality of the customer base and subsequently ensure stabilisation of monthly revenue per customer to ultimately also unlock the strategically important potential of up-selling and cross-selling.

FOCUS ON LONG-TERM CUSTOMER RELATIONSHIPS IN THE TV AND MEDIA SEGMENT

To ensure further value-oriented organic growth, the Group transferred its existing sales strength, service orientation and long-standing experience in subscription business to the relatively new TV and Media segment. Marketing the subscription services – freenet TV and waipu.tv – also serves the purpose of establishing profitable long-term customer relationships. 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 freenet Group's operating business. The IPTV product waipu.tv is a key growth driver in the corporate strategy. As an aggregation platform for linear and non-linear TV content with an extensive selection of user functionality and a high degree of flexibility in the integration of new content, waipu.tv has the potential to generate user growth through the growing popularity of IPTV.

Long-term customer contracts that make consistent value contributions (almost free of seasonal effects) and the continued pursuit of the asset-light strategy are the basis for the freenet Group's stable business performance and reliable forward planning of revenue, EBITDA and free cash flows. 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 stakeholders, including employees, shareholders and lenders. Overall, the strategic focus of the Group is based on sustainable and responsible action and management. Likewise, all stakeholders can benefit from the performance of the freenet Group based on its value-oriented and profitable operations.

GROUP MANAGEMENT REPORT

CORPORATE MANAGEMENT

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. If a need for adjustment is identified in the future, the management of the freenet Group reserves the right to adjust the management system accordingly.

The performance indicators used for corporate management purposes also regularly represent alternative performance measures (APMs) that 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 the current operating performance and the company's debt situation, these are only meaningful to a limited extent when used as a sole analysis tool. In addition, even though they might use similar or even identical designations, the listed APMs are not necessarily equivalent to the APMs used by other companies because of different calculation methods used.

Financial and non-financial performance indicators as well as other key figures and indicators of the company's success are explained below.

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. The financial performance indicators EBITDA, free cash flow, postpaid ARPU, and adjusted EBITDA, which is calculated for informational purposes, are also 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 core business of mobile communications depends on the sale of products and services related to mobile communications and the mobile internet. 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.

[1] In contrast to the previous year, the information on APMs is no longer presented in a separate section, but integrated in the section "Corporate management".

EBITDA

EBITDA reflects the short-term operating performance of a company and is generally regarded as a key financial performance indicator for assessing corporate trends over past periods and companies within the same market segment. Since EBITDA focuses on operating efficiency, this performance indicator also enables comparability irrespective of the different capital costs and the different structure of 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 EBITDA), adjusted for one-time effects for information purposes. 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 distort the transparent presentation of the freenet Group's operating results. Adjusted EBITDA thus supplements management-relevant EBITDA as an additional information indicator.

No one-time effects were taken into account for the 2019 financial year. In contrast, one-time effects from the sale of analogue radio were eliminated in the 2018 financial year.

Table 3: Calculation of EBITDA and Adjusted EBITDA

In EUR '000s	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018
EBIT	269,954	311,988
Depreciation, amortisation and impairment	156,841	129,196
EBITDA[1]	**426,795**	**441,184**
One-time effects from sale of analogue radio	0	– 39,082
Adjusted EBITDA	**426,795**	**402,102**

[1] EBITDA corresponds to EBITDA exclusive of Sunrise shown in the previous year.

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 liabilities and receivables, the control measures also include efficient receivables management, including factoring.

Redefined at the beginning of financial year 2019, free cash flow shows even more clearly the amount of cash generated that can be used to pay dividends or repay borrowings, for example. Accordingly, interest paid, interest received and proceeds from the cash repayment of financial assets under leases are included in cash flows from operating activities, and cash repayments of lease liabilities are included in the calculation of free cash flow.

Table 4: Calculation of free cash flow

In EUR '000s	1.1.2019– 31.12.2019	1.1.2018– 31.12.2018
Cash flows from operating activities	364,232	328,870
Payments to acquire property, plant and equipment and intangible assets	– 45,155	– 57,193
Proceeds from disposal of intangible assets and property, plant and equipment	4,553	13,850
Cash repayments of lease liabilities	– 74,603	– 21,754
Free cash flow	**249,027**	**263,773**

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.

Postpaid ARPU is calculated without factoring in the hardware revenue included in the basic fee (subsidy portion). 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 are 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 subscriber numbers. Customer acquisition and retention are therefore essential for the freenet Group. The strategically relevant customer groups vary depending on the operating segment. The postpaid customer base serves as a performance indicator for the Mobile Communication segment, and the revenue-generating TV customer base serves as a performance indicator for the TV and Media segment.

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.

The freenet Group's TV business addresses a further segment, which strengthens and expands 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 success in establishing the segment and thus for market penetration with both TV products.

Taken together, the two segment-related performance indicators postpaid customer base and TV customer base reflect the value-added subscription customer base of the freenet Group. The performance indicators provide a more transparent view of the strategic focus of the freenet Group and at the same time, reflect the perception of the relevant customer groups on the capital market.

OTHER KEY INDICATORS AND MEASURES FOR THE COMPANY'S SUCCESS

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

- Product brands, new products, partnerships and sales activities
- Research and development
- Employees
- EBIT and financial result, and
- Gross profit and gross profit margin

The other key figures EBIT, financial result and gross profit and gross profit margin are also alternative performance measures.

PRODUCT BRANDS, NEW PRODUCTS, PARTNERSHIPS AND SALES ACTIVITIES

In the reporting period, the freenet Group again launched a number of new products, entered into new partnerships and developed additional sales channels with the aim of securing its primary business and creating new potential at the same time. The most important of these new products, partnerships and sales activities, is presented in the figure below.

Figure 7: Significant product brands, new products, partnerships and sales activities

waipu.tv	Samsung and waipu.tv embark on a strategic partnership
waipu.tv	Partnership with Telefónica Deutschland “O2 TV – powered by waipu.tv”
mobilcom-debitel	freenet FUNK launched
mobilcom-debitel	Partnership agreement with Expert SE (about 420 specialist stores)

RESEARCH AND DEVELOPMENT

freenet AG does not have its own research and development department. In view of the rapid technological progress being made in telecommunications, however, the company is closely monitoring and analysing all significant innovations. 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 the financial year and in the previous year, the income statement was not affected significantly by research and development costs. Within the framework of IT-, strategy- and product development projects, the freenet Group made total cash-effective investments of 20.3 million euros in 2019 (2018: 18.1 million euros).

EMPLOYEES

At year end, the freenet Group employed 4,238 people at 9 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 2019, the number of apprentices in the freenet Group was 336 (2018: 325). Ensuring that employees maintain their skills and continue to develop their expertise in view of current market and technological developments is essential for the future business success of the freenet Group.

Detailed information about employee issues can be found in the non-financial statement on pages 43 – 63.

EBIT AND FINANCIAL RESULT

EBIT is defined as earnings before financial result and income taxes. Since the 2019 financial year, the items profit or loss of equity-accounted investments, interest and similar income, interest and similar expenses and other net finance costs have been reported in a separate subtotal called financial result.

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 5: Calculation of gross profit

In EUR ‘000s/as indicated	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018
Revenue	2,932,544	2,897,466
Cost of materials	– 2,036,334	– 1,993,739
Gross profit	**896,210**	**903,727**
Gross profit margin (in %)	**30.6**	**31.2**

FINANCIAL MANAGEMENT

CASH, LIQUIDITY AND CAPITAL STRUCTURE MANAGEMENT

The management of the company’s strategy and operations is bolstered by well-established financial management activities. These essentially comprise cash and liquidity management along with capital structure management, and are handled centrally by the Treasury department, in some cases in cooperation with Financial Control and Accounting.

Cash and liquidity management guarantees that the freenet Group can meet its payment obligations at any time. To this end, cash flows from operating activities as well as financial transactions are monitored continually and integrated into a rolling cash flow plan. Group companies can also tap into the intragroup cash pooling system to utilise surplus cash from other units to cover their own liquidity requirements without outside borrowing.

Capital structure management shapes the capital structure of the freenet Group and of the subsidiaries. Two alternative performance measures – equity ratio and debt ratio – are an integral part of structuring the Group's capital. In addition, an adjusted debt ratio is also reported for informational purposes. This provides a less conservative perspective on the freenet Group's debt by including the market values of equity investments in the debt structure. In terms of the equity ratio, the freenet Group's management considers a lower limit of 25.0 per cent to be appropriate along with a target debt ratio capped at 3.0.

The equity ratio and (adjusted) debt ratio are alternative performance measures. The equity ratio represents the relationship between equity and total assets. As at 31 December 2019 it amounted to 27.3 per cent, thus exceeding the target of 25.0 per cent.

Table 6: Equity ratio

In EUR '000s/as indicated	31.12.2019	31.12.2018
Equity	1,321,601	1,280,753
Total equity and liabilities	4,839,597	4,634,652
Equity ratio (in %)	**27.3**	**27.6**

The debt ratio is calculated as the ratio between net borrowings and EBITDA generated in the last twelve months. This is also applicable to the adjusted debt ratio; however, in this case, net debt adjusted for the market value of equity investments is used as the basis for calculating the ratio.

Table 7: Net debt and adjusted net debt

In EUR '000s	31.12.2019	31.12.2018 restated
Long-term borrowings	1,428,009	1,699,424
Short-term borrowings	265,610	23,476
Net lease liabilities	471,176	260,201
Liquid assets	– 133,692	– 126,332
Net debt	**2,031,103**	**1,856,769**
Market value of Sunrise and CECONOMY[1]	– 953,151	– 952,498
Adjusted net debt	**1,077,952**	**904,271**

[1] 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 data. 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.

Due to the initial application of IFRS 16 Leases, the comparability of both the debt ratio and the adjusted debt ratio as of year-end 2019 with those of 2018 is limited. This limitation is mainly attributable to financial obligations under operating leases that have been recognised since the beginning of the financial year and are now part of net debt. As a result, the debt ratio as of 31 December 2019 was 4.8, which is above the medium-term target value of no more than 3.0. The year-on-year increase (2018: 4.2) is due to higher net lease liabilities (operating leases recognised as liabilities), which were up 211.0 million euros. The adjusted debt ratio as of 31 December 2019 is 2.5, and is above the prior-year figure for the same reasons (2018: 2.0).

Table 8: Key figures of capital structure management

	Target	31.12.2019	31.12.2018
Equity ratio (in %)	> 25.0	27.3	27.6
Debt ratio	≤ 3.0	4.8	4.2
Adjusted debt ratio	n. d.	2.5	2.0

DIVIDEND POLICY

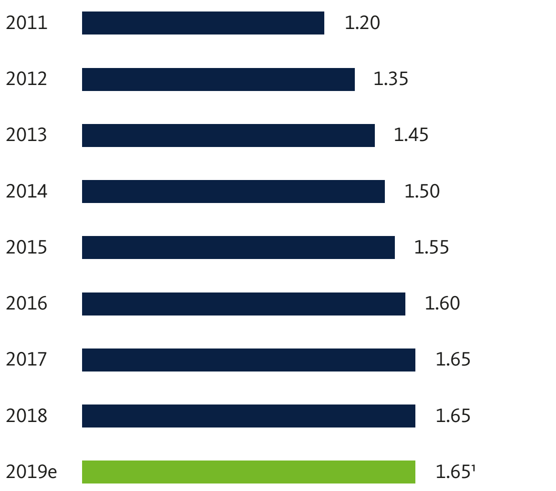
Dividend payments result in an outflow of liquidity from the company and therefore influence the control parameters relating to the capital structure. Accordingly, the dividend policy is a key component of the freenet Group's financial management activities. The Group pursues a policy of consistent dividend payments aligned with the operational performance of the company.

In line with this approach, the Executive Board intends to propose to the Annual General Meeting on 27 May 2020 that 1.65 euros per no-par-value share again be paid out for the 2019 financial year. The distribution would therefore total 211.2 million euros (2018: 211.2 million euros). The dividend yield of freenet's shares based on the closing price on the last trading day in 2019 would be 8.07 per cent (2018: 8.98 per cent).

Ensuring that freenet shareholders receive an appropriate share of the company's profits is particularly important to the freenet Group's management. The Executive Board has therefore decided to continue to align the dividend policy with the relatively constant liquidity-oriented free cash flow indicator in the future. As a reliable and stable point of reference for estimating the expected dividend, free cash flow is integral to forecasting and managing the company's performance. In the interest of continuing to regularly pay dividends, management has thus defined a long-term, stable distribution rate of 80 per cent of freely available funds as the minimum dividend to be distributed to freenet shareholders. The minimum dividend represents the Executive Board's commitment to the goal of a shareholder-friendly dividend policy based on a reliable dividend coupled with a comparatively high return. Moreover, the Executive Board has not ruled out the possibility of either paying an additional dividend or buying back shares to provide shareholders with the opportunity to participate in the distribution of the free cash flow remaining after deduction of the minimum dividend.

Figure 8: Dividend per share 2011-2019[1]

In EUR



[1] The dividend will be paid out subject to the resolution of the Annual General Meeting.

GROUP MANAGEMENT REPORT

REPORT ON ECONOMIC POSITION

- World economic output growing at a low level
- Stable revenue in the German mobile communications sector
- Further increase in the number of German households with an IPTV connection

MACROECONOMIC ENVIRONMENT

In 2019, both the global economy and the German economy remained on a growth trajectory. The upturn has now continued for ten years but has recently lost some of its pace. In the context of increasing uncertainty and growing conflicts as well as regulatory changes, Germany's economic output was unable to match the level of growth seen in previous years. The German government assumes a 1.0 per cent increase in the country's price-adjusted gross domestic product (GDP) for the past year. The unemployment rate is expected to decline to 4.9 per cent, with a further rise in the number of people employed to 45.2 million. As at the end of 2019, the economic trend in Germany remained positive but there is now an increased level of risk, particularly in relation to foreign trade. International trade conflicts, the United Kingdom's withdrawal from the European Union and the headwind in the automotive industry had an especially negative impact on economic growth.

The development of the ifo Institute for Economic Research's business climate index illustrates the trend outlined above. At 97.1 points, the average index level for 2019 reached its lowest point since 2012. While this figure improved slightly in the second half of the year, it fell short of its long-term average.

SECTOR-SPECIFIC DEVELOPMENT

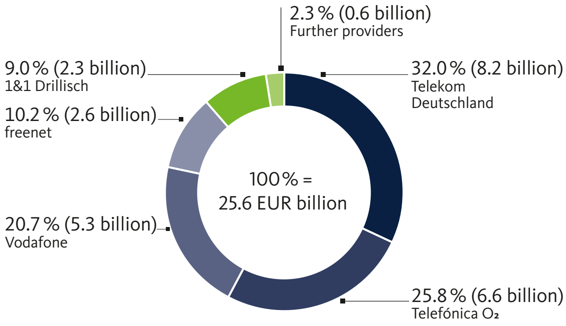
MOBILE COMMUNICATIONS MARKET

According to calculations by the German Association of Providers of Telecommunications and Value-Added Services (VATM), in 2019 the overall market for telecommunications services grew by 0.5 billion euros compared with 2018 and reached 58.4 billion euros. Private customers accounted for around two thirds of total revenue in Germany. While the telecommunications market grew by 0.9 per cent overall, the Mobile Communications segment picked up by around 2.0 per cent to 25.6 billion euros. As at the end of 2019, approx. 140.8 million SIM cards were registered in German mobile communications networks. This represents an increase in the number of activated SIM cards of 3.8 million or 2.8 per cent. This growth is mainly attributable to the installation of SIM cards in machines (Internet of Things/machine-to-machine communication). Measured in terms of the total number of SIM cards, this growth was spread more or less evenly between the three network operators Deutsche Telekom, Vodafone and Telefónica Deutschland.

The distribution of revenue-based market share among the five largest providers of mobile communications services in Germany was likewise relatively constant. VATM predicts a market share for the freenet Group of around 10.2 per cent, with stable revenue by comparison with the previous year.

Figure 9: Mobile revenue by network operator and service provider[1]

in % or EUR



[1] Estimate for 2019, including interconnection, wholesale and terminal equipment
Source: DIALOG CONSULT/ VATM analyses and forecasts.

The 25.6 billion euros in revenue which are anticipated for 2019 comprise connection charges, revenue from major and business customers, as well as device sales. Sales of high-quality smartphones in particular continue to be seen as a revenue driver. For 2019, the German Federal Association for Information Technology, Telecommunications and New Media (Bitkom) expects another record year with around 11.9 billion euros in revenue. This would represent an 11 per cent increase by comparison with 2018. However, at 22.4 million devices, the number of smartphones sold would be virtually stable year-on-year (2018: 22.6 million).

Like the overall economy, in the past year the telecommunications sector was affected by international trade conflicts as well as regulatory interference. The US government's threat to blacklist the Chinese technology group Huawei so that American companies would require a licence to do business with Huawei also prompted uncertainty in Germany. In particular, there was speculation that Huawei mobile communications devices would no longer receive the necessary software updates and that the development of a 5G network using Chinese infrastructure technology might only be possible to a limited extent.

In addition, legislative changes affecting the telecommunications sector came into effect in the European Economic Area: since 15 May 2019, the pricing of end-customer charges for foreign calls and text messages – i.e. so-called intra-EU communication – has been regulated. For Germany, this relates to voice calls and text messages made from a German network to a foreign network in another member state (e.g. France). Price caps have been introduced for the various types of connection and are generally lower than the prices which were previously realised. This had a direct negative impact on mobile communications companies' revenue in 2019.

The coverage requirements for widespread availability of mobile broadband (4G) on the basis of the 2015 frequency auction were another topic of discussion in the past year. Deutsche Telekom and Vodafone achieved an average level of nationwide coverage in excess of 98 per cent, with a minimum speed of 50 Mbit per antenna sector. Telefónica Deutschland reached a level of 84.3 per cent. Widespread availability of high-speed mobile data continues to gain in importance, particularly in view of the growing volume of data use in 2019. With an overall mobile data volume of 4.2 billion gigabytes, demand for data volume increased by over 62 per cent in 2018 and reached a new peak level. However, this trend was not reflected in the network technology used. 57.5 million cards, or 40.8 per cent of the cards activated, were able to use a 4G/5G network. This means that almost 60 per cent of mobile phone cards in Germany used a 2nd or 3rd generation mobile communications network. For its part, by the end of 2019 the freenet Group had migrated virtually all of its customers to the faster 4G network.

In view of the growing volume of data consumption, 5G technology will have a key role to play in future digitalisation processes. The Federal Network Agency (BNetzA) auctioned off the necessary frequency bands in Germany in the first half of 2019. The auction ended on 12 June and raised 6.55 billion euros. In addition to the well-known network operators, Drillisch Netz AG acquired portions of the frequency blocks. 1&1 Drillisch was previously active in the German market as a virtual network operator (MVNO) and now intends to establish its own (5G) network. This would mean an increase in the number of network operators from three to four, offering customers a greater choice of networks. In the second half of the year, the network operators launched their initial 5G test regions and marketed their first tariffs as well as 5G-compatible mobile devices.

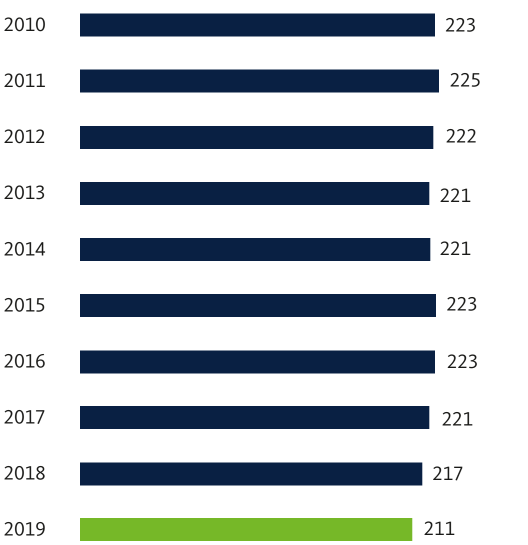
All in all, service providers (such as the freenet Group) have a positive view of the parameters for the auction. In essence, they guarantee improved access to current (4G or older) and future technologies (5G and beyond) in the period up to 2040. Moreover, network operators are required to negotiate with service providers on access to mobile communications technologies in a non-discriminatory manner. In case of unsuccessful negotiations, the Federal Network Agency will act as a “referee” to prevent any discrimination and ensure access to the technology. The award terms for the 5G frequencies thus exceed those for 4G and offer service providers increased regulatory certainty.

TV/VIDEO MARKET

Overall revenue in the German TV market was stable. At around 5.7 billion euros, this was close to the previous year’s level (+0.8 per cent). Consumption of traditional, linear television continues to dominate in the video market. The average daily amount of time spent watching TV in Germany in 2019 was 211 minutes. This represented a minimal decrease on the previous year of around six minutes. In the period from 2010 to 2017, the amount of time spent in front of the TV was still slightly in excess of 220 minutes. Nonetheless, consumption of linear television remains the most popular leisure pursuit in Germany. Around 94 per cent of Germans cite television as their preferred activity.

Figure 10: Average daily television viewing time in Germany from 2010 to 2019 (in minutes)

In minutes

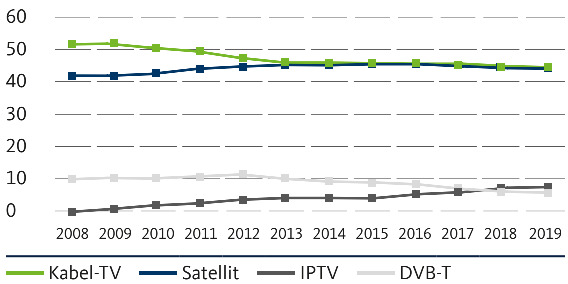


Details: 3 years and older; TV scope, German-speaking TV panel; Monday to Sunday, 3 to 3 o’clock, all channels

Cable and satellite remained the dominant broadcast technologies in Germany: almost 44.7 per cent of households used cable (2018: 45.1 per cent), while 44.8 per cent (2018: 45.0 per cent) opted for satellite. Antenna TV’s market share fell slightly compared to the previous year; around 6.0 per cent (2018: 6.4 per cent) used the DVB-T2 HD broadcast format. The sole provider of this broadcasting technology in Germany is the Media Broadcast Group, a wholly owned subsidiary of the freenet Group.

Figure 11: Distribution and development of broadcasting method paths 2008 to 2019[1]

in %



[1] Total >100% due to multiple reception.
Source: Kantar

IPTV was the only broadcasting technology which increased its percentage market share, lifting it from 8.4 per cent of the market to 8.6 per cent. IPTV is marketed by EXARING AG (a subsidiary of the freenet Group) under the product name waipu.tv. The network operators such as Deutsche Telekom and Vodafone are likewise increasingly focusing on IPTV products with their products Magenta TV and GIGA TV. Since May 2019, under its “O_2TV powered by waipu.tv” brand Telefónica Deutschland has offered EXARING AG’s IPTV product via a sales partnership. Another relevant provider which offers German IPTV services is Zattoo.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR ENDED

REPOSITIONING OF MOBILCOM-DEBITEL: SERVICE AND ADVICE OFFERING AT HEART OF COMMUNICATION ACTIVITIES

In **March 2019**, the freenet Group launched a large-scale marketing campaign in order to reposition its main brand mobilcom-debitel. With a new TV spot, a new visual identity, extensive digital activities and a strong point-of-sale (PoS) presence, mobilcom-debitel is now giving even greater weight to its advice and service offering, thus underlining its customer focus.

SAMSUNG AND WAIPU.TV EMBARK ON STRATEGIC PARTNERSHIP

Samsung and waipu.tv announced a strategic partnership in **April 2019**. Purchasers of Samsung TVs manufactured in 2019 or later can watch waipu.tv for six months free of charge.

EXARING AG AND TELEFÓNICA DEUTSCHLAND ANNOUNCE STRATEGIC SALES PARTNERSHIP – O_2 TV POWERED BY WAIPU.TV

EXARING AG and Telefónica Deutschland signed a long-term strategic cooperation agreement in the field of innovative IPTV in April 2019. Since **May 2019** a sales partnership has provided over 50 million O_2 customers with access to the market's leading platform for network-independent IPTV, with the product "O_2 TV powered by waipu.tv".

FREENET FUNK: FREENET LAUNCHES ITS FIRST EXCLUSIVELY DIGITAL MOBILE PHONE TARIFF

In **May 2019**, the freenet Group began to market its innovative freenet FUNK tariff. With this exclusively digital mobile phone tariff, freenet has introduced a completely new tariff model to the German mobile communications sector and can thus be considered a pioneer.

MOBILCOM-DEBITEL AND EXPERT SE LAUNCH PARTNERSHIP

mobilcom-debitel and expert SE agreed to a sales collaboration in **July 2019**. freenet has thus gained another strong specialist retail partner with this dealer network for consumer electronics, information technology, telecommunications, entertainment and electric domestic appliances

FREENET AG REJECTS TAKEOVER OF UPC SWITZERLAND BY SUNRISE COMMUNICATIONS GROUP AG

In relation to Sunrise's proposed takeover of UPC Switzerland, in **August 2019** freenet AG, the company's largest shareholder, issued a press release in which it came out against a potential takeover, providing a detailed statement of grounds for this move. In **December 2019** it was announced that the discussions over the planned takeover between Sunrise and Liberty Global, the parent company of UPC Switzerland, would not proceed any further.

COURSE OF BUSINESS

MOBILE COMMUNICATIONS

Postpaid customers

Customer-centric tariffs and services as well as a focus on valuable postpaid customers with a two-year contract remain the main pillars of the freenet Group's core mobile communications business. In the past financial year, the key priority was a further increase in the level of quality in this strategically critical customer group, both in terms of acquiring new customers and also managing existing customers. At the start of the year, a quality-focused restructuring process was implemented within the tariff portfolio. In the first six months of the year, this initially resulted in a slight decline in the number of customers in the Group's postpaid customer base. The fact that the freenet Group can nonetheless report a moderate increase in its customer base in this customer segment by comparison with the previous year (6.896 million), with 6.903 million users as at the end of 2019, reflects various measures which were implemented in virtually all of the Group's sales and communications channels and evidently met the needs of its customers.

The postpaid customer base as at 31 December 2019 did not include approximately 34,000 freenet FUNK customers. This mobile communications product was introduced in May 2019.

Table 9: Postpaid customers

In millions	31.12.2019	31.12.2018	Change in %
Postpaid customers	6.903	6.896	0.1

Postpaid ARPU and revenue from services

The Group's strategic focus on valuable customer relationships is also reflected in the stable development of postpaid ARPU excluding hardware. As at the end of December 2019, this amounted to 18.7 euros (2018: 19.0 euros). For the current reporting year, related postpaid service revenue totals 1,540.9 million euros and was likewise stable despite the impact of regulation (intra-EU communication) (2018: 1,555.4 million euros).

Revenue from services in the no-frills/prepaid segment was approximately 134.3 million euros for 2019. As a result, the most strategically important customer group accounts for around 92.0 per cent of service revenues in the Mobile Communications segment.

Table 10: Postpaid ARPU and revenue from services

In EUR/revenue from services in EUR millions	2019	2018
Postpaid ARPU	18.7	19.0
Revenue from services, postpaid	1,540.9	1,555.4
Revenue from services, no-frills/prepaid	134.3	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. In 2019, the freenet Group generated revenue of 189.9 million euros with the marketing of its digital lifestyle products. This represents a year-on-year increase of 5.6 per cent (2018: 179.8 million euros).

Table 11: Digital lifestyle revenue (organic)

In EUR millions	2019	2018
Digital lifestyle revenue (organic)	189.9	179.8

TV AND MEDIA

The freenet Group continued to focus on the expansion of its TV segment – as another important pillar of its business activities – in the 2019 reporting year. For both freenet TV and waipu.tv, it enhanced its offering and the level of quality from a technical point of view and in terms of content. The number of customers at the end of the 2019 financial year once again demonstrates the effectiveness of the measures implemented.

Table 12: TV customers

In thousands	31.12.2019	31.12.2018	Change in %
freenet TV subscribers (RGU)	1,021.1	1,014.2	0.7
waipu.tv subscribers	408.3	251.8	62.2

The number of revenue-generating freenet TV users rose by around 6,900 over the course of the year to 1.021 million freenet TV subscribers (RGU) today.

The development of waipu.tv's customer figures was also highly encouraging. The 2019 forecast anticipated 350,000 subscribers by the end of the year, This goal was already surpassed in August. By the end of 2019, 408,300 customers had opted for one of the IPTV product's subscription options. The number of subscription customers thus increased by 156,500 in 2019. This represents a growth rate of 62.2 per cent compared with the prior-year period. From the Executive Board's point of view, this is a notable achievement, also bearing in mind the fact that the Group only launched its sales collaboration with Telefónica Deutschland in May.

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

COMPARISON OF FORECAST AND ACTUAL BUSINESS PERFORMANCE

In the TV and Media segment, revenue declined by 28.7 million euros on account of the sale of the analogue radio business, but this deficit was balanced out by an increase in low-margin hardware sales in the Mobile Communications segment. On the whole, consolidated revenue stood at 2,932.5 million euros, remaining stable as against the prior year (2018: 2,897.5 million euros). This figure also met the forecast target.

EBITDA in the 2019 financial year amounted to 426.8 million euros and fell within the target range of 420 to 440 million euros. This figure includes an effect of 43.3 million euros, increasing EBITDA arising from the mandatory initial application of IFRS 16 (Leases). Free cash flow of 249.0 million euros was also within the forecast range of 240 to 260 million euros. The number of strategically important postpaid customers with two-year contracts increased from 6.896 million customers in December 2018 to 6.903 million customers. freenet therefore achieved the goal of moderately increasing the number of postpaid customers. Postpaid ARPU excluding hardware remained stable during the year under review at 18.7 euros (2018: 19.0 euros).

In terms of the non-financial performance indicators for the TV and Media segment, the waipu.tv IPTV product continued its positive performance and far exceeded the paying customer target of over 0.350 million for the 2019 financial year, with around 0.408 million subscribers as of the reporting date. The number of revenue-generating freenet TV users developed as expected and, at around 1.021 million customers, continued to top the target of more than 1.000 million customers.

The audited figures for the past financial year therefore met the forecast in full.

Table 13: Comparison of forecast and actual business performance 2019

In EUR millions/as indicated	2018	Forecast for financial year 2019 (yoy change)	Confirmation of forecast in quarterly reporting	2019
Financial performance indicators				
Revenue	2,897.5	stable	stable	2,932.5
EBITDA	441.3	420 – 440	420 – 440	426.8
Free cash flow	263.8	240 – 260	240 – 260	249.0
Postpaid ARPU without hardware (in EUR)	19.0	stable	stable	18.7
Non-financial performance indicators				
Postpaid customers (in millions)	6.896	moderate increase	moderate increase	6.903
freenet TV subscribers (RGU) (in millions)	1.014	> 1.000	> 1.000	1.021
waipu.tv subscribers (in millions)	0.252	> 0.350	> 0.350	0.408

EXECUTIVE BOARD'S EVALUATION OF BUSINESS PERFORMANCE

All in all, it is the Executive Board's position that the freenet Group has again performed well in a highly competitive and saturated market environment. From the point of view of management, it is particularly gratifying that the number of subscribers rose across all business areas and segments as at the end of December. Although the number of highly profitable postpaid mobile communications customers initially declined in the first half of 2019 due to a quality-related restructuring of the tariff mix and adjustments to product management, this trend turned around in the third quarter and the year closed out as originally expected with moderate growth in the customer base. This performance once again illustrates the strong competitive positioning of the freenet Group in the fiercely competitive premium segment, and the effectiveness of the measures implemented in particular. Moreover, freenet FUNK was Germany's first fully digital tariff, an innovation in the German mobile communications market.

Management was also satisfied overall with the performance of the TV and Media segment. freenet TV's performance was solid in view of the limited additional potential for conventional linear antenna-based television in Germany. waipu.tv in turn exceeded the customer targets set for 2019, thus taking a prominent position in the high-growth IPTV market.

All told, the freenet Group's Executive Board considers the past financial year to have been a positive one: The targets set at the start of the year for key performance indicators were again met despite the challenges.

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

REVENUE AND RESULTS OF OPERATIONS

Consolidated revenue increased by 35.1 million euros in 2018 to 2,932.5 million euros in the 2019 financial year. In the **Mobile Communications segment**, the number of strategically important postpaid customers with a two-year contract (6.903 million customers at the end of December 2019 compared with 6.896 million customers at the end of December 2018) and the postpaid ARPU excluding hardware (2019: 18.7 euros, 2018: 19.0 euros) continued to hold steady. Mobile Communications revenue reported for the 2019 financial year increased by 52.3 million euros to 2,658.9 million euros, primarily as a result of an increase in revenue from low-margin hardware. Revenue in the **TV and Media segment** declined by 28.7 million euros year-on-year to 253.9 million euros. This was mainly due to the sale of the analogue radio business in the previous year.

Gross profit in the reporting period amounted to 896.2 million euros, which is slightly down on the prior year (903.7 million euros). The gross profit margin fell by 0.6 percentage points to 30.6 per cent, chiefly due to the increase in the hardware business mentioned previously. In contrast, the initial application of IFRS 16 had a positive effect.

Other operating income decreased by 33.4 million euros compared with the prior-year period to 67.3 million euros. This decline is attributable mainly to the prior-year effect resulting from the sale of analogue radio infrastructure totalling 40.4 million euros.

Other own work capitalised relates to internally generated software for IT projects and, at 20.3 million euros, is slightly higher than the previous-year figure (18.1 million euros).

Personnel expenses grew by 16.8 million euros, from 219.7 million euros in the previous year to 236.5 million euros in the current reporting period. This trend is largely due to the increase in the average number of Group employees, primarily on account of the acquisition of The Cloud Group with effect from 1 January 2019, as well as pay increases and a share price-driven increase in expenses from employee incentive programmes.

Other operating expenses decreased by 41.2 million euros compared with 2018 to 320.5 million euros. The reduction is mainly attributable to the new accounting standard IFRS 16 (Leases), according to which operating lease expenses recognised in the past are not a component of other operating expenses, but based on the accounting requirements must be disclosed under depreciation charge and interest expense. Expenses for marketing as well as loss allowances and defaults on receivables were also down. Other operating expenses largely comprise administrative expenses (e.g. incidental costs of the shops/stores and administration buildings), legal/consultancy fees and billing expenses.

Due to the effects explained above, **EBITDA** amounted to 426.8 million euros (previous year: 441.2 million euros). This figure includes a positive effect of 43.3 million euros from the mandatory initial application of IFRS 16. The Mobile Communications segment contributed 367.3 million euros to EBITDA (previous year: 366.0 million euros), the TV & Media segment 73.5 million euros (previous year: 86.3 million euros) and the Other/Holding segment –14.0 million euros (previous year: –11.1 million euros).

Depreciation, amortisation and impairment increased by 27.6 million euros year-on-year to 156.8 million euros. On the one hand, 43.1 million euros were added due to depreciation of lease assets under IFRS 16. On the other hand, the sale of the analogue radio business in the previous year led to a reduction in depreciation of property, plant and equipment in the 2019 financial year.

The **financial result** improved by 46.1 million euros year-on-year to –31.9 million euros. This change was primarily due to the one-off effect of the initial recognition of shares in CECONOMY (–47.1 million euros) in the previous year.

This has resulted in **consolidated earnings before taxes (EBT)** of 238.1 million euros in 2019 – representing an increase of 4.1 million euros compared with the previous year (234.0 million euros).

Income taxes expenses rose by 31.5 million euros compared with 2018 to 53.3 million euros. Current tax expenses fell by 4.1 million euros compared with the previous year, to 25.4 million euros. Expenses of 28.0 million euros (previous year: income) from deferred taxes has also been netted in this position (previous year: 7.7 million euros). The reduction in deferred taxes is essentially attributable to temporary differences between the carrying amount of assets under IFRSs and tax law.

As a result, **consolidated profit after tax** decreased by 27.4 million euros, from 212.2 million euros in the previous year to 184.7 million euros in 2018.

Table 14: Key performance indicators for the Group

In EUR ’000s	2019	2018[1]	Change
Revenue	2,932,544	2,897,466	35,078
Gross profit	896,210	903,727	– 7,517
EBITDA[1]	426,795	441,184	– 14,389
EBIT[1]	269,954	311,988	– 42,034
Financial result[1]	– 31,876	– 77,986	46,110
EBT	238,078	234,002	4,076
Consolidated profit	**184,732**	**212,163**	**– 27,431**

[1] Due to a change in the definition, the previous year’s figures were restated.

NET ASSETS AND FINANCIAL POSITION

Total assets/total equity and liabilities amounted to 4,839.6 million euros as at 31 December 2019, an increase of 204.9 million euros, or 4.4 per cent compared with the previous year.

The significant increase in total assets was attributable primarily to the switch to IFRS 16 at the beginning of the 2019 financial year. As a result, contractual relationships previously recorded as operating leases are reported for the first time under “Lease assets” and disclosed in the amount of 452.0 million euros as at the end of December 2019. In this connection, a master lease agreement totalling 248.1 million euros classified as a finance lease until 31 December 2018 was also reclassified from property, plant and equipment to lease assets as at 1 January 2019, which explains the majority of the 255.0 million euro decrease in property, plant and equipment.

The increase of 153.5 million euros in **other financial assets** to 314.7 million euros is attributable on the one hand to the receivables from finance leases reported on the balance sheet in connection with IFRS 16 in the amount of 82.1 million euros and on the other to the change in the fair value of the interests in CECONOMY recognised through other comprehensive income in the amount of 74.4 million euros (carrying amount as at 31 December 2019: 178.8 million euros).

Intangible assets declined by 23.5 million euros to 501.9 million euros due predominantly to amortisation charges on the exclusive distribution right with Media-Saturn Deutschland GmbH.

Liquid assets are reported at 133.7 million euros as of 31 December 2019 (31 December 2018: 126.3 million euros). The Group’s net cash inflow from operating activities of 364.2 million euros in 2019 contrasted with a net cash outflow from investing activities of 38.8 million euros and a net cash outflow from financing activities of 318.0 million euros.

On the **equity and liabilities** side, equity increased by 40.8 million euros to 1,321.6 million euros (31 December 2018: 1,280.8 million euros). The change is primarily attributable to the consolidated profit for the year generated in 2019 (184.7 million euros), the dividend paid for financial year 2018 in the amount of 211.2 million euros and the change in the fair value of the interest in CECONOMY recognised through other comprehensive income (73.1 million euros). Amounting to 27.3 per cent at the end of December 2019, the equity ratio matched the year-end 2018 level (27.6 per cent).

In connection with the transition to IFRS 16, **lease liabilities** are recognised separately under non-current and current liabilities for the first time and were shown in the amount of 553.3 million euros as at 31 December 2019. This item now also includes the liabilities relating to the master lease agreement classified as a finance lease, which were recorded under other financial liabilities (237.2 million euros) and trade accounts payable (23.0 million euros) as at 31 December 2018.

Borrowings, still the largest item within current and non-current liabilities, decreased by 29.3 million euros to 1,693.6 million euros, primarily due to the early repayment of a portion of two promissory note loans from 2016 in the nominal amount of 31.0 million euros.

Trade accounts payable decreased by 57.9 million euros to 465.2 million euros. In addition to the effect from the transition to IFRS 16, this was mainly attributable to lower liabilities to network operators as of the reporting date.

The decrease in **other liabilities and deferrals** by 42.7 million euros to 509.6 million euros is primarily due to the decrease in deferred income relating to bonuses and premium rights received from network operators.

Table 15: Selected balance sheet figures of the Group

Assets

In EUR millions	31.12.2019
Non-current assets	4,154.3
Current assets	685.3
Total assets	**4,839.6**

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

Equity and liabilities

In EUR millions	31.12.2019
Equity	1,321.6
Non-current and current liabilities	3,518.0
Total equity and liabilities	**4,839.6**

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**

CASH FLOWS

Cash flows from operating activities increased by 35.4 million euros year-on-year to 364.2 million euros. EBITDA declined by 14.4 million euros compared with the previous year. Besides a year-on-year decrease of 25.2 million euros in the adjustment for non-cash income from the disposal of non-current assets (previous year: sale of analogue radio infrastructure), cash flows from operating activities were also positively impacted by the reduction of 21.6 million euros in contract acquisition costs recognised as assets (mainly sales commissions paid) and the proceeds of 14.9 million euros from the payment of lease receivables reported for the first time in connection with IFRS 16. In addition, freenet AG received a dividend payment that was 4.6 million euros higher (41.5 million euros) as a result of the dividend of 4.20 CHF per share decided at the Annual General Meeting of Sunrise on 10 April 2019. The 10.5 million euro increase in the rise in net working capital and the higher interest payments in connection with the new lease accounting had the opposite effect.

In financial year 2019, the **cash flows from investing activities** developed from -333.1 million euros in the previous year to -38.8 million euros. This was primarily due to the payments made in the previous year for the acquisition of the shares in CECONOMY in the amount of 277.4 million euros and prepayments for the acquisition of The Cloud Group in the amount of 12.4 million euros.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets, decreased in 2019 by 2.7 million euros compared with the previous year from 43.3 million euros to 40.6 million euros. The cash investments were financed entirely out of the company's retained earnings.

Cash flows from financing activities changed from -192.3 million euros in the prior-year period to -318.0 million euros. The change is mainly the result of the prior-year inflows from the bridge loan for the acquisition of the shares in CECONOMY and from raising a promissory note loan in the amount of 376.3 million euros. In addition, two prior-year effects attributable to the repayment of the bridge loan raised (277.8 million euros) and the repayment of a promissory note loan (54.5 million euros) had the opposite effect. Repayments of borrowings in the amount of 31.0 million euros in financial year 2019 relate to the early repayment of a portion of two promissory note loan from 2016. Cash payments for the principal portion of lease liabilities amounted to 74.6 million euros in the past year. In the previous year (21.8 million euros), this item only included the master lease agreement classified as a finance lease; now it also includes payments relating to operating leases.

An unchanged dividend of 211.2 million euros was distributed in May 2019.

Free cash flow of 249.0 million euros was generated in financial year 2019 as a result of the aforementioned effects, representing a decrease of 14.7 million euros compared to the previous year (263.8 million euros).

Table 16: Key cash flow indicators of the Group

In EUR millions	2019	2018* restated	Change
Cash flows from operating activities	364.2	328.9	35.4
Cash flows from investing activities	– 38.8	– 333.1	294.3
Cash flows from financing activities	– 318.0	– 192.3	– 125.8
Change in cash funds	**7.4**	**– 196.5**	**203.8**
Free cash flow	**249.0**	**263.8**	**– 14.7**

* Due to a change in the definition of free cash flow, the previous year's figures were restated.

GROUP MANAGEMENT REPORT

REPORT ON OPPORTUNITIES AND RISKS

REPORT ON AND ASSESSMENT OF 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 GmbH 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. Continuous expansion of the associated product portfolio offers opportunities to increase user numbers in the TV and

Media segment. Important new partnerships of EXARING are further steps towards a steady increase in market penetration of waipu.tv.

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

- Increasing willingness of customers to pay for mobile communication devices
- Continuation of the trend towards mobile Internet and data use via smartphones, tablets and laptops
- Trend towards the networking of products in both a private and commercial context
- Changes in the way multimedia content is consumed and a continued trend towards customised TV programmes via streaming services
- Increasing demand for bundled products (e.g. mobile communications and TV)

The possible entry of another network operator as a result of the 5G auction could increase competition between mobile network operators (MNOs) and bolster the service provider model as a result of the requirement to engage in technology-neutral negotiations with competitors. For freenet AG, this could increase both margins and free cash flow. We believe that the short-term effects on the projected financial performance indicators will be minimal.

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 the brands klarmobil, freenetmobile and callmobile in the steadily growing discount market, with the aim of participating even more actively in their growth,
- continuously strengthening business relationships with suppliers to stabilise existing and develop new and improved condition models,
- enhancing our selling power by expanding existing sales channels and opening up new ones both online and offline (omni-channel) and utilising existing and new sales collaborations and partnerships,
- improving sales performance with even more customised sales pitches to customers,
- potential from combining customer groups from the individual segments (cross-selling),
- marketing additional products, including Digital Lifestyle and TV and Media products, in conjunction with vertical growth in the product portfolio as a whole,
- developing freenet’s own innovative products,
- maintaining a local presence with our shops and stores as well as our solid service focus at all customer touch points,
- consolidating and consistently enhancing IT applications and IT systems to further improve customer satisfaction, e.g. by expanding digital self-service options and the intelligent use of contemporary communications media,
- 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 our 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 marketing of additional or new, innovative products and the enhancement of our own selling power could have a positive effect on the development of the underlying financial performance indicators and hence exceed our expectations. A stronger selling power and customer satisfaction could, as it were, lead to a more positive trend in customer figures than had been forecast. The likelihood of this happening is regarded as rather low.

Some technical innovations and strong partnerships in all business areas as well as new products such as FUNK, which can only be booked via the App, will continue to create opportunities for further market penetration in the future. If the brands perform better than expected in discount markets, 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 addition to strengthening the long-standing successful partnership in mobile communications, the strategic investment of freenet AG in CECONOMY 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 Sunrise could have a positive effect on the results of the Group's operations.

Both external and internal opportunities were identified. These basically remained at the same level since the previous year, and could lead to even more positive business performance. The effects of the opportunities shown 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.

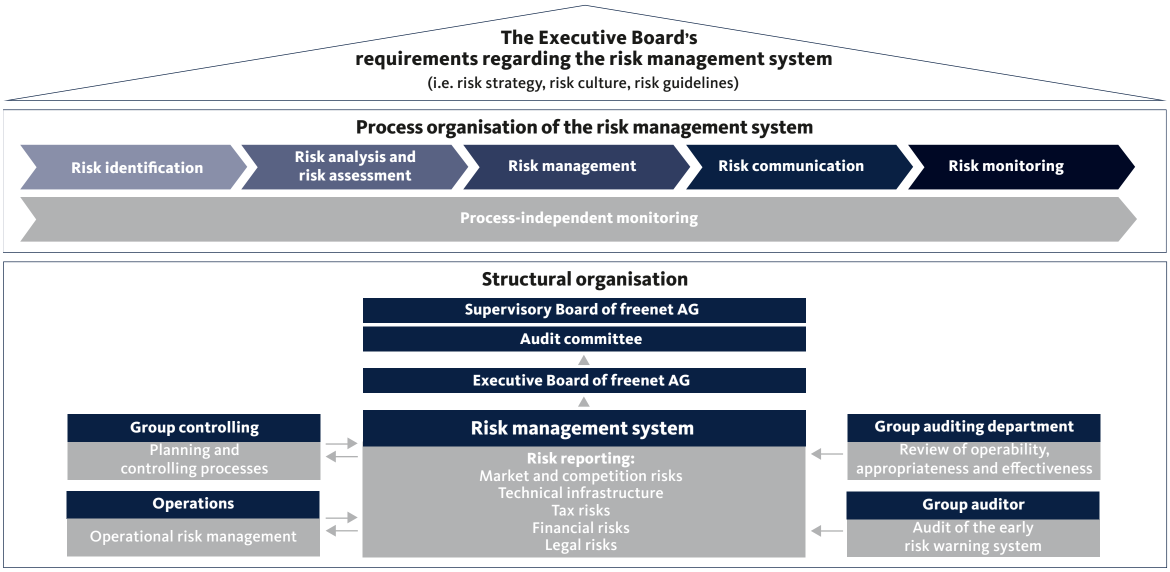
Management therefore expects business to develop as described in the report on expected developments.

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 early warning, monitoring and management system that also integrates the subsidiaries. The systems and methods of the risk management system are an integral part of the overall organisation of freenet AG's structure and processes. 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.

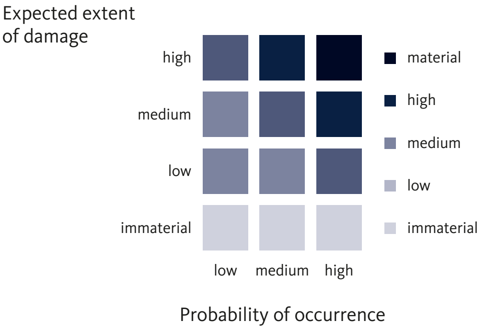
Figure 12: Process and structural organisation of freenet AG's risk management system



At least once every six months, the individual business units of freenet AG (including its subsidiaries) identify or update existing and new risks that exceed a defined materiality threshold in formalised risk reports (risk identification). The risk reports describe the specific risks and consider the probability of their occurrence, as well as their implications for the company, on the basis of standardised criteria (risk analysis and assessment).

The risks within freenet AG are assessed in accordance with the net principle, by which the risk is observed in conjunction with the impact of any risk mitigation measures 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 counter 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 and subsidiaries, 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).

REPORT ON AND ASSESSMENT OF RISKS

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 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 low 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 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, purchasing models are constantly being reviewed to ensure that the Group is able to react as flexibly as possible to market effects. The risk has been classified as low by freenet AG.

The network operators are increasingly marketing their products themselves and forcing the mobile communications service providers out of the market ("shift to direct"). Also, due to their business structure, the network operators are sometimes able to offer better rates than the mobile communications service providers. This, in turn, can lead to a loss of distribution channels and customers. This aspect represents a low risk for freenet AG overall.

The network operator risks, either individually or in combinations, could affect the forecast earnings metrics and free cash flow more negatively than 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). An additional opportunity to maintain or expand existing distribution channels lies in the consistent examination of new retail, distribution and collaboration partnerships and in the acquisition of additional franchise partners. The risk of losing distribution channels has been classified as immaterial by freenet AG.

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 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 freenet TV product, and therefore also revenue and free cash flow, might be weaker than originally anticipated. The company has begun closely monitoring customer performance in order to implement countermeasures, if necessary. 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 acquisitions (distribution partners/marketing partners), might turn out to be higher than originally anticipated or that it might not be possible to meet the target number of customers. This would have a negative impact on EBITDA and free cash flow. EXARING AG has also established a monitoring procedure to track customer performance in order to take operational management measures, if necessary. freenet AG classifies this risk as medium.

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 low 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 and Media 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 breakdowns and risks of failure. Continuous maintenance and updates keep the security precautions up to date at all times. Backups are created at short intervals.

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. Sensitive (customer) data could be stolen or published as a result of inadequate security measures regarding the allocation of employee privileges, among others. 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 overall by freenet AG.

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 shareholder level. Against this backdrop, it cannot be ruled out that as a result of a sale or additional purchase of shares by the company's shareholders; more than 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.

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 the 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 the freenet 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 are factoring agreements in place between the Group and two banks 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 banks 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 the 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 or the 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 1,083.6 million euros, including interest accruals, as of 31 December 2019) as well as the loan tranche in the syndicated facility agreement of November 2018 for a total of 610.0 million euros (recognised at 609.9 million euros, including interest accruals, as of 31 December 2019). The second tranche of 300.0 million euros (previous year: 300 million euros) – in the form of a revolving credit line – had not been drawn as of 31 December 2019, as was the case in the previous year.

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 the factoring agreements 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) 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 has an influence on the results of operations of the freenet Group; however, it does not affect EBITDA and is considered to be low 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 companies 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 investments

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 (but not on EBITDA) and the cash flow of freenet AG. The risk has been classified as low by freenet.

Business outsourcing of the customer service of mobilcom-debitel to Capita Customer Services (Germany) GmbH, Berlin

Since March 2017, Capita has been handling the entire customer service of mobilcom-debitel as a strategic partner in particular. 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 AG.

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. The resulting risk of a decline in revenue or a possible payment has materialised to some extent and is further classified by freenet AG as medium.

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 commissions	low	medium	low	▼
Premiums and margins	low	low	low	▶
Shift to direct	medium	low	low	▲
Distribution	low	immaterial	immaterial	▶
Laws and regulation	low	medium	low	▶
Customer demand for TV and media	medium	medium	medium	▶
IT risks				
System malfunctions/errors	low	medium	low	▶
Data theft and hacker attack	low	medium	low	▶
Tax risks				
Loss carryforwards	low	high	medium	▶
Other tax risks	low	medium	low	▶
Financial Risk				
Bad debt losses	low	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	▶
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 investments	low	medium	low	▶
Outsourcing of customer service business	low	medium	low	▶
Operational risks				
Service prices for customers in default	medium	medium	medium	▶

▲ Classification in higher risk class compared to previous report
▶ Classification in same risk class compared to previous report or newly registered risk
▼ Classification in lower risk class compared to previous report

Thanks to the risk management process that has been implemented and the monthly reporting system, the Executive Board has a 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 2019. 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. 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.

DESCRIPTION OF THE MATERIAL CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELEVANT FOR THE CONSOLIDATED FINANCIAL REPORTING PROCESS (SECTION 315 (4) HGB)

freenet AG's internal control system (ICS) is conceptually aligned with the internationally recognised framework of the Committee of Sponsoring Organisations of the Treadway Commission (COSO). It comprises all guidelines, processes and measures aimed at guaranteeing the effectiveness, efficiency and accuracy of the accounting and compliance with the applicable legal regulations.

Process-integrated and process-independent monitoring measures comprise the core elements of freenet AG's internal monitoring system. freenet AG's accounting process includes automated IT process controls; standardised, manual control actions in business processes, including the dual-control principle; and automatic security measures integrated into workflows (separation of functions, access restrictions).

The business units involved in the accounting process analyse these controls and measures continuously with regard to new legal requirements and other standards to be observed, and develop internal standards and trainings for the responsible employees based on the above.

In freenet AG's accounting process, the accounting for the single-entity financial statements of freenet AG's subsidiaries is generally centralised in accounting systems manufactured by SAP (SAP FI). Uniform accounting and measurement methods for the group according to IFRSs are stipulated in a group accounting manual to keep the scope of discretion in the measurement, recognition and presentation of consolidated financial statement items to a minimum. The SAP EC-CS module is used at the highest group level to consolidate the single-entity financial statements into consolidated financial statements. 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 and reporting system. The Group consolidation unit is responsible for consolidation. As a rule, the processes established for accounting in the freenet Group aim at mostly automated generation and control of all material data.

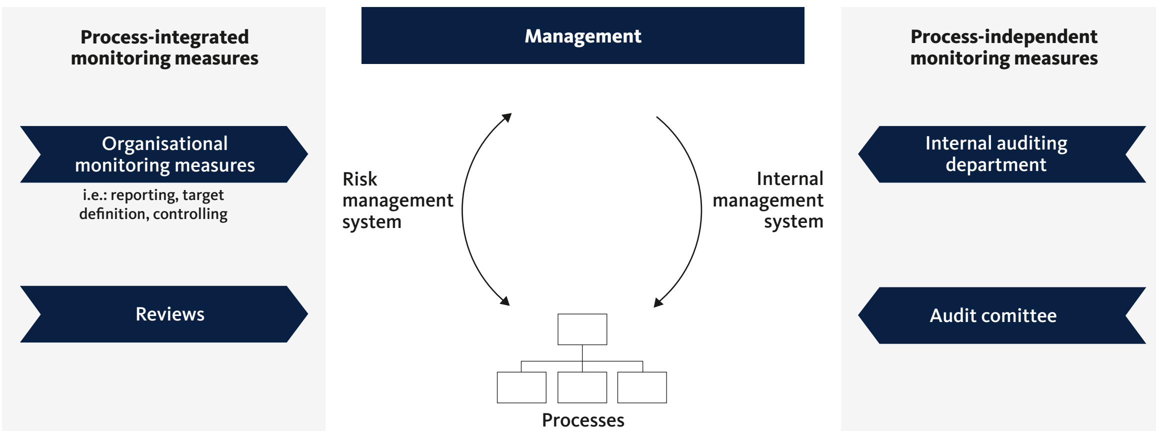
The objective of the controls implemented in the ICS for the accounting process is to guarantee that the financial statements conform to standards and to ensure that the accounting is accurate and effective. Approval processes for issuing access rights protect the IT systems used in the accounting process from unauthorised access. 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. The automated monitoring measures integrated into processes are supplemented by manual plausibility checks of the relevant interim results and spot checks by management or Controlling, among others.

The effectiveness of the ICS is assured through process-independent monitoring. 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 to verify the functionality and effectiveness of the ICS by way of spot checks and initiates measures when necessary in cooperation with management.

The auditor of freenet AG's consolidated financial statements also regularly audits the effectiveness of the ICS for accounting purposes and in doing so, in particular checks the interface and reconciliations between the single-entity financial statements (SAP FI) and the consolidation tool (SAP EC-CS) using a risk-based audit approach.

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 report.

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



GROUP MANAGEMENT REPORT

REPORT ON EXPECTED DEVELOPMENTS

MARKET/INDUSTRY OUTLOOK

MACROECONOMIC ENVIRONMENT

Experts at the International Monetary Fund (IMF) originally expected global economic growth of 3.3 per cent for calendar year 2020 (as at January 2020). This assumption was revised downward to 0.1 per cent at the end of February 2020 as a result of the coronavirus. The growth amounting to 1.1 per cent forecast by the IMF for the German economy (as at January 2020) is currently estimated at only 0.4 per cent by German economists on account of the coronavirus. Positive signals continue to emanate from domestic demand, according to Germany's federal government.

TELECOMMUNICATIONS MARKET

As spending on telecommunications services appears to be a component of general German consumer spending that is relatively resilient to economic influences, the slight upward revision to the federal government's forecast is unlikely to have a significant impact on the sector. This is an assumption shared by the experts at Bitkom, who forecast moderate revenue growth of 0.4 per cent for 2020. For MNOs, however, the ongoing discussions around the expansion of the 5G network and the related investment uncertainties could act as a brake on growth. Furthermore, the auctioning of 5G spectrum could result in another network operator entering the market, increasing competition among MNOs. In combination with the requirement to engage in negotiations on a technology-neutral basis and the prohibition on discrimination, this could strengthen the service provider model. The new mobile communications standard also holds out the promise of sales growth for smartphone manufacturers and, indirectly, for mobile providers too. US market research company Gartner expects worldwide sales of smartphones to reach over 1.571 billion in 2020 mainly because of the introduction of 5G network coverage – this would represent a year-on-year increase of 3 per cent. In Germany, Bitkom assumes that the device business will grow by 2.5 per cent to 12.8 billion euros in 2020.

TV/VIDEO MARKET

Back in 2006, Bill Gates predicted the certain death of TV within five years. Compared to the telecommunications sector, where voice calls have now been relegated to flat-rate charging and texting has been relegated to apps, television will remain at the centre of media consumption over the medium-term. According to Statista, total revenues in the German television market will remain stable in 2020 and probably exceed the prior-year figure slightly (+0.2 per cent). Initial extrapolations indicate that average daily linear television consumption in Germany will remain unchanged year-on-year in 2020 (2019: 211 minutes). Experts at PwC predict changes for linear television in terms of broadcasting methods, however. Different developments and trends are expected for the two broadcasting methods that have so far had the highest reach: cable (around 16.0 million households) and satellite (around 18.0 million households). While satellite is expected to be on a steady to slightly positive trajectory, it is assumed that cable will show a negative average annual growth rate of 1.5 per cent over the period to 2023. This would represent a decrease of around 1.0 million cable connections over the next four years. The main drivers of this trend are the ongoing expansion of IPTV and the relatively high cable charges in Germany. IPTV is projected to maintain the positive trajectory seen in recent years. The number of revenue-generating users of DVB-T2 HD is expected remain stable.

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, the ongoing uncertainty in Europe about the effects of 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 2020
- The amended legislation governing the price regulation of international calls and charges that came into force on 15 May 2019 will have a negative impact on revenue from services in the Mobile Communications segment in the first quarter of 2020 and proportionately in the second quarter of 2020
- The expected shift in the market for TV broadcasting methods, with IPTV capturing a larger market share in Germany, will create growth potential for the TV and Media segment

COMPANY FORECAST FOR 2020

REVENUE EXPECTED TO REMAIN STABLE WITHOUT MOTION TM

Revenue for financial year 2019 was in line with expectations at 2,932.5 million euros. This includes hardware revenue of 323.5 million euros from the subsidiary MOTION TM, which was sold and deconsolidated at the end of 2019. On an adjusted basis, revenue for 2019 would be 2,609.1 million euros. Taking this into account, revenue for financial year 2020 is expected to remain stable despite subsequent effects of the price regulation of international calls and charges, which will have a particular impact on the amount of service revenue generated in the Mobile Communications segment.

EBITDA AND FREE CASH FLOW ALSO FORECAST TO REMAIN STABLE

At 426.8 million euros in the reporting period, EBITDA was within the forecast range of 420 to 440 million euros. Despite the elimination of MOTION TM's revenue, EBITDA for financial year 2020 is also expected to remain largely unchanged within a range of 415 to 435 million euros. Besides the aforementioned effects, no further regulatory effects that might impact the freenet Group's operating profitability are anticipated.

At 249.0 million euros in the reporting period, free cash flow was likewise in line with expectations and in the middle of the forecast range of 240 to 260 million euros. Linked to the revenue and EBITDA performance forecast for 2020, free cash flow is expected to be between 235 and 255 million euros. This would represent free cash flow per share of between 1.84 euros and 1.99 euros, and therefore underpin the aim to maintain a predictable and stable dividend policy (for further information on the dividend policy, please see the section entitled "Financial management").

SUBSCRIBER BASE (EXCLUDING FREENET FUNK) AND POSTPAID ARPU

The subscriber base (excluding freenet FUNK) climbed to around 8.332 million customers in the reporting period. Within this subscriber base, the number of postpaid customers in the Mobile Communications segment increased moderately to 6.903 million, while postpaid ARPU remained stable at 18.7 euros despite regulatory effects. Moderate growth in the postpaid customer base and a stable trend in postpaid ARPU are expected again in financial year 2020.

In the TV and Media segment, it is assumed that there will be solid growth in waipu.tv subscribers (2019: 0.408 million) and a stable trend in freenet TV subscribers (RGU) (2019: 1.021 million). The assumption that the number of freenet TV subscribers (RGU) will remain unchanged does not take into account the effects of any product price changes during the year.

OVERALL ASSESSMENT BY THE EXECUTIVE BOARD OF THE FREENET GROUP'S EXPECTED DEVELOPMENT

The freenet Group's management is confident that, in financial year 2020, it will be able to sustain the overall performance seen in recent years, which has generally been marked by stability and continuity. In the Mobile Communications segment, it aims to maintain the focus on expanding the base of particularly valuable postpaid customers. In this context, measures aimed at increasing loyalty should reduce churn and align the freenet Group's (business) activities even more consistently with the needs and wishes of the individual customer. Going forward, the Group also intends to build on the innovativeness demonstrated with the fully digital freenet FUNK tariff in 2019.

In the TV and Media segment, the freenet Group ended the financial year with around 1.43 million revenue generating TV customers. We expect to expand this customer base further during the 2020 financial year. 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 Internet-based TV offerings, this product is already a relevant player in the market. The Group expects to expand this market position again in financial year 2020 with the help of product enhancements and new partnerships.

GROUP MANAGEMENT REPORT

REPORT ON POST-BALANCE SHEET DATE EVENTS

No events of major significance for the freenet Group have occurred after the balance sheet date.

GROUP MANAGEMENT REPORT

NON-FINANCIAL STATEMENT *

ABOUT THIS REPORT

BUSINESS MODEL

The freenet Group's operating activities are limited mainly to private customers and to the German market. Mobile communications and the mobile Internet are the key elements of the business. Operating as a service provider without its own network infrastructure, the company sells mobile communications tariffs and options throughout Germany. This portfolio is also being expanded to encompass a diverse range of digital lifestyle products and services. In 2016, the Group developed another segment, TV and Media, by acquiring the Media Broadcast Group and a majority interest in EXARING AG. As Germany's largest service provider in the radio and media sector, the Media Broadcast Group designs, sets up and operates multimedia broadcasting platforms for TV and radio based on state-of-the-art digital transmitter technology.

An extensive description of the business model is set out in the section "Business model and organisation" on pages 38 – 40 of the Group management report.

MATERIALITY ANALYSIS

In 2017, we initially identified potential sustainability issues based on a sector/peer review and on the basis of the materiality assessment of the Global e-Sustainability Initiative (GeSI) for the information and communication technology sector. The material issues were subsequently determined in a two-stage procedure comprising individual interviews and a materiality workshop. 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.

Table 17: Material issues assigned to CSR RUG aspects and GRI standards

Material issues	Aspect of the CSR-RUG	Corresponding GRI standards
Employees	Employee matters	GRI-103, GRI-401, GRI-403, GRI-404 and GRI-405
Digital responsibility	Social matters/ Respect for human rights	GRI-103 and GRI-418
Customer matters	Social matters/ Environmental matters	GRI-103 and GRI-417
Corporate environmental protection	Environmental matters	GRI-103, GRI-302, GRI-305 and GRI-307
Anti-corruption	Anti-corruption and bribery matters	GRI-103 and GRI-205
Supply chain	Respect for human rights/environmental matters	GRI-103 and GRI-414

A materiality review should be conducted at regular intervals as part of the aforementioned process. Irrespective of this, internal stakeholders are asked annually whether their assessment of materiality has changed fundamentally (e.g. due to acquisitions). In addition, the selection and internal assessment of material issues is regularly compared with the expectations of external stakeholders (including investors, sustainability/financial analysts or customers) in an active dialogue.

* indicates auditable and non-auditable information that is not normally part of the management report as well as information typically included in the management report, the statutory inclusion of which in the substantive audit is not required and which therefore is not audited.

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 (please refer to the Report on opportunities and risks). Measured in terms of the legal materiality criteria for reporting non-financial risks[1], 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 and the CSR-RUG.

GENERAL INFORMATION

Doing business sustainably and responsibly is part of freenet's corporate culture as well as the driver of our success and the foundation for our future. Our day-to-day business puts economic principles first, because financial success is a fundamental requirement for making a reliable and measurable contribution to all freenet Group stakeholders. The identified issues reflect the current specific understanding of the freenet Group regarding sustainability. As of this year, they are reported in accordance with the "Core" option of the Global Reporting Initiative (GRI) standards.

The disclosures included in the non-financial statement relate to the period from 1 January 2019 to 31 December 2019 and apply to both freenet AG and the Group. Unless otherwise noted, the statement covers all fully consolidated companies included in the consolidated financial statements. In view of the business-specific structure of the TV and Media segment and the Media Broadcast Group assigned to that segment, the presentation of material topics sometimes includes separate information on this company.

Responsibility for the content of the various sustainability aspects lies with the respective departments, with central coordination done by the Finance department of the Executive Board. The Supervisory Board of freenet AG has reviewed the content of the non-financial statement. The Supervisory Board was supported by 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).

MATERIAL ISSUES

EMPLOYEES

The success of the freenet Group, which operates in the fast-paced and highly competitive mobile communications and digital lifestyle market, depends largely on the performance and commitment of our employees who effectively put their expertise and skills to use for the company's benefit. The Group has launched a number of different measures and programmes in support of these efforts, and additionally prioritises the occupational health and safety of its employees. The aim is to achieve a harmonious, secure, healthy and performance-oriented working environment that reflects the diversity of our society and avoids all types of discrimination – for instance on the basis of gender, age, nationality, religion or sexual orientation.

Group Human Resources, whose managers report directly to the CEO, is responsible for designing and implementing these measures. The human resources development and recruiting department is an in-house centre of excellence in the freenet Group for companywide issues and questions of strategy involving personnel recruitment and development. The freenet Group's human resources strategy was updated in 2018 and has four main areas of focus: (1) organisational development, (2) appeal as an employer, (3) leadership and (4) the new world of work. Strategy is reviewed quarterly in strategy workshops, and the results are communicated directly to the CEO or the applicable Executive Board division.

We promote organisational development by developing plans for effecting change in the Group that actively support senior management during change processes, address diversity (age, gender, culture) issues, and put in place a modern working environment and practices. We will further improve our appeal as an employer by focusing on attracting employees in a challenging market that favours applicants. Measures intended to ensure employee loyalty are a key priority. Based on the results of the 2018 employee survey, staff development and training are major action items. Good leadership was defined as another material factor in our success. For this reason, ensuring we have highly qualified and skilled senior managers is one of the freenet Group's top goals. Since 2015, we have continually offered and expanded management training courses in a programme called "We Take the Lead" ("Wir gehen in Führung"). New senior managers are chosen based on their capabilities and receive support from a multi-stage onboarding process. By focusing

[1] 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.

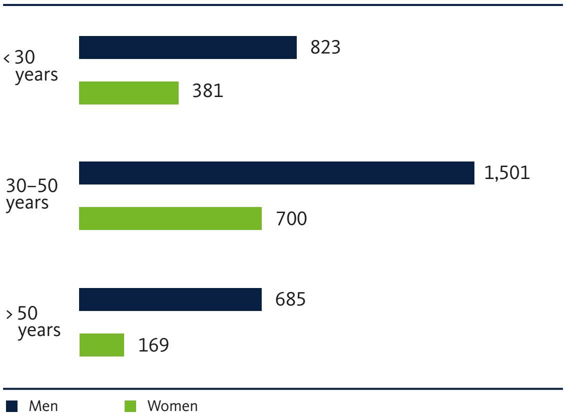
on the new world of work, we aim to analyse digital transformation issues and new working methods. In addition to new agile methods, collaboration and networking are promoted to further shake up the silo mentality in particular in the freenet Group.

Diversity

Diversity is a major factor in the history and success of the freenet Group. The workforce currently comprises employees of 62 different nationalities, who speak a variety of languages, come from a range of cultural backgrounds, and all treat each other with respect. Diversity is anchored in our guiding principles as a key value underlying cooperation and leadership in the Group ("We utilise our diversity"). Every day, diversity comes alive in our company through various programmes, management tools/courses, trainings, and the hiring process. Gender diversity is particularly important in this regard. The freenet Group is subject to the German Act on Equal Participation of Women and Men in Executive Positions (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen). In accordance with this law, the freenet Group has set a target/quota of ensuring that 30 per cent of first-level and extended senior managers will be women by 31 December 2021 (please refer to "Corporate Governance Statement").[3]

In October 2019, the freenet Group took part in the second Female Future Force Day in Berlin to introduce the company as an attractive employer to female job applicants. The freenet WOMEN's DAY initiative, which focused on diversity and women in leadership positions, had previously been held in-house in March 2019. This was a resounding success, so additional events were planned. We held an event entitled #Networking Confidently – The Women of the freenet Group (#Souverän Netzwerken – Frauen der freenet Group) in November. The Stuttgart site organised a workshop called "Self-confident Equals" (Selbstbewusst auf Augenhöhe), and another workshop will be held in Berlin in January 2020. Of the Group's salaried employees, 29.8 per cent are women, a further improvement over the previous year (2018: 28.9 per cent).[4]

Figure 15: Employees by gender and age[2]



[2] This key figure was collected for the first time.

Executives setting examples in their conduct, a Code of Conduct and attentive cooperation – supported by Human Resources – serve to ensure that the freenet Group does not discriminate with regard to remuneration, gender, religion or nationality. As in previous years, there no cases of discrimination in the Group to be addressed in 2019.

Employee attraction and retention

Strengthening staff retention and attracting qualified employees are key factors for the freenet Group's success at all nine sites. The most important indicators for measuring the appeal of the freenet Group as an employer are employee turnover[5] and external new hires. A total of 595 employees (2018: 632) were additionally hired or recruited in 2019[6]. In 2019, employee turnover in the Group was down year on year, standing at 11.9 per cent (2018: 13.7 per cent). The rate at the mobilcom-debitel shops and GRAVIS stores was 30.8 per cent (2018: 30.0 per cent) on account of the high rate of employee turnover common in the retail business. In the coming years, we will aim to stabilise or slightly reduce both figures. A Group-wide exit survey was designed for this purpose and launched in August 2019 (excluding Media Broadcast). This specific type of survey has already been conducted at GRAVIS Vertriebsgesellschaft mbH and mobilcom-debitel Shop GmbH since 2014 and has provided important insights and enabled countermeasures to be taken.

[3] Disclosures on the diversity plan for the Supervisory Board and Executive Board are provided in the Corporate Governance Statement.
[4] This key figure has only been collected since the 2018 financial year.
[5] Number of employees (salaried 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].
[6] This key figure has only been collected since the 2018 financial year.

Table 18: New hires and employee turnover[7]

Number	2019			2018
	Total	Men	Women	Total
New hires at the freenet Group	**281**	**162**	**119**	**632**
thereof <30 years	92	49	43	n/a
thereof 30–50 years	171	101	70	n/a
thereof >50 years	18	12	6	n/a
New hires at Shops/Stores	**314**	**248**	**66**	**n/a**
thereof <30 years	220	169	51	n/a
thereof 30–50 years	91	76	15	n/a
thereof >50 years	3	3	0	n/a
Employee turnover at the freenet Group in %	**11.9**	**12.0**	**11.9**	**13.7**
thereof <30 years	21.6	23.2	19.5	n/a
thereof 30–50 years	11.0	11.0	11.0	n/a
thereof >50 years	10.1	10.5	8.5	n/a
Employee turnover at Shops/Stores in %	**30.8**	**31.0**	**30.2**	**30.0**
thereof <30 years	45.9	44.5	49.6	n/a
thereof 30–50 years	20.8	21.8	17.8	n/a
thereof >50 years	10.8	15.2	0.0	n/a

[7] These key figures have only been collected in such detail since the 2019 financial year.

The freenet Group also regularly performs Group-wide employee surveys to gauge the loyalty and satisfaction of all employees and derive specific actions if necessary. After completion of the 2018 survey focused on the topic of leadership in addition to general questions of satisfaction at work, smaller, focus group-specific questionnaires emphasising various issues are planned in 2020. Other important projects aimed at positioning the Group as an attractive employer both inside and outside the company in 2019 were as follows:

- The 2018/2019 trainee group worked on a project to answer the question "What makes us an attractive employer?" and planned a new promotional film from the company's point of view. The clip is expected to be produced and released in spring 2020.
- In order to more effectively and specifically reach potential sales representatives, target group campaigns were launched starting in September 2019. The application process was streamlined and simplified with a landing site designed and implemented in-house that provides the option of submitting a one-click application.
- The Group also added new and supplemented existing means of communication and collaboration. In addition to "Ask Christoph" ("Frag Christoph"), a forum where any employee can ask the CEO questions anonymously and have them answered promptly and personally on the intranet, we introduced a town-hall format in which the CEO gives an update on current issues in the freenet Group in a 45-minute live video once a quarter. This gives employees the opportunity to ask questions interactively which are then answered on an ad-hoc basis. The short-form "Information in 30 Minutes" ("Wissen in 30 Minuten") channel continued regular coverage of relevant issues in the departments by employees for employees. Employees can participate or watch a recording afterwards to obtain insight into the many different areas of operation and issues in the Group.

Above and beyond these efforts, the freenet Group allows employees to share in the company's profits as part of variable remuneration. Besides the company pension plan with an employer contribution, employees of the freenet Group have also been offered the opportunity to obtain disability insurance requiring a less extensive medical examination since 2016. Moreover, site-specific benefits are also provided (e.g. discounts on wellness services, massages or meal subsidies). Last but not least, flexible working time models promote work-life balance. No distinction is made between full-time and part-time employment in granting most benefits. Depending on the service level, they are pro-rated based on employment status, or based on the part-time wage or full-time salary amount.

Training and continued professional development (CPD)

The world of work is changing. The pace of change in the telecommunications market and increasing digitalisation pose new challenges and requirements for employees, and make reinforcing and advancing their skills essential. Ensuring employees develop their capabilities according to their individual needs is a key factor in ensuring the freenet Group keeps up with progress and remains fit for the future.

A company-wide competency model[8] was established to effectively develop employee skills. It serves as a guide in selecting and designing measures to accomplish this goal. Based on the aforementioned competency model, binding performance reviews are held annually by managers with their employees regardless of gender or management level. In addition to evaluating the employee's competencies, another priority in the review is identifying individual areas of focus and development activities. In 2019, the participation rate stood at around 96.1 per cent, exceeding the prior-year figure (2018: 90.6 per cent)[9].

In 2018, the digital campus portal Weiterentwicklung@freenet was created to also provide implementation support to senior management. The portal offers a selection of various training options that can be either completed in the classroom or digitally (webinar or e-learning course). In the 2019 reporting period, new digital options such as game-based learning solutions and the freenet eLibrary were tested. We aim to expand the available training and information offerings in 2020. The freenet Group's objective here is to encourage employees to learn independently. Furthermore, additional qualifications for senior management were drafted as a result of the findings of the 2018 employee survey. Issues such as remote leadership, managing managers, and developing and coaching employees have been incorporated into new management trainings and added to the continuing education catalogue.

A total of 715 qualification activities were held for employees in 2019 in the form of specialist, method and skills training (2018: 439). Of these, 26 per cent were delivered digitally (2018: 21.0 per cent). A separate training unit is responsible for providing continuing education to employees of the mobilcom-debitel shops and GRAVIS stores due to their specific requirements and customer-facing business. In 2019, this organisational unit organised a total of 132 events including product, sales and systems training and Welcome Camps (2018: 119). In addition, 53 digital qualification activities were carried out, with each employee completing an average of 22 e-learning courses (2018: 17).

Besides ensuring that employees develop their potential, the multifaceted training options provided by the freenet Group are another important component in ensuring a sufficient supply of young talent. In the field of vocational training and studies combining theory and practise ("dual studies"), more than 100 training places are made available every year. These consist of a total of 20 training courses at more than 150 training locations. The trainees receive support from focused onboarding, trainee camps and in-house courses. Successful college and university graduates can participate in the freenet Group's companywide, one-year specialist trainee programme. During this programme, trainees take a deep dive into a department of the freenet Group, receiving onboarding during orientation, participating in knowledge transfer and learning methodologies, and receiving support for their own personal development. In 2019, eleven participants successfully completed this programme. The number of students participating in "dual studies" was 32 (2018: 27), and we had 336 trainees (2018: 325).

[8] The competency model, which was established back in 2016, focuses on cooperation and collaboration, developing an effective persona, entrepreneurial thought and action, driving change, and authentic leadership. The latter only applies to senior managers.

[9] This key figure has only been collected since the 2018 financial year.

Moreover, the following specific programmes and measures were carried out in 2019:

- A repeat of the "freenet entrepreneur" programme to promote high-performing and high-potential employees with the aim of establishing employees as entrepreneurs within the company. A hackathon was held as part of the programme for the first time. Eight participants worked on solutions to a problem assigned by the Executive Board using agile methods.
- Various development activities to promote agile working methods throughout the Group. In addition to continued professional development options on the agile methodology, such as design thinking, 70 per cent of IT employees were trained in specific agile topics.
- Operation of a development centre to develop the capabilities of selected regional managers at mobilcom-debitel Shop GmbH to meet requirements and goals. Each participant received extensive feedback and a personal development plan.

Table 19: Key figures on training and continued professional development (CPD)

	Unit	2019	2018	2017
Implementation of annual performance reviews	%	96.1	90.6	n. a. [10]
Qualification activities within the Group	Number	715	439	403
thereof in a digital format	%	26	21	n. a.
Qualification activities at Shops/ Stores	Number	185	157	96
thereof in a digital format	%	28.6	24.2	41.7
thereof e-learnings per employee	Number	22	17	16
Vocational trainees	Number	336	325	322
thereof dual students	Number	32	27	23

[10] This key figure has only been collected since the 2018 financial year.

Occupational health and safety

Occupational health and safety are mainly the responsibility of individual human resources departments at the sites. The goal of these activities is to create and guarantee a safe working environment for all employees. Occupational safety committees have been established across the Group companies as prescribed by law to ensure safety and security at work. The respective committee is made up of the employer or an employer representative, two Works Council members, the occupational health physician, a workplace safety specialist and a security officer. The members have a duty of care to employees based on legal requirements. They provide managers at every site with occupational safety training (e.g. what to do in an evacuation, use of portable devices). The occupational safety committees are supported by third-party 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 workforce, and develop concepts for continuous improvement in these fields. Among the courses held regularly are first-aid and fire safety training. Since 2018, management have also been offered special training courses on dealing with employee illness and absence and leading healthy teams as part of the Group's human resources development efforts. The latter aim to enable senior managers to ensure not only a safe, but also a healthy, workplace.

In 2019, health-focused days and target group-specific initiatives were again held at many sites to promote the health of our workforce overall. These well-attended events concentrated on the prevention of disease. In cooperation with selected partners, we offered back exercises and yoga, blood sugar and vital sign measurement, playful balance and movement checks, and general information relating to health, exercise, nutrition and sleep. The Group's health management efforts are supported by occupational health examinations. In this context, we offer employees a G37 eye exam, flu vaccinations and an ergonomics review. In addition, the members of the occupational safety committees conduct site walk-throughs to identify possible ways to improve working conditions. Moreover, persons responsible for the various locations can access a separate section of the intranet concerning the subject of health, with current health tips. People responsible in this area meet at regular intervals across sites and organise issue-specific workshops when necessary. The absentee rate[11] , which is reported to the Executive Board monthly, was again low in 2019, standing at 4.6 per cent (2018: 4.8 per cent; 2017: 4.7 per cent).

[11] Share of labour capacity lost because of health issues [(Sick days per calendar day * 100) / calendar days].

Safety at work is particularly relevant at Media Broadcast due to its specific activities. Approximately 142 of the total of 650 employees are involved with the maintenance and possible repair of transmission masts and antennas, some of which are several hundred metres high. Accordingly, precautions have been taken to comply with the stringent safety requirements to protect workers in these particular areas: These employees are individually equipped with protective gear and safety equipment that always complies with the currently applicable occupational safety and accident prevention regulations and European standards (Regulation (EU) 2016/425, Directive 2014/34/EU, Directive 85/374/EEC). In addition, the employees 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 sharp drop in the rate of accidents occurring at work and on the way to/from work at Media Broadcast is the result of, among other things, a lower number of weather-related falls on slippery surfaces. This year, the rate is below that of the Group[12]. In 2019 there were no deaths in the Group due to work-related injuries and no severe work-related injuries.

Table 20: Occupational injuries and commuting accidents

Per 1,000 employees	2019	2018	2017
Group	**23.6**	**31.4**	**25.3**
thereof industrial accidents (accident reports/notes)	15.2	19.5	13.3
thereof commuting accidents	8.4	11.9	12.0
Media Broadcast Group	**14.8**	**41.3**	**35.0**
thereof industrial accidents (accident reports/notes)	6.6	24.5	19.0
thereof commuting accidents	8.2	16.8	16.0

DIGITAL RESPONSIBILITY

The freenet Group is aware that consumers and companies in Germany are concerned about the increasing volume of reporting on cyberattacks and data abuse. A transparent and secure method of handling the sensitive personal data provided to the company in the context of its telecommunications services is becoming more and more important. 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 Technical Officer (CTO), the freenet Group's IT department provides all of the IT services required for the Group's business operations. One of the five fundamental principles of the freenet Group's IT strategy is data protection and security. The freenet Group's IT department works according to well-established information security guidelines. A security organisation with defined roles and a dedicated security incident management process are based on these guidelines. Security incidents are initially visualised by a dashboard, then analysed by a core security team and finally coordinated by security incident managers. The key roles within the security organisation are assumed by 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. Several initiatives to improve data security were implemented in 2019. For instance, a technical solution was introduced for analysing network traffic for security incidents and a process was established to eliminate identified irregularities, depending on their criticality.

Moreover, a partnership was agreed with a third party on security incident management. This partner will provide support for incident response (e.g. crisis management, communications, preservation of evidence) in the event of a cyber attack and conduct the necessary forensic analyses. Of course, the freenet Group IT department has a regularly updated crisis and emergency plan and a recovery plan for the Company's IT infrastructure and software applications to keep potential failures or restrictions to a minimum.

Security patch management is part of normal IT operations 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 as well as the security level in the Group's own data centre meet the legal requirements and correspond to the current state

[12] Frequency of accidents per 1,000 full-time employees [((occupational injuries + commuting accidents) * 1,000)/Number of full time employees].

of the art. Cologne-based Media Broadcast Group, which is part of the freenet Group, has also been certified according to ISO 27001 since 2013. This certification therefore extends to the freenet data centre in Düsseldorf[13].

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. The reliability and security of our infrastructure and processes are also regularly subjected to routine testing by regulators focusing on different areas. In 2019, for example, a spot test was conducted by the Federal Commissioner for Data Protection and Freedom of Information (BfDI), which did not result in any material objections.

IT Management and the management levels of the freenet Group consider data security a central task. 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. The requirements of the EU General Data Protection Regulation (GDPR) that has been effective since May 2018 have been implemented across the Group and appropriate guidelines and processes have been defined and introduced. 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. Our 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 websites. This content is regularly evaluated, taking account of 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 decide what should happen with their data. freenet's customer-facing website makes it also possible for all customers to inspect their own stored data and permissions granted as well as change them as necessary.

All employees are required to comply with both data protection requirements and the freenet Group's regularly updated confidentiality instructions. 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 measures. When 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. In view of the company's nearly 8.3 million customers with fixed-term contracts and more than 4,000 employees, freenet received only a very small number of data protection complaints in 2019. Most of these were queries regarding the fulfilment of obligations under Art. 15 of the GDPR.

Beyond its own operational IT security processes, Media Broadcast 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. Media Broadcast takes its mission of keeping broadcast systems crisis-proof very seriously, given that this has implications for the whole of society, and in 2019 assumed the chairmanship of the "Media and Culture" industry working group. It therefore works on developing and implementing security standards as well as providing advice and support to public and private broadcasters to ensure that this part of the critical infrastructure functions properly. Currently, its industry standard on IT security is in the review and approval process.

CUSTOMER MATTERS

In a largely saturated and highly competitive mobile communications market such as in Germany, the maintenance and quality of relationships with customers play an increasingly important role. The freenet Group therefore places customers at the centre of all of our activities and orients the strategy and organisation of the company toward meeting

[13] 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.

their individual needs. In 2018 the Executive Board was expanded to add a Chief Customer Experience Officer (CCE) who focuses on all activities from attracting new customers through maintaining relationships with existing customers to winning back former customers, as well as reinforcing the customer-focused corporate culture. Implementation of these goals is entrusted to a new organisational unit that primarily concentrates on customer experience. The goal is to consistently align the brands with the requirements and expectations of customers through life cycle management: sustainably designing and linking various individual customer-facing initiatives. The freenet Group believes that responsible interactions with customers provide a basis for long-term commercial success. This also includes treating customer data as confidential and complying with data protection regulations. It goes without saying that the freenet Group also strictly adheres to consumer protection rules. Customers enjoy wide-ranging transparency regarding our prices and services in accordance with the applicable laws.

The strategy of putting customers first aims to improve customer satisfaction and follows three main principles:

- Customer satisfaction by way of service quality
- Customer satisfaction by enhancing digital dialogue
- Customer satisfaction by way of clear brand positioning and a sustainable and inclusive product portfolio

A key element required for a customer-oriented approach is a comprehensive analysis of the core drivers for contact with customer service. The results of the analysis will be used both to proactively avoid potential annoyances during the customer experience as well as to systematically improve service quality with regard to speed and problem solving. In 2019 the following measures were implemented in this regard:

- Systematic contact analysis across all service touchpoints
- Incorporation of various third-party market research studies
- Implementation of updated customer satisfaction analyses for all of the freenet Group's mobile communications brands (since the third quarter of 2019)

The customer satisfaction analyses implemented by the freenet Group allow us to measure customer satisfaction across the entire customer life cycle at all service touchpoints. This method generates information about satisfaction, expectations and potential for improving the customer experience. In addition to continually updating the customer experience, achieving long-term customer loyalty is a key aspect of the results derived from this analysis. At the heart of the customer satisfaction analysis are satisfaction targets that follow a specified system of indicators and targets and provide insight into the service quality and follow-up contact rates for specific processes.

Moreover, in 2019 two customer experience managers were hired to assist with further development of existing processes and developing new business models.

Customer satisfaction by way of service quality

Service quality is considered to be a strategic asset in the freenet Group, because meeting customer expectations improves loyalty and enables us to unlock cross-selling and up-selling potential. The freenet Group's service plan includes customer service by phone, a comprehensive range of digital contact opportunities for customers and the integration of the shops. Our range of customer services is being constantly developed and expanded at all customer touch points. In 2019 this effort included a variety of tests of a mobile phone repair service in the mobilcom-debitel shops with various partners. In the interest of remaining viable and competitive in the future with regard to offering phone-based customer service, the freenet Group outsourced customer service completely to an external company in March 2017 – namely Capita. The Customer Service Management (CSM) department is tasked with cooperating with this partner and documenting changes that could affect the customer experience. A comprehensive management structure and ongoing analysis of customer contacts guarantee that agreed performance indicators are met and service quality is continually improved, for instance thanks to proactive communication with customers regarding delivery delays by our hardware partners. This service approach also transfers to the TV and Media segment. 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.

Customer satisfaction by enhancing digital dialogue

Since 2018, the freenet Group has focused on strategically enhancing its digital dialogue with customers to boost customer satisfaction. In 2019 these activities included upgrading the “mein mobilcom-debitel.de” and “mein klarmobil.de” self-service portals, stepping up email dialogue and establishing new digital communications channels such as WhatsApp and chatbots. Introducing these new channels goes hand-in-hand with phasing out legacy methods of communication such as faxing or limiting the number of invoices sent by post to a minimum (see also “Consumption of resources”). The expansion of service functions in 2019 included launching an online mailbox at mobilcom-debitel by which important legal information could be made available to customers easily and reliably while following the law and conserving resources. Based on customer acceptance, we are rolling out this option to further mobile communications markets in 2020. In addition, customers were given the opportunity to use the self-service portals to easily cancel certain options or services online, block third-party providers and initiate termination of their mobile communications contracts.

Sustainable and inclusive product solutions

The freenet Group is continually developing its portfolio of customer-focused mobile tariffs and mobile services based on systematic market and customer analyses. Close relationships with the three German network operators enable the freenet Group to structure a product portfolio ranging from the discount to the premium market. This brand and portfolio approach enables the company to serve many customer segments and meet a wide variety of customer needs. 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[14].

In 2019 the growing senior segment was identified as a strategic target group. The “Digitally engaged” (“Digital dabei!”) initiative aims to make it easier for older people to participate in the digital world through services and consulting. As part of this initiative, a special set of tariffs for seniors was added to our portfolio of services, smartphone classes were offered nationwide and the partnership with Emporia, a hardware manufacturer specialising in smartphones for seniors, was stepped up. This collaboration allows the freenet Group to add special smartphone solutions to the portfolio above and beyond the existing partnership with Fairphone B.V. In conjunction with Fairphone, the freenet Group has been meeting the rising demand for an environmentally friendly and economical alternative to popular smartphone brands for several years now. With regard to sales of the Fairphone in Germany, mobilcom-debitel currently has the largest market share with approximately 19 per cent (2018 and 2017: approximately 15 per cent).

The freenet Group also offers a differentiated portfolio of other digital lifestyle products. This range also includes products which meet the market trend and customer requirements derived from these trends for product solutions covering aspects such as environmental protection, data protection and protection of minors. In terms of protecting data and devices, these include a comprehensive range of security software (e.g. Kaspersky Internet Security, Kaspersky Password Manager and Kaspersky Safe Kids) and participation in initiatives such as “trustedDialog” and “E-Mail Made in Germany”. The latter initiatives are intended to guarantee our freenet.de e-mail customers a high level of security and data protection for their daily e-mail communications. In terms of protecting minors, the Group is an active member of the German Mobile Communications Provider Code of Conduct for the Protection of Minors in Mobile Communications (Verhaltenskodex der Mobilfunkanbieter in Deutschland zum Jugendschutz im Mobilfunk) and JusProg e.V., a non-profit association that aims to better protect children and youth on the Internet.

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.

[14] 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.

CORPORATE ENVIRONMENTAL PROTECTION

The freenet Group's business activities generate carbon emissions and influence the availability of resources. In the area of mobile communications, energy and resource consumption is limited mainly to the administrative sites, the vehicle fleet and the more than 560 shops and stores due to the service provider model. The Group's largest user of energy is the Media Broadcast Group as an operator of TV and radio infrastructure. For supplying its broadcasting and transmission technology, it consumes energy at approximately 932 transmitter sites and radio towers, thus accounting for 81 per cent of the freenet Group's total electricity consumption.

For a medium-sized company, the optimum use of resources and efficient utilisation of energy are important for economic success in a competitive environment dominated by large corporations. The freenet Group also explicitly supports political and societal expectations and initiatives in the area of climate protection. From the freenet Group's perspective, these include significant factors such as reducing fuel and electricity consumption (especially at the Media Broadcast Group) to lower carbon emissions that can be influenced directly. The company applies energy efficiency improvement recommendations arising from regular statutory energy audits conducted as per Sections 8 to 8d of the Act on Energy Services and Other Energy Efficiency Measures (Gesetz über Energiedienstleistungen und andere Energieeffizienzmaßnahmen – EDL-G) in accordance with DIN EN 16247-1, taking into account cost-benefit considerations. The latest audit took place in December 2019. The Group has not developed a specific companywide carbon strategy aligned with quantitative parameters due to a general lack of relevance to the Group's activities.

The Group Facility department, which is part of Human Resources, is responsible for managing energy in the Group. The Media Broadcast Group additionally maintains an energy management system aligned with the requirements of DIN EN ISO 50001 and has a management representative dedicated to energy issues due to the company's significant energy consumption. Energy management is part of an integrated management system used to manage and monitor quality, occupational safety, security and data protection as well as environmental protection. A DIN EN ISO 14001-certified environmental management system (EMS) was introduced to manage the latter. This highlights the particular importance of protecting the environment for Media Broadcast's business model in respect of contracting partners, service providers and customers. The EMS is based on the 2016 guidelines defining its importance, goals, activities and their implementation, and audits. Furthermore, it stipulates that only certified suppliers and waste disposal companies may be hired, e.g. to demolish or dismantle transmission systems, so as to provide employees and customers with maximum safety and security. In addition, activities such as transmission system and antenna servicing involve hazardous materials to some extent, which entails a particular duty to provide information and notify employees of this issue. Media Broadcast is required to instruct all employees on this topic annually and provide evidence it has done so.

A legal register is maintained to regularly evaluate the Media Broadcast Group's compliance with environmental standards. This is used to document the results of internal and external audits and systematically monitor the implementation of their recommendations. To date, no monetary fines or non-monetary sanctions have been issued to the company for non-compliance with environmental protection laws or regulations.

Energy consumption and carbon emissions

The strategic decision to change over to the new HD standard DVB-T2 in the TV business continues to contribute toward the greater energy efficiency that is our goal. The new transmitters broadcast more highly compressed signals, which optimises frequency utilisation and sharply reduces energy consumption. The same applies to radio transmissions. Replacing the UKW standard with the more energy-efficient digital DAB+ transmission standard decreased electricity usage steeply year on year (-18.7 per cent). Compared with the 2015 benchmark, the overall electricity consumption of the Media Broadcast Group has declined by approximately 46.6 per cent, and the associated carbon emissions have declined by approximately 52 per cent. There are limitations to implementing energy savings in the field of broadcasting and transmission technology, however. Contracting and using frequencies is subject to a regulatory framework governing infrastructure design and expansion. Media Broadcast is therefore required to adhere to the standards set by 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 by renewable energy (2019: 5.4 GWh; 2018: 5.4 GWh). We also aim to ensure that our fleet of company vehicles uses as little fuel as possible and produces minimal emissions. In 2019 the freenet Group invested in installing the infrastructure for our own electrical vehicle charging stations at the Büdelsdorf site. The goal is to promote the use of electric vehicles and therefore to make business transport more sustainable. In addition to the two existing charging stations, we added four more with two charging points each. The freenet Group plans to expand charging station infrastructure at the Hamburg site in 2020 and examine the option of installing it at other selected company sites in Germany. This enables the freenet Group to fulfil its societal responsibility to contribute to reducing carbon emissions in transportation and to be prepared for the growing electrification of the auto market. The existing Car Policy was supplemented with an eCar Policy to efficiently integrate electric vehicles into the company's vehicle fleet. When purchasing electric vehicles and plug-in hybrid vehicles, the freenet Group performs a driver profile analysis in advance to approve such purchases on the basis of not only financial, but also environmental factors. The company additionally intends to increase the share of electric vehicles in the vehicle fleet that can be used for business trips, including between sites. In addition, the Media Broadcast Group conducts ongoing mileage monitoring of its company cars to identify possibilities for consolidation. The fleet size was thus again reduced and totalled 312 vehicles by the end of 2019 (2018: 350).

Table 21: Energy consumption and carbon emissions

Unit as specified		2019	2018 (restated)	2017 (restated)	2015 (base year) [15]
Group					
Fuel consumption [16]	GWh	27.3	31.9	34.2	32.6
thereof carbon emissions (Scope 1)	tCO_2eq [17]	6,504.5	7,677.0	8,170.1	7,994.9
Electricity consumption [18]	GWh	76.6	90.5	114.4	134.0
thereof carbon emissions (Scope 2 location-based) [19]	tCO_2eq	36,292.1	42,897.9	55,578.5	70,638.2
thereof share from renewable energies [20]	%	42.14	41.53	39.00	34.88
Energy consumption	**GWh**	**103.9**	**122.4**	**148.5**	**166.7**
thereof carbon emissions	**tCO_2eq**	**42,796.6**	**50,575.0**	**63,748.6**	**78,633.1**
This includes: Media Broadcast Group					
Fuel consumption	GWh	4.0	5.5	6.0	7.2
thereof carbon emissions (Scope 1)	tCO_2eq	988.4	1,365.8	1,475.6	1,755.5
Electricity consumption	GWh	62.1	76.3	99.6	116.2
thereof carbon emissions (Scope 2 location-based)	tCO_2eq	29,413.8	36,176.8	48,386.3	61,216.1
Energy consumption	**GWh**	**66.1**	**81.8**	**105.6**	**123.3**
thereof carbon emissions	**tCO_2eq**	**30,402.2**	**37,542.6**	**49,862.0**	**62,971.6**
CO_2 intensity	**tCO_2eq/ million revenue**	**14.6**	**17.5**	**18.2**	**25.2**

[15] The year 2015 is set as the base year, as this is the first year for which retrograde, consolidated reporting of energy consumption and carbon emissions has been done.
[16] Fuel consumption comprises consumption in the form of diesel and petrol for the fleet of company cars. 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) have been used for converting fuel consumption in GWh and carbon emissions.
[17] $CO_2eq = CO_2$, CH4 and N2O.
[18] Electricity consumption calculated on the basis of appropriate estimates and extrapolations.
[19] Calculated by basically taking into account the German electricity mix for electricity consumption plus an explicit green electricity contract.
[20] The CO_2 emissions factor from the Federal Environmental Office (Umweltbundesamt) is used for converting electricity consumption into CO_2 emissions.

Consumption of resources

The freenet Group concentrates 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 sales channels and extends right through to avoiding the printing and posting of millions of invoices every month. In November and December 2019, a total of around 0.5 million additional contracts were proactively switched to online billing. At the main mobile communications brand mobilcom-debitel, this improved the share of digitally delivered invoices to 77.7 per cent (2018: 74.9 per cent). At the discount brands, the share remained stable at 95.5 per cent (2018: 95.7 per cent). Overall therefore, nearly 81.4 per cent of all invoices were transmitted digitally (2018: 78.8 per cent). For 2020 we anticipate the resulting savings to amount to around 5.0 million hardcopy invoices.

The “FLIP4NEW” programme conducted by the GRAVIS and mobilcom-debitel subsidiaries in partnership with external provider Flip4 GmbH represents another contribution towards ensuring an 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 are no longer usable are accepted by the recycle it GmbH, which is certified in the areas of environmental and data protection.

To avoid electronic waste, the freenet Group 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. In light of this, devices have been foil-coated before being shipped to customers since 2017. The resulting and sustained positive effects of this were evident for the third successive year in 2019, as the return rate and proportion of A products remained high. The return rate was 3.4 per cent (2018: 1.7 per cent) and the proportion of A products was 85.5 per cent (2018: 84.2 per cent). In relation to end users, the percentage of A products in 2019 was also stable at 93.8 per cent (2018: 92.2 per cent).

Table 22: Key figures on resource consumption

in %	2019	2018	2017
Online invoice	81.4	78.8	77.7
thereof mobilcom-debitel	77.7	74.9	74.2
thereof klarmobil	95.5	95.7	95.7
Return rate, shops	3.4	1.7	1.5
Proportion of A product, shops	85.5	84.2	85.8
Proportion of A product, end customers	93.8	92.2	95.0

ANTI-CORRUPTION

The freenet Group is committed to all applicable laws and standards as well as the underlying ethical principles: It is also aware of the harmful 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 in commercial transactions or among public officials 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, which is also communicated to all areas of the organisation by downstream managers. The works councils of the freenet Group also support all guidelines that serve to combat corruption. Compliance is a strong element of the corporate culture, and is expressed by the actions and support of all parts of the company.

As a typical economic crime, corruption 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 the context of high-revenue contract partners, both on the customer and supplier side, for example. In order to be able to successfully combat this risk, the company has implemented a compliance management system (CMS), which has created uniform standards for compliance matters such as combating corruption. Compliance measures are the central responsibility of the Chief Compliance Officer (CCO) and are implemented and monitored for compliance in close and constructive collaboration with the Internal Audit, Human Resources and Legal departments. The CCO reports directly to the CFO of the freenet Group and advises the CFO as the person with overarching responsibility for compliance with the law and for monitoring compliance risks in the implementation of the relevant legal requirements. In addition, the CCO reports to the Supervisory Board's audit committee and informs the Supervisory Board immediately if risks arise that may endanger the continued existence of the freenet Group.

Management of corruption risks is based on several approaches, which are characterised by prevention, identification and reaction in each case. 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. The corporate culture we embody promotes the continual exchange of information among employees and between employees and senior managers regarding the legal risks associated with their activities. In this context, the gift, purchasing and signature guidelines have a vital role to play. 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 important declarations of intent, 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 possible uncertainties 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 worth more than 20 euros given and received, 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. Possible violations of regulations are followed up by the Internal Audit and Central Fraud Management departments in particular. 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. The composition and working practices of the Whistleblowing Committee are explained in more detail in the section "Corporate Governance Statement".

Since the long-standing CMS was established, no confirmed instance of corruption has 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.

SUPPLY CHAIN

As a result of the supply chain's importance to the freenet Group's 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 consolidated in the Partner Relationships Executive Board division. Our constantly developing base of suppliers for mobile communications services comprises around 1,500 suppliers from various countries. The following main suppliers account for more than 90 percent of the purchasing volume in terms of value in this area:

- 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 mobile network operators, device/accessory 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 (indirect purchasing). The Media Broadcast Group has its own separate purchasing department.

The freenet Group's ability to exert influence on the major suppliers listed above with regard to sustainability aspects 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 standards in the areas of human rights, social standards, environmental protection, safety and security, health, and compliance, and is publicly available on the freenet Group's website. The code of conduct is generally included in all new procurement agreements and processes. Alternatively, we require our strategic suppliers to declare that their standards at least correspond to those of the freenet Group. In the event of violations, the freenet Group reserves the right to appropriately address the issue depending on the severity of the violation. This includes, but is not limited to, requesting immediate remediation of the violation, asserting claims for damages or terminating the respective contract. If suppliers or their employees wish to report a possible violation of applicable law or our standards, our code of conduct provides for direct contact for business partners to our Compliance department, which also initiates investigations.

To date, we have not conducted a costly and time-intensive systematic review of all suppliers to ensure compliance with standards. Around 98.7 per cent of suppliers in indirect sales and 100 per cent of merchandise suppliers commissioned in calendar year 2019 are domiciled in Germany or another EU member state. At Media Broadcast, this figure is 99.6 per cent of the goods and services supplied based on the purchasing volume in euros[22]. These suppliers are subject to the same legal regulations as the freenet Group itself, which is why we do not anticipate a significant negative societal impact from these business relationships.

Sustainability aspects are incorporated into the freenet Group's purchasing policy as decision-making parameters to reinforce this self-imposed responsibility. As a Group-wide framework, the purchasing policy is intended to encourage responsible employees to take sustainability criteria into account when making purchasing decisions. To this end, information about sustainability as well as the financial situation of relevant new suppliers will be obtained in advance and taken into account from the second quarter of 2020 onward.

Media Broadcast's purchasing policy focuses to a greater extent on the aspects of environmental protection and particularly energy efficiency, as the subsidiary consumes a large amount of electricity. Accordingly, assuming that all other criteria are equivalent, the company should prefer suppliers who adequately take into account environmental protection and energy efficiency. Media Broadcast's various General Purchasing Terms and Conditions contain standard clauses requiring new suppliers to conform to social standards such as tolerance and equal opportunity as well as fundamentally oppose discrimination, harassment and coercion of any kind. These purchasing terms also stipulate an obligation to adhere to international, national and local legal regulations regarding corruption and bribery.

[22] This key figure was collected for the first time.

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 3 December 2019, the Supervisory Board considered the regulations of the German Corporate Governance Code as amended on 7 February 2017 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 3 December 2019 is included in the following Corporate Governance Statement and has been made permanently accessible on the company's website under https://www.freenet-group.de/investor-relations/corporate-governance/index.html.

CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH SECTIONS 289F, 315D HGB*

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 is the information regarding the percentage of women in the Executive Board and in the two management tiers below the level of the Executive Board, as well as information regarding compliance with minimum percentages of women on the Supervisory Board. And finally, details are provided on 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 2019.

* indicates auditable and non-auditable information that is not normally part of the management report as well as information typically included in the management report, the statutory inclusion of which in the substantive audit is not required and which therefore is not audited.

STATEMENT IN ACCORDANCE WITH SECTION 161 AKTG

Since submitting the last Declaration of Conformity on 4 December 2018, 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 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 sentence 5 and 6)
3. When appointing new members to the Executive Board, the Supervisory Board so far has 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 previous 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 Code clauses 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 Code 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 the prevailing laws and statutes. For the freenet Group, compliance means that statutory provisions are adhered to, the Group's own rules and in-house guidelines are observed and criminal acts are prevented. The company does everything it can to ensure that compliance violations, such as fraud, corruption, anti-competition practices and data privacy violations do not arise in the first place. As soon as misconduct and infringements of compliance become evident, these are brought to light and tackled decisively.

The freenet Group's managers set a good example in upholding compliance and ensure that any significant steps taken within their own fields of responsibility are in accordance with the respective statutory provisions and its 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 as soon as 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 economic or reputational damage to the freenet Group and the affected stakeholders. 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 customers, suppliers, contractual partners and employees, especially given the General Data Protection Regulation (GDPR) and special regulations applying to the telecommunications sector. It is therefore important to protect this data against unauthorised access. For this reason, the Group uses modern security technologies and regularly draws the attention of its 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 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. In so doing, the Executive Board includes the Supervisory Board in all decisions of a fundamental nature relating to the company's management and reports regularly about the business performance, the corporate planning, the strategic development and the situation of the company. The Supervisory Board in turn 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, 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 set up five 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 chairpersons 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 shareholder representatives and employee 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, Knut Mackeprang

Personnel committee

The personnel committee prepares the Supervisory Board's personnel decisions. It submits to the Supervisory Board proposals for decisions on the Executive Board's remuneration, the remuneration system and regular 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 with regard to 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, Thomas Reimann

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

Nomination committee

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

Members: Prof. Dr Helmut Thoma (chairman), 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 have each 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 2021
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	Actual as of 30 June
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 requirement of a minimum percentage of 30 per cent.

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

The company has not adopted a diversity plan which defines the criteria for the composition of the Executive Board and the Supervisory Board with regard to aspects such as age, gender, 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 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 plan for the composition of the Executive Board without a specific reason. The Supervisory Board currently sees no need for a diversity plan and would like to take a wait-and-see attitude regarding further developments.

LEGAL GROUP STRUCTURE AND TAKEOVER-RELEVANT 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 the voting rights or the transferring of shares.

EQUITY INTERESTS EXCEEDING 10 PER CENT OF THE VOTING RIGHTS

As of 31 December 2019, and on the basis of the existing notifications of voting rights, Flossbach von Storch AG, Cologne, holds an equity interest of 14.89 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 this.

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

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

POWERS OF THE EXECUTIVE BOARD TO ISSUE SHARES

The Executive Board, with the approval of the Annual General Meeting, 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 shareholders or by using equity derivatives (put or call options or a combination of the two). There is also the possibility of purchasing the company's own 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 to subject to less favourable conditions.

COMPENSATION AGREEMENT 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.

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 with Mr Esch, granted on 19 March 2019) and the appointment to the Executive Board made (for both Mr von 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 a 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, 2018 (on a pro rata basis from the appointment date) until 2021 (on a pro rata basis) for Mr von Platen and Mr Fromme, 2019 to 2021 for Mr Arnold, and 2020 to 2024 for Mr Esch.

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 23: Executive Board remuneration for financial year 2019 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	1,015	688	1,703	0	1,703
Ingo Arnold	510	287	797	606	1,403
Stephan Esch	494	229	723	785	1,508
Rickmann v. Platen	510	287	797	0	797
Antonius Fromme	509	287	796	0	796
Total	**3,038**	**1,778**	**4,816**	**1,391**	**6,207**

Table 24: 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

In financial year 2019, the Executive Board benefits in accordance with section 314 (1) no. 6a HGB amounted to 6,207 thousand euros (previous year: 6,630 thousand euros). For 2019, this includes benefits with a long-term incentive effect from the grant of LTIP Programme 3 in the amount of 1,391 thousand euros (2018: 2,640 thousand euros).

In addition to the above Executive Board benefits, Mr Preisig had been 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 had been 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.

In financial 2019, the current Executive Board members received cash payments of 5,421 thousand euros under LTIP Programme 2 and no cash payments under LTIP Programme 3. No cash payments were made under either LTIP programme in financial year 2018.

As at 31 December 2019, the provision recognised for LTIP Programme 2 according to HGB for Mr Vilanek amounted to 0 thousand euros (previous year: 4,366 thousand euros) and Mr Esch to 1,967 thousand euros (previous year: 1,372 thousand euros). The provision recognised for the LTIP programme according to HGB for former Executive Board member Mr Preisig amounted to 2,678 thousand euros (previous year: 1,781 thousand euros).

As at 31 December 2019, the provision for LTIP Programme 3 according to HGB amounted to 1,305 thousand euros (previous year: 518 thousand euros) for Mr Vilanek, 419 thousand euros (previous year: 0 thousand euros) for Mr Arnold, 227 thousand euros (previous year: 0 thousand euros) for Mr Esch, 485 thousand euros (previous year: 235) for Mr von Platen and 485 thousand euros (previous year: 235 thousand euros) for Mr Fromme.

In November 2004, Mr Esch was granted an indirect pension commitment. In the financial year 2009, Mr Vilanek was granted an indirect pension commitment on the occasion of his appointment as chairman of the Executive Board as of 1 May 2009. freenet AG had taken on the pension commitment granted to Mr Preisig from the former debitel AG as of 1 September 2008. In February 2014, adjustments were made to all three Executive Board members' pension commitments. For further details, see the section "Remuneration arrangements in the event of a termination of employment". Mr von Platen, Mr Fromme and Mr Arnold were each granted defined contribution benefits on the occasion of their appointment as members of the Executive Board (on 1 June 2018 for Mr von Platen and Mr Fromme and on 1 January 2019 for Mr Arnold), with the pension benefits being reinsured by a life insurance policy.

As of 31 December 2019, the obligation under commercial law for Mr Vilanek amounted to 4,620 thousand euros (previous year: 3,620 thousand euros), and the obligation for Mr Esch came to 4,052 thousand euros (previous year: 3,127 thousand euros). The obligation amount for Messrs Preisig, Spoerr, Krieger and Berger, as former Executive Board members, totalled 11,304 thousand euros as at 31 December 2019 (previous year: 10,083 thousand euros). Due to the nature of the selected commitment, there are no obligations under German commercial law for Messrs v. Platen, Fromme and Arnold.

Current service costs of 884 thousand euros (previous year: 863 thousand euros) were recognised in total in personnel expenses for the members of the Executive Board as a result of the pension commitments. In 2019, Mr Vilanek accounted for 371 thousand euros (previous year: 319 thousand euros) of this amount, Mr Esch for 213 thousand euros (previous year: 183 thousand euros), Mr von Platen for 100 thousand euros (previous year: 58 thousand euros), Mr Fromme for 100 thousand euros (previous year: 58 thousand euros), Mr Arnold for 100 thousand euros (previous year: 0 euros) and Mr Preisig for 0 euros (previous year: 245 thousand euros).

In 2019, personnel expenses recognised for Mr Esch in relation to pension commitments included past service costs of 222 thousand euros. In the previous year, no past service costs related to the pension commitments were recognised for the members of the Executive Board.

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 (DCGC), we hereby make the following disclosures about the benefits granted to the members of the Executive Board for financial year 2019 and the previous year, and about the benefits paid to the members of the Executive Board in the financial year 2019 and the previous year.

Table 25: Benefits granted to the Executive Board for financial year 2019 in accordance with the GCGC

In EUR '000s	Christoph Vilanek	Ingo Arnold	Stephan Esch	Rickmann v. Platen	Antonius Fromme	Total
Fixed remuneration	1,000	500	480	500	500	2,980
Fringe benefits	15	10	14	10	9	58
Total	**1,015**	**510**	**494**	**510**	**509**	**3,038**
One-year variable remuneration	600	250	200	250	250	1,550
Multi-year variable remuneration						
LTIP Programme 2	207	0	217	0	0	424
LTIP Programme 3	355	203	0	140	140	838
Total	**1,162**	**453**	**417**	**390**	**390**	**2,812**
Pension expense						
Current service cost	468	100	272	100	100	1,040
Past service cost	0	0	222	0	0	222
Total	**468**	**100**	**494**	**100**	**100**	**1,262**
Total remuneration	**2,645**	**1,063**	**1,405**	**1,000**	**999**	**7,112**

Table 26: 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 27: Benefits received by the Executive Board in financial year 2019 in accordance with the GCGC

In EUR '000s	Christoph Vilanek	Ingo Arnold	Stephan Esch	Rickmann v. Platen	Antonius Fromme	Total
Fixed remuneration	1,000	500	480	500	500	2,980
Fringe benefits	15	10	14	10	9	58
Total	**1,015**	**510**	**494**	**510**	**509**	**3,038**
One-year variable remuneration	688	287	229	287	287	1,778
Multi-year variable remuneration						
LTIP Programme 2	5,421	0	0	0	0	5,421
LTIP Programme 3	0	0	0	0	0	0
Total	**6,109**	**287**	**229**	**287**	**287**	**7,199**
Pension expense						
Current service cost	468	100	272	100	100	1,040
Past service cost	0	0	222	0	0	222
Total	**468**	**100**	**494**	**100**	**100**	**1,262**
Total remuneration	**7,592**	**897**	**1,217**	**897**	**896**	**11,499**

Table 28: 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**

REMUNERATION ARRANGEMENTS IN THE EVENT OF A TERMINATION OF EMPLOYMENT

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

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

- 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 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 his 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.

For Chief Executive Officer Christoph Vilanek, the following arrangement has applied since 1 January 2019:

- Upon reaching the age of 60, Mr Vilanek shall receive a retirement pension amounting to 2.7 per cent of his last annual fixed salary for each contract year commenced on the Executive Board of the company, to a maximum of 35 per cent 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 prematurely due to termination, cancellation or otherwise, or his appointment to the position is revoked, Mr Vilanek is entitled to the payout of the long-term incentive account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to 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 Executive Board member Stephan Esch, the following arrangement applied from 1 January 2015 (agreement dated 26 February 2014) until 31 December 2019:

- Upon reaching the age of 60, Mr Esch shall receive a retirement pension amounting to 2.5 per cent of his 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 the payout of the long-term incentive account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to 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 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 the payout of the long-term incentive account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to 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 Executive Board member Rickmann von 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 von Platen is entitled to the payout of the long-term incentive account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to 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 Executive Board member Ingo Arnold, the following arrangement has applied since 1 January 2019:

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 Arnold is entitled to the payout of the long-term incentive account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to 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 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 2019, the members of the company's Supervisory Board received fixed remuneration of 405 thousand euros plus attendance fees amounting to 82 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 2019. The aggregate expenses for Supervisory Board activities thus amounted to 892 thousand euros.

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

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

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

Table 29: Remuneration for financial year 2019

In EUR '000s	Basic remuneration	Attendance fees	Performance-related remuneration	Total
Active members				
Prof. Dr Helmut Thoma	60.0	12.0	60.0	132.0
Knut Mackeprang[1]	45.0	6.0	45.0	96.0
Claudia Anderleit[1]	30.0	5.0	30.0	65.0
Thorsten Kraemer	30.0	5.0	30.0	65.0
Marc Tüngler	30.0	7.0	30.0	67.0
Robert Weidinger	30.0	13.0	30.0	73.0
Sabine Christiansen	30.0	5.0	30.0	65.0
Thomas Reimann[1]	30.0	8.0	30.0	68.0
Fränzi Kühne	30.0	4.0	30.0	64.0
Theo-Benneke Bretsch[1]	30.0	4.0	30.0	64.0
Bente Brandt[1]	30.0	8.0	30.0	68.0
Gerhard Huck[1]	30.0	5.0	30.0	65.0
Total	**405.0**	**82.0**	**405.0**	**892.0**

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

Table 30: 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.

CONSOLI-DATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the period from 1 January to 31 December 2019

In EUR '000s/as indicated	Note	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018
Revenue	4	2,932,544	2,897,466
Other operating income	5	67,276	100,704
Other own work capitalised	6	20,258	18,106
Cost of materials	7	– 2,036,334	– 1,993,739
Personnel expenses	8	– 236,450	– 219,700
Other operating expenses	10	– 320,499	– 361,653
Thereof loss allowances on financial assets and contract assets		– 39,482	– 46,666
Thereof without loss allowances on financial assets and contract assets		– 281,017	– 314,987
EBITDA[1]		**426,795**	**441,184**
Depreciation, amortisation and impairment	9	– 156,841	– 129,196
EBIT[2]		**269,954**	**311,988**
Profit or loss of equity-accounted investments	17	14,629	25,110
Thereof from share of profit or loss		34,595	44,343
Thereof from subsequent accounting from purchase price allocation		– 19,966	– 19,233
Interest and similar income	11	9,573	164
Interest and similar expenses	12	– 56,699	– 56,042
Other financial result	12	621	– 47,218
Financial result		**– 31,876**	**– 77,986**
Earnings before taxes		**238,078**	**234,002**
Income taxes	13	– 53,346	– 21,839
Consolidated profit		**184,732**	**212,163**
Consolidated profit attributable to shareholders of freenet AG	24	190,899	223,138
Consolidated profit attributable to non-controlling interests	24	– 6,167	– 10,975
Earnings per share in EUR (basic)	**14.1**	**1.49**	**1.74**
Earnings per share in EUR (diluted)	**14.2**	**1.49**	**1.74**
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

[1] EBITDA represents earnings before interest, taxes, depreciation, amortisation and impairment, financial result and income taxes.
[2] EBIT represents earnings before financial result and income taxes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2019

In EUR '000s	Note	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018
Consolidated profit		**184,732**	**212,163**
Currency translation differences		23	688
Currency translation differences from subsequent accounting for equity-accounted investments	17.1	1,924	4,604
Income tax recognised in other comprehensive income		– 29	– 65
Other comprehensive income/to be reclassified to the income statement in future periods		**1,918**	**5,227**
Change in fair value of investments in equity instruments		74,334	– 127,287
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. to IAS 19 (2011)	29	– 11,539	– 769
Other shares of the profit or loss of equity-accounted investments	17.1	– 1,263	809
Income tax recognised in other comprehensive income		2,388	2,156
Other comprehensive income/not to be reclassified to the income statement in future periods		**63,920**	**– 125,091**
Other comprehensive income		**65,838**	**– 119,864**
Consolidated total comprehensive income		**250,570**	**92,299**
Consolidated total comprehensive income attributable to shareholders of freenet AG		256,737	103,274
Consolidated total comprehensive income attributable to non-controlling interests		– 6,167	– 10,975

CONSOLIDATED BALANCE SHEET

as of 31 December 2019

ASSETS

In EUR '000s	Note	31.12.2019	31.12.2018
Non-current assets			
Intangible assets	15, 16, 39	501,878	525,355
Lease assets	2.5	451,964	0
Goodwill	15, 16	1,383,474	1,380,056
Property, plant and equipment	15, 16, 39	143,830	398,824
Equity-accounted investments	17	785,637	811,808
Deferred income tax assets	18	130,226	158,094
Trade accounts receivable	21	68,678	52,480
Other receivables and other assets	21	122,921	128,023
Other financial assets	21	268,480	126,218
Contract acquisition costs	19	297,240	304,238
		4,154,328	**3,885,096**
Current assets			
Inventories	20	75,819	105,965
Current income tax assets	23	2,084	2,046
Trade accounts receivable	21	225,753	253,914
Other receivables and other assets	21	201,734	226,394
Other financial assets	21	46,187	34,905
Liquid assets	22	133,692	126,332
		685,269	**749,556**
		4,839,597	**4,634,652**

EQUITY AND LIABILITIES

In EUR '000s	Note	31.12.2019	31.12.2018
Equity			
Share capital	24.1	128,061	128,061
Capital reserve	24.2	737,536	737,536
Cumulative other comprehensive income	24.3	– 74,282	– 140,120
Consolidated net retained profits	24.4	521,031	535,124
Equity attributable to shareholders of freenet AG		**1,312,346**	**1,260,601**
Non-controlling interests in equity	24.5	9,255	20,152
		1,321,601	**1,280,753**
Non-current liabilities			
Lease liabilities	2.5, 28	473,272	0
Other liabilities and deferrals	26	107,378	115,922
Other financial liabilities	26	31,048	306,638
Borrowings	28	1,428,009	1,699,424
Pension provisions	29	98,787	89,173
Other provisions	30	41,206	47,042
		2,179,700	**2,258,199**
Current liabilities			
Lease liabilities	2.5, 28	80,004	0
Trade accounts payable	26	465,230	523,174
Other liabilities and deferrals	26	402,175	436,343
Other financial liabilities	26	64,546	51,167
Current income tax liabilities	27	43,991	34,722
Borrowings	28	265,610	23,476
Other provisions	30	16,740	26,818
		1,338,296	**1,095,700**
		4,839,597	**4,634,652**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2018

In EUR '000s	Share capital	Capital reserve	Revaluation reserve	Currency translation differences	Currency translation differences from subsequent accounting for equity-accounted investments
As of 1.1.2018 as reported	**128,061**	**737,536**	**– 164**	**255**	**– 11,956**
Effects of the transition to IFRS 15 and IFRS 9 at freenet	0	0	0	0	0
Effects of the transition to IFRS 15 and IFRS 9 at Sunrise	0	0	0	0	0
Reclassification	0	0	164	0	0
As of 1.1.2018 restated	**128,061**	**737,536**	**0**	**255**	**– 11,956**
Dividend payment	0	0	0	0	0
Consolidated profit	0	0	0	0	0
Change in fair value of investments in equity instruments[1]	0	0	0	0	0
Other shares of the profit or loss of equity-accounted investments[1]	0	0	0	0	0
Recognition of actuarial gains and losses acc. to IAS 19 (2011)[1]	0	0	0	0	0
Foreign currency translation[1]	0	0	0	688	0
Foreign currency translation from subsequent accounting for equity-accounted investments[1]	0	0	0	0	4,534
Subtotal: Consolidated total comprehensive income	0	0	0	688	4,534
As of 31.12.2018 Consolidated total comprehensive income	**128,061**	**737,536**	**0**	**943**	**– 7,422**

[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.

Cumulative other comprehensive income						
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
0	**– 20,548**	**12,157**	**586,433**	**1,431,774**	**31,127**	**1,462,901**
0	0	0	– 70,368	– 70,368	0	– 70,368
0	0	0	7,139	7,139	0	7,139
– 164	0	0	0	0	0	0
– 164	**– 20,548**	**12,157**	**523,204**	**1,368,545**	**31,127**	**1,399,672**
0	0	0	– 211,218	– 211,218	0	– 211,218
0	0	0	223,138	223,138	– 10,975	212,163
– 125,348	0	0	0	– 125,348	0	– 125,348
0	0	797	0	797	0	797
0	– 535	0	0	– 535	0	– 535
0	0	0	0	688	0	688
0	0	0	0	4,534	0	4,534
– 125,348	– 535	797	223,138	103,274	– 10,975	92,299
– 125,512	**– 21,083**	**12,954**	**535,124**	**1,260,601**	**20,152**	**1,280,753**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2019

In EUR '000s	Share capital	Capital reserve	Currency translation differences	Currency translation differences from subsequent accounting for equity-accounted investments	Change in fair value of investments in equity instruments
As of 1.1.2019 as reported	**128,061**	**737,536**	**943**	**– 7,422**	**– 125,512**
Effects of the transition to IFRS 16, freenet	0	0	0	0	0
As of 1.1.2019 restated	**128,061**	**737,536**	**943**	**– 7,422**	**– 125,512**
Dividend payment	0	0	0	0	0
Deconsolidation of subsidiaries	0	0	0	0	0
Derecognition of option liabilities in connection with the sale of subsidiaries	0	0	0	0	0
Consolidated profit	0	0	0	0	0
Change in fair value of investments in equity instruments[1]	0	0	0	0	73,208
Other shares of the profit or loss of equity-accounted investments[1]	0	0	0	0	0
Recognition of actuarial gains and losses acc. to IAS 19 (2011)[1]	0	0	0	0	0
Foreign currency translation[1]	0	0	23	0	0
Foreign currency translation from subsequent accounting for equity-accounted investments[1]	0	0	0	1,895	0
Subtotal: Consolidated total comprehensive income	0	0	23	1,895	73,208
As of 31.12.2019	**128,061**	**737,536**	**966**	**– 5,527**	**– 52,304**

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

Cumulative other comprehensive income					
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
– 21,083	**12,954**	**535,124**	**1,260,601**	**20,152**	**1,280,753**
0	0	– 774	– 774	0	– 774
– 21,083	**12,954**	**534,350**	**1,259,827**	**20,152**	**1,279,979**
0	0	– 211,218	– 211,218	0	– 211,218
0	0	0	0	– 4,730	– 4,730
0	0	7,000	7,000	0	7,000
0	0	190,899	190,899	– 6,167	184,732
0	0	0	73,208	0	73,208
0	– 1,244	0	– 1,244	0	– 1,244
– 8,044	0	0	– 8,044	0	– 8,044
0	0	0	23	0	23
0	0	0	1,895	0	1,895
– 8,044	– 1,244	190,899	256,737	– 6,167	250,570
– 29,127	**11,710**	**521,031**	**1,312,346**	**9,255**	**1,321,601**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the period from 1 January to 31 December 2019

In EUR '000s	Note	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018 restated
Earnings before interest and taxes (EBIT)		**269,954**	**311,988**
Restatements			
Depreciation, amortisation and impairment of non-current assets	9	156,841	129,196
Dividends received from equity-accounted investments	17	41,462	36,912
Gains on the sale of subsidiaries		– 66	0
Gain on disposal of non-current assets		– 363	– 25,527
Increase in net working capital not attributable to investing or financing activities	19, 20, 25, 28, 29, 31	– 49,376	– 38,902
Proceeds from the cash repayment of financial assets under leases		14,940	0
Capitalisation of contract acquisition costs		– 306,315	– 336,622
Amortisation of contract acquisition costs		313,313	321,973
Tax payments	13, 18	– 30,554	– 29,541
Income from interest and other financial result		2,408	206
Interest paid		– 48,012	– 40,813
Cash flows from operating activities	**32.1**	**364,232**	**328,870**
Payments to acquire property, plant and equipment and intangible assets		– 45,155	– 57,193
Proceeds from disposal of intangible assets and property, plant and equipment		4,553	13,850
Proceeds/payments to acquire subsidiaries	36	3,052	– 12,439
Payments from deconsolidation of subsidiaries	36	– 1,108	0
Payments into equity of equity-accounted investments	17	0	– 75
Payments to acquire other equity investments		– 173	– 277,746
Proceeds from sale of other equity investments		0	500
Cash flows from investing activities	**32.2**	**– 38,831**	**– 333,103**
Payments to company owners and minority shareholders		– 211,218	– 211,218
Proceeds from new borrowings	28	0	376,303
Cash repayments of borrowings	28	– 31,000	– 332,302
Cash repayments of lease liabilities	28	– 74,603	– 21,754
Cash repayments of finance costs due to the prolongation of borrowings		0	– 1,830
Cash repayments of finance costs due to the acquisition of other equity investments		0	– 1,450
Payments of other financing costs		– 1,220	0
Cash flows from financing activities	**32.3**	**– 318,041**	**– 192,251**
Net change in cash funds		**7,360**	**– 196,484**
Cash funds at beginning of period		**126,332**	**322,816**
Cash funds at end of period		**133,692**	**126,332**

Composition of cash funds

In EUR '000s	31.12.2019	31.12.2018
Liquid assets	133,692	126,332
	133,692	**126,332**

Composition of free cash flow (FCF)[1]

In EUR '000s	31.12.2019	31.12.2018
Cash flows from operating activities	364,232	328,870
Payments to acquire property, plant and equipment and intangible assets	– 45,155	– 57,193
Proceeds from disposal of intangible assets and property, plant and equipment	4,553	13,850
Cash repayments of lease liabilities	– 74,603	– 21,754
FCF	**249,027**	**263,773**

[1] Free cash flow is an alternative performance measures that is defined in the "Corporate management" section of the Group management report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR FINANCIAL YEAR 2019

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 2019 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 2019. 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 2019 and their respective effects on the Group:

Standard/Interpretation		Effective date	Adopted by the EU Commission	Effects
IFRS 16	Leases	01.01.19	31.10.17	Material effects
IAS 28	Amendment to IAS 28: Long-term interests in associates and joint ventures	01.01.19	08.02.19	No material effects
IAS 19	Amendment to IAS 19: Plan Amendment, Curtailment and Settlement	01.01.19	14.03.19	No material effects
IFRIC 23	Uncertainty over Income Tax Treatments	01.01.19	23.10.18	None
Various	Annual Improvements to IFRSs: (2015 –2017 Cycle) – IFRS 3, IFRS 11, IAS 12 and IAS 23	01.01.19	12.12.17	No material effects

The Group has adopted all accounting pronouncements required to be applied from 1 January 2019. The following information is provided on the new financial reporting standard IFRS 16 (Leases):

In January 2016, the IASB issued 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 finance 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 impact in particular on the recognition and measurement of lessee arrangements that previously were classified as operating and finance leases. The following categories of lease were identified: Site leases, co-location leases, shop/store leases, TV and Media network infrastructure, motor vehicles and other leased assets.

On initial application, the freenet Group elected 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 were 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. The discounting of the lease liability was generally determined by applying maturity-specific incremental borrowing rates of interest, as we cannot determine the interest rates on which the leases are based. As at 1 January 2019, the incremental borrowing rates used varied between 0.7 per cent and 2.5 per cent. 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. The freenet Group has made use of the option under IFRS 16.C10(b) and, at the time of initial application, netted the lease assets with provisions for encumbered leases which were recognised in the balance sheet as of 31 December 2018.

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 elected to also apply the modified retrospective approach described in IFRS 16.C5(b) to this lease. In material cases, 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 (IFRS 16.C8(b)). Consequently, the leased assets presented as property, plant and equipment in the amount of 248.1 million euros as at 31 December 2018 were be reclassified to 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 were reclassified to the new balance sheet item Lease liabilities as at 1 January 2019.

In addition, IFRS 16 had 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 269.3 million euros.
- Other financial assets will increase by 98.4 million euros due to the recognition of receivables from subleases classified as finance leases.
- Deferred tax assets will rise by 0.2 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 euro
- Lease liabilities will for the first time be presented in a separate line item in the amount of 370.5 million euro
- 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 368.1 million euros. IFRS 16 therefore increased EBITDA reported for financial year 2019 by 43.3 million euros. With regard to the statement of cash flows, IFRS 16 did not have any effect on the amount of free cash flow.

All other financial reporting standards applicable as at 1 January 2019 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 2019 financial year and their respective effects on the Group:

Standard/Interpretation		Effective date	Adopted by the EU Commission	Effects
IFRS 3	Amendment to IFRS 3: Definition of a Business	01.01.20	Open	No material effects
IAS 1, IAS 8	Amendments to IAS 1 and IAS 8: Definition of Materiality	01.01.20	29.11.19	No material effects
Conceptual Framework	Updating References to the Conceptual Framework for Financial Reporting	01.01.20	29.11.19	No material effects
IFRS 9, IFRS 7	Amendments to IFRS 9 and IFRS 7: Interest Rate Benchmark Reform	01.01.20	15.01.20	No material effects
IFRS 17	Insurance Contracts	01.01.21	Open	None

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 37.

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, Vene International GmbH, klarmobil GmbH, callmobile GmbH, freenet Shopping GmbH, mobilcom-debitel Logistik GmbH, Taunus Beteiligungs GmbH, Media Broadcast GmbH, Media Broadcast Services GmbH, Media Broadcast TV Services GmbH and The Cloud Networks Germany 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 2019.

In the 2019 financial year, the basis of consolidation was expanded to include The Cloud Group consisting of the entities The Cloud Networks Germany GmbH, Munich, and The Cloud Networks Nordic AB, Stockholm, Sweden.

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 a contingent consideration.

All 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 2018 financial year and the new accounting policies applied for the 2019 financial year.

The consolidated statement of comprehensive income in the consolidated financial statements for 2019 shows for the first time subtotals for EBITDA (426,795 thousand euros; previous year: 441,184 thousand euros) and EBIT (269,954 thousand euros; previous year: 311,988 thousand euros), with EBIT corresponding to the operating result presented in the previous year. These disclosures were added in the 2019 financial year because both figures are important key financials for the Group that are frequently discussed in the annual report.

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.

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.

In the case of particular agency services provided by dealers, for whom the amount of sales commission depends on the newly acquired customers remaining in the Group's customer base and also on the level of future Group revenue generated with the newly acquired customers, the purchased services are recognised 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.

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, lease assets, property, plant and equipment, and goodwill as well as note 16, Impairment testing for non-monetary assets in accordance with IAS 36.

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 of 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 48 to 180 months. On the balance sheet date of 31 December 2019, the remaining useful life of these trademarks was 134 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.

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 overheads. 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 2019, the remaining useful life of the customer relationships recognised was between 108 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 2019, the remaining useful life of the distribution rights recognised was nine 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 asset's fair value, less costs to sell, and the value in use.

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

If the reason for impairment no longer applies, the asset's 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 freenet as lessee

The Group generally decides on a case-by-case basis whether assets are leased or purchased. Agreements that convey the right to use an asset for a particular specified period of time in return for a payment or a series of payments are classified as leases.

For site leases, co-location leases, shop/store leases, TV and Media network infrastructure, motor vehicles and other assets, the Group as lessee recognises a lease liability at the present value of the lease payments required to be made over the lease term. Present value is determined by including fixed lease payments, variable index-based payments, reasonably certain extension options, exercise prices of purchase options and payments of penalties for terminating the lease early, less any lease incentives received. At the commencement date (the date on which the asset is made available for use), the lease payments are measured using the incremental borrowing rate specific to the lease term. Over the period to the end of the lease, the lease liability is reduced by the principal portion of the lease payment; corresponding interest expense is presented in the financial result.

At commencement of the lease, the Group as lessee also recognises a right-of-use asset at cost. Cost is determined, first of all, from the amount of the lease liability and may be increased by any initial direct costs, costs to be incurred in dismantling and removing the asset and any lease payments made by the lessee at or before the commencement date and therefore not included in the lease liability. Right-of-use assets are depreciated over the term of the lease or, if shorter, over the normal useful life of the leased asset concerned.

When an extension option is exercised and therefore the lease term changes, the right-of-use asset and the lease liability are adjusted by the same amount at the date of the change in the term and the interest rate is revised at that date. Lease modifications that result from a change in an index-based rate are also accounted for by adjusting the right-of-use asset and the lease liability, but using the interest rate originally used.

The breakdown lease assets is as follows:

In EUR millions	31.12.2019	Opening balance sheet pursuant to IFRS 16 01.01.2019
Right-of-use assets, site leases	237.2	277.8
Right-of-use assets, shops/stores[1]	110.5	124.4
Right-of-use assets, co-location leases	79.8	83.4
Right-of-use assets, network infrastructure	10.7	12.6
Right-of-use assets, motor vehicles	1.1	1.6
Right-of-use assets, other	12.7	17.6
Total	**452.0**	**517.4**

[1] As of 31 December 2019, this item includes operating leases from subleasing of shop space to franchise partners in the amount of 32.8 million euros.

Additions to lease assets are reported at 35.5 million euros in the 2019 financial year. In the year under review, depreciation of right-of-use assets is broken down as follows:

In EUR millions	2019
Site leases	30.6
Shops / stores	21.1
Co-location leases	10.5
Network infrastructure	2.1
Motor vehicles	1.0
Other	5.4
Total	**70.7**

Other operating expenses include expense relating to short-term leases (11.1 million euros) and expense relating to leases of low-value assets (0.3 million euros). The variable lease payments not included in the lease liabilities and also contained in other operating expenses are of minor significance.

The following table shows the reconciliation of future minimum lease payments from operating leases reported as of 31 December 2018 in accordance with IAS 17 with the lease liabilities recognised as of 1 January 2019 in accordance with IFRS 16:

In EUR millions	
Obligations under operating leases disclosed as of 31 December 2018	**440.5**
Discounted using the incremental borrowing rate as of the date of initial application of IFRS 16	374.6
plus finance lease liabilities recognised as of 31 December 2018	260.2
less short-term leases recognised as other operating expenses	– 11.1
less low-value leases recognised as other operating expenses	– 0.3
plus other adjustments	7.3
Lease liabilities recognised as of 1 January 2019	**630.7**

Interest expense on lease liabilities amounted to 17.2 million euros in the reporting period. We provide the following breakdown of the maturities of the lease liabilities:

In EUR millions	31.12.2019
1 year or less	80.0
More than 1 year up to and including 5 years	278.1
More than 5 years	195.1
Total	**553.3**

In financial year 2019, total cash outflows for leases amounted to 103.1 million euros.

In the event that extension options not currently recognised (because it was concluded that they were not reasonably certain to be exercised) were exercised, this would result in cash outflows of 431.9 million euros in addition to the lease liabilities currently recognised.

The measurement methods for 2018 differed as follows:

Leases that the Group enters into as the lessee were 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) were expensed as cost of materials or other operating expenses using the straight-line method over the duration of the lease.

In accordance with IAS 17, the leased assets attributable to the Group as the beneficial owner under finance leases were 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 was recognised and reduced by the repayment portion of the lease instalments that have already been paid. The interest portion of the lease instalments was recognised in the financial result. In connection with the acquisition of the Media Broadcast Group in financial year 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.

2.5.2 freenet as lessor

The regulations regarding the recognition of assets at the lessor remain virtually unchanged. The freenet Group is the lessor under subleases of sites in the TV and Media segment, shop space, motor vehicles and other assets.

If a lease transfers substantially all the risks and rewards, it is a finance lease. In this case, a receivable is recognised in other financial assets at an amount equal to the net investment in the lease (31 December 2019: 82.2 million euros). The receivables contained in this item mainly relate to subleases of sites in the TV and Media segment. The corresponding interest income is presented in the financial result and amounted to 2.0 million euros in financial year 2019. Income relating to variable lease payments not included in the measurement of the net investment is insignificant in amount.

The future (undiscounted) cash inflows from finance leases are due as follows:

In EUR millions	31.12.2019
2020	16.7
2021	15.3
2022	13.8
2023	12.3
2024	11.9
2025 ff.	18.8
Future (undiscounted) cash inflows	**88.8**
Unearned interest income	– 6.6
Receivables from finance leases	**82.2**

Lease income from operating leases where the Group is the lessor is recognised in profit or loss on a straight-line basis over the lease term and results mainly from subleasing of shop space to franchise partners. Lease income from operating leases of 6.4 million euros is shown in other operating income in the 2019 financial year.

The future (undiscounted) cash inflows from non-cancellable operating leases are due as follows:

In EUR millions	31.12.2019
2020	6.3
2021	4.6
2022	2.9
2023	1.3
2024	0.7
2025 ff.	0.4
Future (undiscounted) cash inflows	**16.2**

2.6 INTERESTS IN SHARES 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 twelve 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 lease receivables, 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, Transfer of financial assets.

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 (FVTOCI). 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 financial liabilities are recognised at amortised cost. Any differences between historical cost and the repayment amount is amortised using the effective interest method. Current financial 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.

The measurement methods for 2018 differed as follows: Financial liabilities arising from finance leases were shown at the present value of the minimum lease payments in accordance with IAS 17.

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, lease receivables 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.

No defaults have occurred on lease receivables in the past. As a result, the expected loss rates do not reflect historical default rates, but are instead based on current and forward-looking information (e.g. remaining maturity of the lease receivables, benchmark information). The impairment loss identified was insignificant, however, and was not recognised.

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 twelve 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 creditworthiness 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.

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 the financial year 2019.

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

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 arise as a result of past events, where it is more likely than not that settlement of the obligation will lead to an outflow of assets and where a reliable estimate of the extent of the obligation can be made. The provisions are 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 and remove 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 0.09 per cent and a salary raise of 2.25 per cent p.a. have been used as the basis for measuring the semi-retirement obligations. No consideration has been given to any potential in this respect. The obligations have been netted with the fair values of the corresponding plan assets. If the fair value of the plan assets is higher than the obligations, the surplus 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 2019, 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 the previous year, 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 addition, the freenet Group maintains two further employee incentive programmes (hereinafter referred to as "Other employee incentive programmes").

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.

When determining the lease term relevant to measurement in the shops/stores category, it is always assumed that all extension options are reasonably certain to be exercised (due to operational considerations). As of a certain term, there may also be a blanket extension to the lease based on forward-looking assumptions.

For the purposes of measuring subleases in the TV and Media segment, the end of the lease term is determined by distinguishing by location (investor locations until 31 July 2027; other locations until 30 June 2026).

The Group Treasury department makes sure that the incremental borrowing rate used to discount the lease liability is determined on a quarterly basis. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term the funds necessary to obtain the asset in question.

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 2019: 1,383.5 million euros; previous year: 1,380.1 million euros) as well as impairments of intangible assets with an indefinite useful life (carrying amount as of 31 December 2019: 293.2 million euros; previous year: 293.2 million euros), please refer to note 16.

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 472 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 604 million euros if the WACC were to decline by 0.5 percentage points, and that, if 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 886 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 1,131 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 "TV" CGU has established that the fair value less costs to sell would decline by approximately 83 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 105 million euros if the WACC were to decline by 0.5 percentage points, and that, if 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 160 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 206 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 "Online" CGU has established that the fair value less costs to sell would decline by approximately 7 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 9 million euros if the WACC were to decline by 0.5 percentage points, and that, if 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 16 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 19 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.

For multiple-element arrangements, 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:

- 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 of 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”.

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

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 2019, please refer to note 25.

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 17,033 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 22,167 thousand euros. With regard to further sensitivity analyses pertaining to the pension obligations, please refer to note 29.

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. A sensitivity analysis carried out in relation to the deferred tax assets has established that the deferred tax assets would increase by approx. 18.4 million euros or decrease by approx. 18.4 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 2018 is significantly impaired due to the initial application of IFRS 16 (Leases) as of 1 January 2019. 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 the financial year 2019:

- 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, landline, Internet as well as digital TV)
- TV and Media:
  - Rendering of services to end users in the field of DVB-T2
  - Planning, project management, installation, operation, service and marketing of broadcast-related solutions for business clients in the radio and media sectors
  - Rendering of services, mainly to end users, in the field of IPTV
- 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 61.6 million euros (previous year: 65.3 million euros) reported for the "Other/Holding" segment in 2019 is attributable to operating activities (62.5 million euros; previous year: 66.1 million euros) and other business activities (– 0.9 million euros; previous year: – 0.8 million euros). Of the figure of 46.0 million euros (previous year: 45.8 million euros) reported for gross profit for 2019 for the "Other/Holding" segment, 47.3 million euros (previous year: 47.1 million euros) is attributable to the operating activities and – 1.3 million euros (previous year: – 1.3 million euros) is attributable to the other business activities. The EBITDA of – 14.0 million euros (previous year: – 11.0 million euros) reported for the "Other/Holding" segment for 2019 was accounted for by operating activities to the extent of 14.1 million euros (previous year: 15.9 million euros) and by other business activities in the amount of – 28.1 million euros (previous year: – 26.9 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 2019

In EUR '000s	Mobile Communications	TV and Media	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**2,640,780**	**244,452**	**47,312**	**0**	**2,932,544**
Inter-segment revenue	18,142	9,435	14,259	– 41,836	0
Total revenue	2,658,922	253,887	61,571	– 41,836	2,932,544
Cost of materials, third party	**– 1,948,932**	**– 72,698**	**– 14,704**	**0**	**– 2,036,334**
Inter-segment cost of materials	– 18,232	– 15,000	– 835	34,067	0
Total cost of materials	– 1,967,164	– 87,698	– 15,539	34,067	– 2,036,334
Segment gross profit	**691,758**	**166,189**	**46,032**	**– 7,769**	**896,210**
Other operating income	56,017	10,996	3,503	– 3,240	67,276
Other own work capitalised	13,193	4,899	2,166	0	20,258
Personnel expenses	– 136,658	– 60,616	– 39,176	0	– 236,450
Other operating expenses	– 257,052	– 47,931	– 26,525	11,009	– 320,499
Thereof loss allowances on financial assets and contract assets	– 38,418	– 695	– 369	0	– 39,482
Thereof without loss allowances on financial assets and contract assets	– 218,634	– 47,236	– 26,156	11,009	– 281,017
Overhead[1]	**– 324,500**	**– 92,652**	**– 60,032**	**7,769**	**– 469,415**
Thereof inter-segment allocation	– 7,328	– 987	546	7,769	
Segment EBITDA	**367,258**	**73,537**	**– 14,000**	**0**	**426,795**
Depreciation, amortisation and impairment					– 156,841
EBIT					**269,954**
Financial result					– 31,876
Income taxes					– 53,346
Consolidated profit					**184,732**
Consolidated profit attributable to shareholders of freenet AG					190,899
Consolidated profit attributable to non-controlling interests					– 6,167
Net cash investments	**23,826**	**13,306**	**3,470**		**40,602**

[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 2018 (restated)

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
Overhead[1]	**– 352,500**	**– 61,134**	**– 56,903**	**7,994**	**– 462,543**
Thereof inter-segment allocation	– 6,607	657	– 2,044	7,994	
Segment EBITDA	**366,001**	**86,296**	**– 11,113**	**0**	**441,184**
Depreciation, amortisation and impairment					– 129,196
EBIT					**311,988**
Financial result					– 77,986
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.

4 REVENUE

A breakdown of the revenue of 2,933 million euros (previous year: 2,898 million euros) by segments is set out under note 3, Segment reporting.

Of the Mobile Communications segment's external revenue totalling 2,641 million euros in the 2019 financial year (previous year: 2,572 million euros), 1,675 million euros (previous year: 1,697 million euros) was attributable to revenue from services (of which 1,541 million euros (previous year: 1,555 million euros) is accounted for by postpaid, and 134 million euros (previous year: 142 million euros) by no-frills and prepaid), 863 million euros (previous year: 794 million euros) to revenue from hardware and 103 million euros (previous year: 80 million euros) to other revenue.

The following disclosures are made in accordance with IFRS 15.116 b and IFRS 15.116 c:

In financial year 2019, revenue in the amount of 35,000 thousand euros (previous year: 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 2019. Revenue totalling 89 thousand euros (previous year: 46 thousand euros) from performance obligations settled or partly settled in prior periods was recognised in the 2019 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 1,235.1 million euros (previous year: 1,220.5 million euros). The outstanding performance obligations relate to the following periods: 867.9 million euros to 2020, 343.1 million euros to 2021, 23.7 million euros to 2022 and 0.4 million euros to 2023. The Group did not apply the expedient in IFRS 15.121 to this disclosure.

5 OTHER OPERATING INCOME

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

For more information, please refer to the statements in note 2.5, Leases.

6 OTHER OWN WORK CAPITALISED

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

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

7 COST OF MATERIALS

The cost of materials breaks down as follows:

In EUR '000s	2019	2018
Costs of purchased goods	893,467	819,335
Costs of purchased services	1,142,867	1,174,404
Total	**2,036,334**	**1,993,739**

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.

The following disclosure is made in accordance with IFRS 15.127: In the 2019 financial year, contract acquisition costs of 313,054 thousand euros (previous year: 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 2019, 306,506 thousand euros (previous year: 316,097 thousand euros) relates to dealer commission, 6,548 thousand euros (previous year: 5,874 thousand euros) to employee commission and 9 thousand euros (previous year: 13 thousand euros) to other items.

8 PERSONNEL EXPENSES

Personnel expenses are broken down as follows:

In EUR '000s	2019	2018
Wages and salaries	197,388	182,825
Social security and post-employment benefit costs	39,062	36,875
Total	**236,450**	**219,700**

An average of 4,200 persons were employed in the Group in the financial year 2019 (previous year: 4,131). At the end of the financial year, the Group employed 4,238 persons (previous year: 4,183). Of this figure, 35 (previous year: 38) were senior executives and 336 (previous year: 325) were apprentices or students of the vocational academy as of 31 December 2019.

The Group's employee incentive programmes triggered personnel expenses as per IFRS 2 4,359 thousand euros (previous year: reduction of expenses by 635 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 1,841 thousand euros for defined benefit plans (previous year: 2,208 thousand euros), see also note 29, Pension provisions and similar obligations.

Personnel expenses include a figure of 15,604 thousand euros as the employer's social insurance contribution as costs of defined contribution benefit plans (previous year: 14,413 thousand euros).

9 DEPRECIATION, AMORTISATION AND IMPAIRMENT

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

In EUR '000s	2019	2018
Depreciation of lease assets	70,701	0
Amortisation of intangible assets	54,657	58,160
Depreciation of property, plant and equipment	31,483	71,036
Total	**156,841**	**129,196**

For information on the depreciation of right-of-use assets and the decrease in depreciation of property, plant and equipment, please refer to the statements in note 2.5, Leases.

10 OTHER OPERATING EXPENSES

Other operating expenses consist mainly of marketing costs (108,247 thousand euros in 2019 compared with 117,381 thousand euros in 2018), 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.

In the 2019 financial year, other operating expenses included impairment losses on financial assets and contract assets of 39.5 million euros. Of this amount, 38.9 million euros is attributable to impairment losses recognised under IFRS 9, of which 38.9 million euros concern trade accounts receivable, other receivables and other assets, and other financial assets.

11 INTEREST AND SIMILAR INCOME

Interest and similar income consist of the following items:

In EUR '000s	2019	2018
Interest from the subsequent measurement of the put option from the acquisition of MOTION TM	6,257	0
Interest from lease receivables	2,035	0
Interest from banks, debt collection and similar income	1,155	92
Interest income from tax refunds	126	72
Total	**9,573**	**164**

For information on interest from the subsequent measurement of the put option from the acquisition of MOTION TM Vertriebs GmbH, Troisdorf (hereinafter referred to as "MOTION TM"), we refer to our comments in note 36.

For information on interest from lease receivables, we refer to our comments in note 2.5.2, freenet as lessor.

12 INTEREST AND SIMILAR EXPENSES AND OTHER NET FINANCE COSTS

Interest and similar expenses are comprised as follows:

In EUR '000s	2019	2018
Interest to banks and similar expenses	32,372	34,396
Interest from leases	17,167	0
Interest expense from the unwinding of discounts on liabilities	4,023	6,158
Interest expense from pension obligations	1,725	1,708
Interest expense from additional tax payments and similar expenses	83	111
Interest from finance leases	0	11,616
Other	1,329	2,053
Total	**56,699**	**56,042**

The interest expense for 2019 relating to the unwinding of the discount on liabilities in the amount of 4,023 thousand euros (previous year: 6,158 thousand euros) is mainly attributable to the unwinding of the discount on current income tax liabilities, other financial liabilities and provisions.

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 4,018 thousand euros (previous year: 6,238 thousand euros), in the interest from finance leasing of 0 thousand euros (previous year: 11,616 thousand euros) and in the interest expense relating to the unwinding of the discount on liabilities in the amount of 4,023 thousand euros (previous year: 6,158 thousand euros).

For information on interest from leases, we refer to our comments in note 2.5, Leases.

The other financial result amounts to 0.6 million euros (previous year: – 47.2 million euros). This change was primarily due to the one-off effect of the initial recognition of shares in CECONOMY AG ("CECONOMY") in the previous year (– 47.1 million euros).

13 INCOME TAXES

Income taxes comprise paid and outstanding income taxes, plus deferred taxes.

In EUR '000s	2019	2018
Current tax expense for the financial year	– 25,881	– 29,593
Tax income from previous years	503	48
Deferred tax income (previous year: tax expense) due to write-up (previous year: write-down) on deferred tax assets	– 8,684	4,549
Deferred tax income (previous year: tax expense) relating to temporary differences	– 18,862	3,157
Deferred tax income from tax rate changes		
relating to temporary differences	– 926	0
relating to tax loss carryforwards	504	0
Total	**– 53,346**	**– 21,839**

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 72.1 million euros (previous year: 71.1 million euros). The difference between this amount and the current tax expense of 53.3 million euros (previous year: 21.8 million euros) is shown in the following reconciliation:

In EUR '000s/as indicated	2019	2018
Earnings before taxes	**238,078**	**234,002**
Expected tax expense applying the tax rate of 30.40% (previous year: 30.40%)	– 72,138	– 71,137
Change in deferred tax assets on loss carryforwards and unrecognised deferred tax assets on loss carryforwards	23,508	42,358
Tax effect on non-deductible expenses due to trade tax additions	– 2,620	– 8,019
Tax effect of other non-deductible expenses	– 10,558	– 16,035
Tax effect of tax-free income	12,153	5,931
Effects of tax rate changes	– 422	0
Tax income from previous years	503	48
Other effects	– 3,772	25,015
Current tax expense	**– 53,346**	**– 21,839**
Effective tax rate in per cent	22.41	9.33

The other effects in the previous year in the amount of 25,015 thousand euros related 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 2019, the other effects include restatements for previous years amounting to 3.5 million euros.

For the Group companies, a corporation tax rate of 15.0 per cent (previous year: 15.0 per cent) was applied in financial year 2019 for calculating the 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 413.74 per cent (previous year: 414.94 per cent) were also applied. The deferred taxes in financial year 2019 were calculated using an average tax rate of 30.30 per cent (previous year: 30.40 per cent).

14 EARNINGS PER SHARE

14.1 BASIC EARNINGS PER SHARE

Basic 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, basic 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.

	2019	2018
Consolidated profit attributable to shareholders of freenet AG In EUR '000s	190,899	223,138
Weighted average number of shares outstanding	128,011,016	128,011,016
Earnings per share in EUR (basic)	**1.49**	**1.74**

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 2019, there are neither actual nor potential dilution effects.

	2019	2018
Consolidated profit attributable to shareholders of freenet AG in EUR ’000s	190,899	223,138
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)	**1.49**	**1.74**

15 INTANGIBLE ASSETS, LEASE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND GOODWILL

Movements in intangible assets and property, plant and equipment are shown under note 39.

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	31.12.2019	31.12.2018
Trademarks	300,754	301,427
Customer relationships	87,828	87,046
Right-of-use assets	43,536	50,546
Software	1,945	76
Total	**434,063**	**439,095**

In addition to the intangible assets resulting from the various purchase price allocations, further intangible assets of 67.8 million euros are shown as at 31 December 2019 (31 December 2018: 86.3 million euros) including distribution rights of 19.3 million euros (previous year: 44.5 million euros).

The exclusive distribution right with Media Saturn Deutschland GmbH resulted in a carrying amount of 18.8 million euros as at 31 December 2019 (previous year: 43.8 million euros). No impaired intangible assets existed as at 31 December 2019.

Lease assets amounted to 452.0 million euros as at 31 December 2019 (31 December 2018: 0 euros). In this context, we refer to our comments in note 2.5, Leases.

The allocation of goodwill to CGUs is shown in the table below:

In EUR '000s	31.12.2019	31.12.2018
Mobile Communications	1,122,814	1,119,396
Online	29,887	29,887
TV	226,621	226,621
Other	4,152	4,152
Total	**1,383,474**	**1,380,056**

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 TESTING OF NON-MONETARY ASSETS IN ACCORDANCE WITH IAS 36

Goodwill of 1,122,814 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. As of 31 December 2019, goodwill of 226,621 thousand euros (previous year: 226,621 thousand euros) was allocated to the "TV" CGU which is identical to the "TV" segment, while goodwill of 29,887 thousand euros (previous year: 29,887 thousand euros) has been allocated to the "Online" CGU. 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 "Mobile Communications", "TV" and "Online" CGUs. The fair values were determined on the basis of planning approved by management covering the period up to and including 2023. The detailed planning phases were extrapolated in the terminal value. These are equivalent to level 3 of the fair value hierarchy in accordance with IFRS 13.

The post-tax WACC used in measuring fair value is derived on the basis of market data and the specific risk structure of the CGUs. With regard to the capitalisation rates in the subsequent phase (from 2023), discounts have been assumed based on growth assumptions; these are also the growth rates that were used to extrapolate the cash flow forecasts.

Planning for the "Mobile Communications", "TV" and "Online" CGUs is based on detailed assumptions derived from past experience and future expectations in relation to the main earnings and value drivers.

The following table shows the goodwill allocated to the CGUs, the discount rates (WACC), the growth assumptions and the basic assumptions for the corporate planning:

CGU	Allocated goodwill in EUR millions	WACC in %	Growth rate in %	Key earnings/value drivers	Basic assumptions for corporate planning
Mobile Communications	1,124.8	4.58	0.50	– Gross profit can be broken down into two earnings flows: the contribution made to earnings by new customers, and customer retention. These are opposed by costs for purchased services (particularly 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.	– Stable customer acquisition and customer retention costs – Moderate increase in customer base in the postpaid business – Stable postpaid ARPU – Stable development of revenues and EBITDA – Increasing sales and earnings contribution of digital lifestyle products
TV	226.6	5.22	1.00	– Revenue and gross profits generated by the individual end products, differentiated in accordance with the respective sales markets.	– Increasing revenue, gross profit and EBITDA contributions
Online	29.9	6.05	0.25	– Revenue and gross profits generated by the individual end products, differentiated in accordance with the respective sales markets.	– Declining revenue and gross profit – Steady EBITDA contributions

The impairment test carried out in 2019 in relation to the “Mobile Communications”, “TV” and “Online” CGUs confirmed that no impairment has to be recognised in relation to the respective goodwill allocated or to the trademark of the “Mobile Communications” CGU with an indefinite useful life.

The consolidated financial statements as at 31 December 2019 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 2019 (previous year: 0).

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 2019 in the amount of 780.5 million euros (previous year: 810.4 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	31.12.2019	31.12.2018
Interests in associates	17.1	783,884	810,399
Interests in joint ventures	17.2	1,753	1,409
Total		**785,637**	**811,808**

17.1 ASSOCIATES

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

Sunrise is the largest non-government controlled 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 2019.

Summarised Information as of 31 December 2019

BALANCE SHEET[1] In EUR ’000s	31.12.2019	31.12.2018
Non-current assets	3,111,071	2,682,475
Thereof intangible assets	1,953,974	1,855,191
Current assets	632,863	801,138
Thereof cash	184,903	373,944
Total assets	**3,743,934**	**3,483,613**
Non-current liabilities	1,932,064	1,663,404
Thereof long-term borrowings	1,453,968	1,393,244
Current liabilities	577,294	504,331
Thereof trade accounts payable and other liabilities	487,767	445,103
Total liabilities	**2,509,358**	**2,167,735**

[1] The closing rate as of 31.12.2019 was 0.9217 EUR/CHF.

INCOME STATEMENT In EUR ’000s	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018
Revenue	1,697,054	1,670,241
Gross profit	1,126,357	1,074,318
EBITDA	528,966	533,574
Depreciation, amortisation and impairment	– 427,075	– 385,672
Interest and similar expenses	– 44,622	– 47,230
Income taxes	– 11,426	– 25,062
Consolidated profit after tax	48,560	454,717

OTHER COMPREHENSIVE INCOME[1] In EUR '000s	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018
Consolidated profit after tax	**48,560**	**92,644**
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. to IAS 19 (2011)	– 5,272	4,135
Income taxes	130	– 840
Other comprehensive income/not to be reclassified to the income statement in future periods	**– 5,142**	**3,295**
Other comprehensive income	**43,418**	**95,939**

[1] The average exchange rate for financial year 2019 was 0,8995 EUR/CHF.

The reconciliation to the carrying amount is as follows:

RECONCILIATION TO THE CARRYING AMOUNT In EUR millions	2019	2018
Carrying amount as of 1 January, as reported	**810.4**	**809.7**
Effects of the transition to IFRS 15/IFRS 9	0	7.1
Carrying amount as of 1 January, restated	**810.4**	**816.8**
Current profit share	34.3	44.3
Subsequent accounting from purchase price allocation	– 20.0	– 19.2
Other comprehensive income	0.7	5.4
Dividend paid to freenet	– 41.5	– 36.9
Carrying amount as of 31 December	**783.9**	**810.4**

RECONCILIATION OF THE NET ASSETS OF SUNRISE TO THE CARRYING AMOUNT In EUR millions	2019	2018
Net Sunrise assets as of 31 December	**1,234.5**	**1,315.9**
Net Sunrise assets attributable to freenet as of 31 December	303.2	323.2
Elimination of PPA effects at Sunrise	– 299.1	– 321.4
Fair value adjustments on net Sunrise assets from PPA at freenet	790.1	810.1
Other effects of reconciliation[1]	– 10.3	– 1.5
Carrying amount as of 31 December	**783.9**	**810.4**

[1] The other reconciliation effects for 2019 result mainly from translating CHF to euros.

For the period 1 January 2019 to 31 December 2019, the income statement shows a profit share of 14,286 thousand euros (previous year: 25,027 thousand euros) for equity-accounted investments attributable to the interest in Sunrise; of this figure, 34,252 thousand euros relates to shares of the consolidated profit of Sunrise after tax (previous year: 44,260 thousand euros) and – 9,966 thousand euros relates to the subsequent write-down recognised in connection with the shadow purchase price allocation (previous year: – 19,233 thousand euros).

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 1,924 thousand euros (previous year: 4,604 thousand euros) resulting from currency translation differences with regard to subsequent accounting as well as other comprehensive income of – 29 thousand euros resulting from recognised income taxes and – 1,263 thousand euros in actuarial gains arising from the accounting for pension plans (previous year: 809 thousand euros) were shown as elements of other comprehensive income in the consolidated statement of comprehensive income.

In financial year 2019, freenet AG received a dividend payment of 41,462 thousand euros (previous year: 36,912 thousand euros) as a result of the dividend payment of 4.20 CHF per share adopted by the Annual General Meeting of Sunrise on 10 April 2019. This inflow boosted the cash flows from operating activities.

As of 31 December 2019, the carrying amount of the Group's equity interest in Sunrise amounted to 783,884 thousand euros (31 December 2018: 810,399 thousand euros). At the balance sheet date the share price of Sunrise amounted to 70.01 euros (31.12.2018: 76.04 euros – source: Bloomberg). As of 31 December 2019, the freenet Group held 11,051,578 shares, as previously.

17.2 JOINT VENTURES

The consolidated financial statements for the period ending 31 December 2019 include Jestoro GmbH, Hamburg, as an insignificant joint venture with a carrying amount of 1.8 million euros (31 December 2018: 1.4 million euros). In financial year 2019, the net profit/loss of Jestoro GmbH amounted to 0.5 million euros (previous year: 0.5 million euros).

18 DEFERRED INCOME 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 30.30 per cent (previous year: 30.40 per cent).

The following amounts are shown in the consolidated balance sheet:

In EUR '000s	31.12.2019	31.12.2018
Deferred income tax assets	130,226	158,094
Total	**130,226**	**158,094**

The overhang of deferred tax assets for the corporation tax and trade tax group of freenet AG which are recognised (130.3 million euros; previous year: 158.1 million euros) is classified as current (35.1 million euros; previous year: 43.7 million euros) and non-current (95.2 million euros; previous year: 114.4 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 the financial year 2019 are shown in the following table:

In EUR '000s	1.1.2019	Transition to IFRS 16	Effects from initial consoli-dation/decon-solidation	Set off in other comprehensive income	Expenses and income from in-come taxes	31.12.2019
Property, plant and equipment	1,602	0	0	0	1,137	2,739
Intangible assets	–175,937	0	–2,593	0	6,786	–171,744
Lease assets	0	–157,288	524	0	17,118	–139,646
Other financial assets	–7,543	–29,919	66	–1,128	3,449	–35,076
Contract acquisition costs	–92,488	0	0	0	2,464	–90,024
Loss carryforwards	292,717	0	0	0	–9,610	283,107
Lease liabilities	0	191,724	–593	0	–24,035	167,096
Pension provisions	9,537	0	0	3,497	–439	12,595
Other provisions	7,767	–490	–1	1	–2,753	4,524
Other financial liabilities	7,949	–3,689	0	0	24,607	28,867
Trade accounts payable, other liabilities	170,616	0	0	0	–36,321	134,295
Borrowings	1,131	0	0	0	261	1,392
Trade accounts receivable, other assets	–57,257	0	0	–11	–10,633	–67,901
Total	**158,094**	**338**	**–2,597**	**2,359**	**–27,968**	**130,226**

The expenses and income from income tax amounting to a net expense of 27,968 thousand euros (previous year: 7,706 thousand euros) are shown in the consolidated income statement as deferred income taxes under "Taxes on income". They basically correspond to the sum of the deferred income taxes attributable to continuing and discontinued operations. As in the previous year, income tax expenses and income in financial year 2019 were attributable solely to continuing operations.

The deferred tax assets and deferred tax liabilities developed as follows in financial year 2018:

In EUR '000s	1.1.2018	Transition to IFRS 15, IFRS 9	Set off in other com-prehensive 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 summarised net change in deferred taxes is shown below:

In EUR '000s	2019	2018
As of 1.1.	**158,094**	**153,508**
Transition to IFRS 16	338	0
Effects from initial consolidation and deconsolidation	– 2,597	0
Transition to IFRS 15, IFRS 9	0	– 5,206
Set off in other comprehensive income	2,359	2,086
Tax expense (previous year: tax income)	– 27,968	7,706
As of 31.12.	**130,226**	**158,094**

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 2019, deferred tax assets amounting to 283,107 thousand euros had been recognised in relation to loss carryforwards (previous year: 292,717 thousand euros). Of this figure, 144,294 thousand euros (previous year: 142,924 thousand euros) is attributable to corporation tax loss carryforwards and 138,813 thousand euros (previous year: 149,793 thousand euros) is 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, 0.8 billion euros relate to corporation tax and 0.1 billion euros relate to trade tax (previous year: 1.2 billion euros corporation tax and 0.4 billion euros trade tax). As was the case on the previous year's balance sheet date, there were no unrecognised interest carryforwards as per section 4h (1) sentence 2 of the German Income Tax Act (Einkommensteuergesetz–EStG).

As at 31 December 2019, there are temporary outside basis differences (net equity in accordance with IFRSs is higher than the corresponding carrying amounts of investments shown for tax purposes) of approximately 54.7 million euros (previous year: approximately 48.3 million euros). No deferred taxes have been recognised in connection with these differences because they are not expected to reverse in the fiscal planning period.

19 CONTRACT ACQUISITION COSTS

Capitalised contract acquisition costs amounted to 297,240 thousand euros as of 31 December 2019 (31 December 2018: 304,238 thousand euros). They relate predominantly to dealer commissions and, to a lesser extent, to employee commissions.

In financial year 2019, costs recognised as assets amounted to 306,315 thousand euros (previous year: 336,622 thousand euros) and amortisation to 313,054 thousand euros (previous year: 321,973 thousand euros). As was the case in the previous year, no impairment losses on contract acquisition costs were recognised in the financial year.

In postpaid business, the amortisation period is almost exclusively 24 months. In prepaid business, assets are amortised over the imputed initial term. Across the entire Group and all business segments, 94 per cent of the amortisation amount in 2019 was attributable to contract acquisition costs with an amortisation period of 24 months.

20 INVENTORIES

The inventories are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Mobile phones/Accessories	46,888	66,858
Computers/IT products	16,592	19,820
SIM cards	6,727	7,492
Bundles and vouchers	51	69
Other	5,561	11,726
Total	**75,819**	**105,965**

Impairment of 3,726 thousand euros (previous year: 4,915 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:

	31.12.2019		
In EUR '000s	Total	Non-current	Current
Trade accounts receivable	294,431	68,678	225,753
Other non-derivative financial assets	23,402	8,724	14,678
	317,833	**77,402**	**240,431**
Lease receivables	82,178	68,254	13,924
Other financial assets	28,972	11,387	17,585
Other equity instruments	180,115	180,115	0
Financial assets	**609,098**	**337,158**	**271,940**
Other assets	319,190	122,736	196,454
Prepayments made	5,465	185	5,280
Non-financial assets	**324,655**	**122,921**	**201,734**
Total receivables, other assets and other financial assets	**933,753**	**460,079**	**473,674**

	31.12.2018		
In EUR '000s	Total	Non-current	Current
Trade accounts receivable	306,394	52,480	253,914
Other non-derivative financial assets	22,053	8,320	13,733
	328,447	**60,800**	**267,647**
Other financial assets	33,461	12,290	21,171
Other equity instruments	105,608	105,608	0
Financial assets	**467,516**	**178,698**	**288,818**
Other assets	347,660	127,675	219,985
Prepayments made	6,758	348	6,410
Non-financial assets	**354,418**	**128,023**	**226,395**
Total receivables, other assets and other financial assets	**821,934**	**306,721**	**515,213**

These other equity instruments are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Equity investment in CECONOMY	178,767	104,427
Miscellaneous other equity investments	806	634
Other	542	547
Total	**180,115**	**105,608**

The freenet Group acquired 9.1 per cent of the ordinary shares (32,633,555) of CECONOMY with effect from 12 July 2018 for a price of 277.4 million euros. As of 31 December 2019, the equity interest in CECONOMY is reported under other financial assets at a carrying amount of 178.8 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 317,833 thousand euros as at 31 December 2019 (previous year: 328,447 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 324,655 thousand euros (previous year: 354,418 thousand euros) consist of non-financial assets as at 31 December 2019.

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 282.5 million euros (previous year: 259.5 million euros) due to existing commercial credit insurances. The maximum default risk in connection with financial assets and other equity instruments corresponds to their carrying amounts.

The loss allowances recognised as at the reporting date of 31 December 2019 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 2019 were determined as follows:

31 December 2019
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	157,606	– 4,945	152,662	3.1
Receivables from end customers – past due for <90 days	Trade accounts receivable	20,702	– 5,480	15,222	26.5
Receivables from end customers – past due for 90 to 180 days	Trade accounts receivable	14,798	– 7,542	7,256	51.0
Receivables from end customers – past due for >180 days	Trade accounts receivable	137,943	– 123,902	14,041	89.8
Receivables from business partners	Trade accounts receivable	108,346	– 3,096	105,250	2.9
Other non-derivative financial assets (Stage 1)	Other financial assets	23,943	– 541	23,402	
Other financial assets					
thereof lease receivables[1]	Other financial assets	82,178		82,178	
Thereof consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option) (Stage 1)	Other financial assets	29,565	– 593	28,972	
Other assets					
Thereof contract assets from contracts with customers (Mobile Communications)	Other receivables and other assets	159,943	– 6,311	153,632	3.9
Thereof consideration payable under IFRS 15 (Mobile Communications/tariff) (Level 1)	Other receivables and other assets	135,178	– 6,164	129,014	4.6
Thereof financial assets from contracts with customers (TV)	Other receivables and other assets	35,918	0	35,918	

[1] The impairment loss identified for the lease receivables was insignificant in financial year 2019 and was not recognised.

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	

We provide the following information on the development loss allowances in the 2019 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 31.12.2018 – calculated under IFRS 9 (of which specific loss allowances was 3,281, see following table)	**156,087**	**2,320**	**10,461**	**168,868**
Net change in loss allowances in 2019	– 11,122	– 1,186	2,014	– 10,294
Loss allowance as at 31.12.2018 – calculated under IFRS 9 (of which specific loss allowances was 2,971, see following table)	**144,965**	**1,134**	**12,475**	**158,574**

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 breakdown of **non-current other financial assets** is as follows:

In EUR '000s	31.12.2019	31.12.2018
Interest in CECONOMY	178,767	104,427
Lease receivables	68,254	0
Consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option)	11,387	12,290
Other	10,072	9,501
Total	**268,480**	**126,218**

For more information on lease receivables, we refer to our comments in note 2.5, Leases.

Current other financial assets are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option)	17,585	21,171
Lease receivables	13,924	0
Other	14,678	13,733
Total	**46,187**	**34,904**

For more information on lease receivables, we refer to our comments in note 2.5, Leases.

The breakdown of **non-current other receivables and other assets** is as follows:

In EUR '000s	31.12.2019	31.12.2018
Contract assets from contracts with customers (Mobile Communications)	53,520	51,040
Other assets from contracts with customers (TV)	36,127	34,871
Consideration payable under IFRS 15 (Mobile Communications/tariff)	32,462	37,014
Other	812	5,098
Total	**122,921**	**128,023**

Current other receivables and other assets are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Contract assets from contracts with customers (Mobile Communications)	100,112	95,148
Consideration payable under IFRS 15 (Mobile Communications/tariff)	92,887	97,876
Other assets from contracts with customers (TV)	3,456	3,589
Other	5,279	29,782
Total	**201,734**	**226,395**

Non-current trade accounts receivables are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Receivables from end customers from mobile phone upgrade option (Mobile Communications)	68,535	52,328
Other	143	152
Total	**68,678**	**52,480**

Current trade accounts receivables are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Receivables from network operators, dealers, distributors, hardware manufacturers (Mobile Communications)	77,670	121,009
Receivables from end customers (Mobile Communications), without mobile phone upgrade option	64,929	68,538
Receivables from end customers from mobile phone upgrade option (Mobile Communications)	51,364	30,054
Receivables from end customers (TV and Media, and Other/Holding)	4,351	3,368
Other	27,439	30,945
Total	**225,753**	**253,914**

22 LIQUID ASSETS

Liquid assets are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Cash at bank, cheques and cash in hand	133,692	126,332
Total	**133,692**	**126,332**

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. 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 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 2019, 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 own shares. This does not result in an increase in the maximum volume of shares which is permitted to be purchased; it only provides another alternative to acquire 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 2019 originate from the capital increase in 2008 due to the acquisition of the debitel Group (349.8 million euros) as well as the merger between mobilcom AG and freenet.de AG to form freenet AG which became effective in 2007 and the related acquisition of the minority 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. For information on income taxes netted in other comprehensive income, we refer to note 18.

24.4 CONSOLIDATED NET RETAINED PROFITS

The consolidated net retained profits for financial year 2019 comprise the cumulative consolidated profit attributable to the freenet AG shareholders, less the dividend payments. In the 2019 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 the financial year 2018.

24.5 NON-CONTROLLING INTERESTS

Of the non-controlling interests in equity an amount of 9.3 million euros (31 December 2018: 16.1 million euros) was attributable to the 41.37 per cent (31 December 2018: 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 2019, before the consolidation of liabilities, income and expenses and also inclusive of the effects of the subsequent accounting for the purchase price allocation:

EXARING AG

In EUR '000s	31.12.2019	31.12.2018
Non-current assets	72,398	66,200
Current assets	8,546	1,964
Total assets	**80,944**	**68,164**
Non-current liabilities	18,490	15,366
Current liabilities	10,532	10,775
Total liabilities	**29,022**	**26,141**
Net assets	**51,923**	**42,023**
Thereof: non-controlling interests in equity	**9,255**	**16,113**

The net profit/loss of EXARING amounted to – 10,098 thousand euros in financial year 2019 (previous year: – 17,917 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 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 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 2019, 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 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 2019, the Executive Board made no use of this authorisation.

25 EMPLOYEE INCENTIVE PROGRAMMES

25.1 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 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 at the time.

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 the financial year 2016, for Messrs Preisig and Esch starting from the financial year 2017), and in each case after the crediting to the virtual account of a (positive or negative) amount for the financial year ended, the respective beneficiary is entitled to have 25 per cent of the account balance paid out annually within a time frame of three months from the day which is 20 stock market trading days after the day on which the consolidated financial statements were published, provided that the account shows a credit balance. For this purpose, the respective balance of 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 31.12.2018	Additions	Disposal by payout	**Number of phantom shares 31.12.2019**	**Provision 31.12.2019 in EUR '000s**
Christoph Vilanek	162,457	56,275	218,732	0	0
Joachim Preisig	55,543	30,691	55,543	30,691	678
Stephan Esch	44,089	20,460	0	64,549	1,870
Total	**262,089**	**107,426**	**274,275**	**95,240**	**2,548**

The actual target attainment defined for 2018 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 2018 had been approved, this amount was converted into phantom shares for financial year 2018 based on an average share price of 19.55 euros, with the result that a total of 107,426 phantom shares was credited to the virtual accounts of the Executive Board members. Target attainment for the financial year ended 2019 will be 120 per cent.

In the previous 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 received a severance award of EUR 80 thousand paid in 2019, which is included in the provision for LTIP Programme 2 as at 31 December 2018.

In financial year 2019, personnel expenses of 1,919 thousand euros resulted from Programme 2, due to a reduction in the provision from 7,376 thousand euros (as of 31 December 2018) to 2,548 thousand euros as of 31 December 2019, and payments of 6,747 thousand euros from Programme 2 in 2019 (of which 5,421 thousand euros to Mr Vilanek and 1,326 thousand euros to Mr Preisig).

25.3 PROGRAMME 3

When the employment contract was extended (with Mr Vilanek, granted on 4 April 2018, and with Mr Esch, granted on 19 March 2019) and the appointment to the Executive Board made (for both Mr von 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 and Mr Esch), a three-year and seven-month target agreement (in relation to Mr von 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 2020 to 2024 (for Mr Esch), financial years 2018 (prorated as of the date of appointment to the Executive Board) to 2021 (for Mr von 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 target attainment in each financial year, and paid out in accordance with the terms of payout described in the text below, depending on future performance. Basic amounts totalling 1,650 thousand euros (of which 650 thousand euros for Mr Vilanek and 250 thousand euros in each case for Mr Esch, Mr von 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 except for Mr Esch, this relates to Group EBT achieved in financial year 2022; for Mr Esch this relates to the 2023

Group EBT) 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 except for Mr Esch who are beneficiaries of Programme 3, and Group EBT for financial year 2023 for Mr Esch. If the Group EBT target is attained precisely, the number of phantom shares described above remains unchanged. If the EBT target is exceeded or missed, the number of phantom shares is doubled at most (target attainment is 105 per cent of 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 (for all Executive Board members except for Mr Esch) is determined at the beginning of 2023 (and for Mr Esch at the beginning of 2024), 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 in 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 (for all Executive Board members except for Mr Esch) or if and to the extent that consolidated EBT for financial year 2024 exceeds consolidated EBT for financial year 2023 by at least 1.5 percent (for Mr Esch).

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 2019, there were no phantom shares in the LTIP accounts of the Executive Board members who are beneficiaries of Programme 3.

Of the personnel expenses of 1,933 thousand euros recognised in 2019 (previous year: 988 thousand euros), 787 thousand euros is attributable to Mr Vilanek, 419 thousand euros to Mr Arnold, 250 thousand euros to Mr von Platen, 250 thousand euros to Mr Fromme and 227 thousand euros to Mr Esch.

Of the provision recognised as at 31 December 2019 in the amount of 2,921 thousand euros (31 December 2018: 988 thousand euros), 1,305 thousand euros is attributable to Mr Vilanek, 419 thousand euros to Mr Arnold, 485 thousand euros to Mr v. Platen, 485 thousand euros to Mr Fromme and 227 thousand euros to Mr Esch.

25.4 OTHER EMPLOYEE INCENTIVE PROGRAMMES

The Group has two further employee incentive programmes.

From an initial balance of 25,822 phantom shares as at 31 December 2018, 8,879 phantom shares were exercised through disbursements and 1,466 phantom shares expired under the programme for senior executives below the Executive Board level during the financial year, resulting in a final balance of 15,477 phantom shares as at 31 December 2019. The payments disbursed in 2019 amounted to 280 thousand euros. A provision of 501 thousand euros was recognised for this programme as at 31 December 2019. This programme therefore results in personnel expenses of 507 thousand euros for 2019.

The Group has a further employee incentive programme, which was recognised as a provision in the amount of 2,006 thousand euros as at 31 December 2019 (previous year: 1,307 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:

	31.12.2019		
In EUR '000s	Total	Non-current	Current
Trade accounts payable	465,230	0	465,230
Other non-derivative financial liabilities	95,594	31,048	64,546
	560,824	**31,048**	**529,776**
Other financial liabilities	0	0	0
Financial liabilities	**560,824**	**31,048**	**529,776**
Other liabilities and deferrals	28,376	6,433	21,943
Prepayments received	481,177	100,945	380,232
Non-financial liabilities	**509,553**	**107,378**	**402,175**
Total trade accounts payable, other liabilities and deferrals, and other financial liabilities	**1,070,377**	**138,426**	**931,951**

	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**

As at 31 December 2019, there are no liabilities vis-à-vis related parties; please refer to note 34, Related party transactions.

Of the figure shown for liabilities, 931,951 thousand euros (previous year: 1,010,684 thousand euros) are due within the next twelve months. Liabilities amounting to 137,738 thousand euros (previous year: 277,793 thousand euros) have a maturity of between one year and five years; liabilities of 688 thousand euros (previous year: 144,767 thousand euros) are due in more than five years.

Of the figure shown for the liabilities, which is combined under financial liabilities, 529,776 thousand euros (previous year: 574,341 thousand euros) fall due within one year, 30,693 thousand euros (previous year: 161,871 thousand euros) fall due between one and five years and 355 thousand euros (previous year: 144,767 thousand euros) fall due after more than five years after the balance sheet date.

The finance lease liabilities shown as of 31 December 2018 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 for technical equipment and machinery as of 31 December 2018 amounted to 248,065 thousand euros.

The interest portions of future lease instalments and the present values of total finance lease liabilities break down as follows:

In EUR '000s	31.12.2019	31.12.2018
Within one year	0	33,744
Between one and five years	0	138,786
More than five years	0	145,072
	0	**317,602**
Interest portion of future lease instalments		
Within one year	0	– 10,719
Between one and five years	0	– 32,833
More than five years	0	– 13,849
Present values of total finance lease liabilities	**0**	**260,201**

The maturities of the total **finance lease** liabilities are shown below:

In EUR '000s	31.12.2019	31.12.2018
Within one year	0	23,025
Between one and five years	0	105,953
More than five years	0	131,223
Total	**0**	**260,201**

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	31.12.2019	31.12.2018
Liabilities to network operators, dealers, distributors, hardware manufacturers (Mobile Communications)	297,105	307,359
Liabilities to sales partners from contracts with customers	73,669	84,541
Finance lease commitments (DFMG)	0	23,025
Obligations from distribution rights	29,750	29,750
Other	64,706	78,499
Total	**465,230**	**523,174**

Current other financial liabilities are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Personnel obligations	14,106	18,040
Refund liabilities	39,041	22,225
Other	11,399	10,902
Total	**64,546**	**51,167**

Non-current other financial liabilities are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Finance lease commitments (DFMG)	0	237,176
Obligations from distribution rights	0	29,750
Liabilities to sales partners from contracts with customers	21,436	26,148
Obligations from put options	0	13,543
Obligations from earn-outs	7,173	0
Other	2,439	21
Total	**31,048**	**306,638**

Current other liabilities and deferrals are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Deferred income from bonuses and commissions received from network operators	322,057	344,885
Deferred income from customer credit balances, Mobile Communications	36,095	51,087
Liabilities to customers from contracts with customers	16,280	15,903
Other	27,743	24,468
Total	**402,175**	**436,343**

Non-current other liabilities and deferrals are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Deferred income from bonuses and commissions received from network operators	100,945	110,046
Liabilities to customers from contracts with customers	6,433	5,876
Total	**107,378**	**115,922**

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 AND LEASE LIABILITIES

Borrowings are structured as follows:

In EUR millions	31.12.2019	31.12.2018
Liabilities from promissory notes	819.1	1,091.8
Liabilities to banks	608.9	607.7
Non-current	**1,428.0**	**1,699.4**
Liabilities from promissory notes	264.5	22.4
Liabilities to banks	1.1	1.1
Current	**265.6**	**23.5**
Total	**1,693.6**	**1,722.9**

The bank loan, which was increased to 910.0 million euros in 2018, continues to consist of a bullet loan with a nominal amount of 610.0 million euros and a revolving credit facility for 300.0 million euros, which had not been drawn down as at the reporting date.

The loan which is due upon final maturity is shown, less fees, in an amount of 610.0 million euros under liabilities to banks (thereof non-current: 609.0 million euros, thereof current: 1.0 million euros).

The promissory notes from the years 2015, 2016 and 2018 with a total nominal amount of 1,079.0 million euros (31 December 2018: 1,110.0 million euros) are shown, less fees, with an amount of 1,083.6 million euros in liabilities from promissory notes (thereof non-current: 819.1 million euros, thereof current: 264.5 million euros). In financial year 2019, a total amount of 31.0 million euros was repaid ahead of schedule from the 2016 promissory note loans.

Net debt amounted to 2,031.1 million euros as at 31 December 2019 (31 December 2018 restated: 1,856.8 million euros). In order to align the management system more closely with the strategic focus and management of the freenet Group, various performance indicators were revised and refocused for financial year 2019. In this context, net debt was redefined as short- and long-term borrowings, plus net lease liabilities (lease liabilities less lease receivables), less liquid assets as at the reporting date. Net debt is a non-GAAP measure.

The Group’s lease liabilities are broken down into the corresponding lease categories as follows:

In EUR millions	31.12.2019	Opening balance sheet pursuant to IFRS 16 1.1.2019
Site leases	290.4	346.5
Shops/stores	92.4	105.1
Co-location leases	73.6	75.1
Network infrastructure	6.6	8.3
Motor vehicles	3.0	3.0
Other	7.3	12.2
Non-current	**473.3**	**550.2**
Site leases	38.9	40.3
Shops/stores	19.7	19.3
Co-location leases	10.0	8.3
Motor vehicles	4.1	3.2
Network infrastructure	1.9	4.2
Other	5.4	5.2
Current	**80.0**	**80.5**
Total	**553.3**	**630.7**

More information in connection with IFRS 16 is provided in note 2.5, Leases.

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 14,851 thousand euros (previous year: 12,387 thousand euros).

The provision in the consolidated balance sheet is calculated as follows:

In EUR ’000s	31.12.2019	31.12.2018
Present value of funded obligations	28,795	22,715
Present value of unfunded obligations	84,843	78,845
Present value of obligations	**113,638**	**101,560**
Fair value of plan assets	– 14,851	– 12,387
Provision recognised	**98,787**	**89,173**

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	2019	2018
As of 1.1.	**101,560**	**99,335**
Current service cost	1,841	2,208
Past service cost	222	0
Gross interest expense	2,092	1,972
Employe contributions	9	13
Settlement of pension obligations	– 27	– 106
Actuarial losses/gains		
Thereof due to experience adjustments	– 1,226	667
Thereof due to demographic parameter adjustments	0	1,017
Thereof due to financial parameter adjustments	12,819	– 1,682
Actuarial losses/gains, subtotal	**11,593**	**2**
Payments made	– 3,652	– 1,864
As of 31.12.	**113,638**	**101,560**

The weighted average remaining term of the obligations as of 31 December 2019 amounted to 24.8 years for the freenet plan (previous year: 24.8 years), 17.7 years for the debitel plans (previous year: 17.0 years) and 10.2 years for the plans of the Media Broadcast Group (previous year: 9.9 years).

The following amounts have been shown for the defined benefit plans for the current reporting period and the previous reporting periods:

In EUR '000s	2019	2018	2017	2016	2015
Present value of funded obligation	28,795	22,715	21,266	21,026	16,162
Present value of unfunded obligation	84,843	78,845	78,069	79,541	41,604
Fair value of plan assets	– 14,851	– 12,387	– 11,426	– 7,929	– 6,575
Plan deficit	**98,787**	**89,173**	**87,909**	**92,638**	**51,191**
Experience adjustments of plan liabilities	– 1,226	667	– 320	45	284
Experience adjustments of plan assets	53	– 766	– 67	– 112	– 226

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 14,851 thousand euros (previous year: 12,387 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	2019	2018
As of 1.1	**12,387**	**11,426**
Interest on plan assets (through income statement, with interest in accordance with IAS 19)	366	259
Differences between the expected and actual income from plan assets (recognised through other comprehensive income)	53	– 766
Employer contributions to plan assets	2,045	5,025
Reclassification to other financial assets	0	– 3,557
As of 31.12.	**14,851**	**12,387**

The actual income from the plan assets amount to 419 thousand euros (previous year: expenses of 508 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 2020, freenet is expecting payments of 1,626 thousand euros into the plan assets and payments of 2,806 thousand euros out of the plan assets for pensions. In the previous year 2018, freenet had expected for financial year 2019 payments of 1,073 thousand euros into the plan assets and payments of 3,240 thousand euros out of the plan assets for pensions.

The amounts recognised as provisions in the balance sheet developed as follows:

In EUR ’000s	2019	2018
As of 1.1.	**89,173**	**87,909**
Current service cost	1,841	2,208
Past service cost	222	0
Net interest expense	1,725	1,713
Gains on the settlement of pension obligations	– 4	– 38
Subtotal: amount recognised in the consolidated income statement	**3,784**	**3,883**
Remeasurement:		
Experience-based gains (–)/losses (+)	– 1,226	667
Gains (–)/losses (+) due to demographic parameter adjustments	0	1,017
Gains (–)/losses (+) due to financial parameter adjustments	12,819	– 1,682
Return on (–)/costs (+) of plan assets not already included in net interest expense	– 53	766
Subtotal: remeasurements recognised through other comprehensive income	**11,539**	**768**
Payments made	– 3,673	– 1,932
Employer contributions to plan assets	– 2,045	– 5,025
Employees’ contributions	9	13
Reclassification to other financial assets	0	3,557
As of 31.12.	**98,787**	**89,173**

The following significant actuarial assumptions were made:

In %	31.12.2019	31.12.2018
Discount rate (freenet, debitel plans)	1.49	2.22
Discount rate (Media Broadcast Group plans)	1.01	1.73
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.

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:

31.12.2019	Change in present value of obligations	
In EUR '000s	Increase	Decrease
Increase in discount rate by 1.0 percentage points		17,033
Decrease in discount rate by 1.0 percentage points	22,167	
Increase in future salary increases by 0.5 percentage points	255	
Decrease in future salary increases by 0.5 percentage points		13
Increase in future pension increases by 0.25 percentage points	1,940	
Decrease in future pension increases by 0.25 percentage points		1,839
Life expectancy: +2 years	6,077	

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	

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 2019. For this purpose, one parameter was varied and the other parameters were left unchanged. Any interdependencies between individual parameters occurring in practise are disregarded.

30 OTHER PROVISIONS

The following overview gives a breakdown of the development of the provisions' carrying amounts:

In EUR '000s	1.1. 2019	Effects of the transition to IFRS 16 as of 1.1.2019	Additions (Initial consolidation)	Use	Reversal	Discounting/ Unwinding of discount	Addition	Disposals (Deconsolidation)	Reclassification	Transfer Reclassification	31.12. 2019	non-current	current
Other													
Contingent losses	2,043	−1,932	0	46	65	0	230	0	0	0	230	0	230
Litigation	1,504	0	20	265	271	0	259	30	30	0	1,247	0	1,247
Asset retirement obligations	44,015	0	0	451	1,600	−680	192	0	324	0	41,800	36,258	5,542
Warranty/ guarantee	45	0	0	2	0	0	0	43	0	0	0	0	0
Storage costs	466	0	5	0	106	5	17	31	42	0	398	398	0
License costs	4,052	0	0	0	480	0	0	0	0	0	3,572	0	3,572
Reimbursement obligations	3,266	0	0	0	324	0	0	0	0	−2,942	0	0	0
Other	4,763	0	0	66	131	0	314	0	−396	−4,171	313	0	313
	60,154	**−1,932**	**25**	**830**	**2,977**	**−675**	**1,012**	**104**	**0**	**−7,113**	**47,560**	**36,656**	**10,904**
Personnel													
Employee incentive programmes	9,945	0	0	5,790	9	0	3,830	0	0	0	7,976	3,171	4,805
Service anniversaries	952	0	0	184	241	0	907	0	0	0	1,434	1,270	164
Restructuring	1,828	0	0	996	659	0	0	0	0	0	173	0	173
Other	981	0	0	273	0	1	414	0	0	−320	803	109	694
	13,706	**0**	**0**	**7,243**	**909**	**1**	**5,151**	**0**	**0**	**−320**	**10,386**	**4,550**	**5,836**
Total	**73,860**	**−1,932**	**25**	**8,073**	**3,886**	**−674**	**6,163**	**104**	**0**	**−7,433**	**57,946**	**41,206**	**16,740**

Provisions for contingent losses concern, among others, expected losses from tariffs with a negative margin in the amount of 230 thousand euros, for which the expected outflow of assets is expected in the full amount in 2020.

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 a complete asset outflow in 2020. To avoid disclosing prematurely, and therefore endangering, the legal and negotiation position, we shall refrain from giving further information at this juncture.

The provision for make good 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 4,335 thousand euros in 2020 and 32,261 thousand euros in the years from 2021 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 1,207 thousand euros in 2020 and 3,997 thousand euros in the years from 2021 to 2029.

Further details concerning the recognition of provisions for employee incentive programmes are documented under note 25, Employee incentive programmes.

Provisions for service anniversaries have been recognised; the outflow of assets for 2020 is expected to be 164 thousand euros and the outflow of assets for the years 2021 to 2039 is expected to be 1,270 thousand euros. A discount rate of 0.74 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.

The provisions for restructuring mainly comprise personnel expenses for severance payments. The full outflow of assets for these provisions is expected for 2020.

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 2019, the provisions before netting for long-term work accounts amounted to 5,201 thousand euros (previous year: 5,575 thousand euros), and the corresponding provisions for semi-retirement amounted to 1,068 thousand euros (previous year: 2,076 thousand euros).

In EUR ’000s	2019
Long-term work accounts	
Obligation as at 1.1.	5,575
Payments from long-term work accounts	– 1,000
Personnel expenses	341
Interest expense	285
Obligation as of 31.12. before netting	**5,201**
Fair value of plan assets as of 1.1.	6,149
Payments from plan assets	– 500
Loss on plan assets	576
Plan assets as of 31.12.	**6,225**

In EUR ’000s	2019
Semi-retirement	
Obligation as at 1.1.	2,076
Payments from semi-retirement accounts	– 1,012
Personnel expenses	– 1
Interest expense	5
Obligation as of 31.12. before netting	**1,068**
Fair value of plan assets as of 1.1.	1,744
Payments from plan assets	– 700
Loss on plan assets	– 4
Plan assets as of 31.12.	**1,040**

The remaining provision of 285 thousand euros is shown in the statement of changes in provisions under “Other” under “Personnel”.

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	31.12.2019	31.12.2018
Rental and lease obligations		
Due within one year	0	73,813
Due within one and five years	0	240,349
Due after more than five years	0	129,859
	0	**444,021**
Thereof already recognised as a provision for contingent losses	0	3,566
	0	**440,455**
Maintenance, support and other obligations		
Due within one year	35,520	44,519
Due within one and five years	74,460	105,734
Due after more than five years	25	4,020
	110,005	**154,273**
Order commitments		
Regarding intangible assets	0	0
Regarding property, plant and equipment	754	2,701
Regarding inventories, expenses and services	80,043	132,749
	80,797	**135,450**
Total	**190,802**	**730,178**

The reconciliation of future minimum lease payments from operating leases reported as of 31 December 2018 in accordance with IAS 17 (440.5 million euros) with the lease liabilities recognised as of 1 January 2019 in accordance with IFRS 16 are shown under note 2.5.1, freenet as lessee.

As in 2018, 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 80,797 thousand euros (previous year: 135,450 thousand euros). Of this sum, 754 thousand euros (previous year: 2,701 thousand euros) is attributable to the procurement of non-current assets. There are other purchase commitments amounting to 80,043 thousand euros (previous year: 132,749 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 37,174 thousand euros (previous year: 34,013 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 2019: 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 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 2019, 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.

As an alternative performance measure redefined at the beginning of financial year 2019, free cash flow shows even more clearly the amount of cash generated that can be used to pay dividends or repay borrowings, for example. Accordingly, interest paid, interest received and proceeds from the cash repayment of financial assets under leases are included in cash flows from operating activities and cash repayments of lease liabilities (as a component of cash flows from financing activities) are included in the calculation of free cash flow.

32.1 CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities increased by 35.4 million euros year-on-year to 364.2 million euros. EBITDA declined by 14.4 million euros compared with the previous year. Besides a year-on-year decrease of 25.2 million euros in the adjustment for non-cash income from the disposal of non-current assets (previous year: sale of analogue radio infrastructure), cash flows from operating activities were also positively impacted by the reduction of 21.6 million euros in contract acquisition costs recognised as assets (mainly sales commissions paid) and the proceeds of 14.9 million euros from the payment of lease receivables reported for the first time in connection with IFRS 16. In addition, freenet AG received a dividend payment that was 4.6 million euros higher (41.5 million euros) as a result of the dividend of 4.20 CHF per share decided at the Annual General Meeting of Sunrise on 10 April 2019. The 10.5 million euro increase in the rise in net working capital and the higher interest payments in connection with the new lease accounting had the opposite effect.

32.2 CASH FLOWS FROM INVESTING ACTIVITIES

In financial year 2019, the cash flows from investing activities developed from – 333.1 million euros in the previous year to – 38.8 million euros. This was primarily due to the payments made in the previous year for the acquisition of the shares in CECONOMY in the amount of 277.4 million euros and for the acquisition of 100 per cent of the shares in The Cloud Group in the amount of 12.4 million euros. Within the context of the initial consolidation of The Cloud Group as of 1 January 2019, the freenet Group received cash funds in the amount of 3.1 million euros. In this connection, please also refer to note 35, Acquisitions.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets, decreased in 2019 by 2.7 million euros compared with the previous year from 43.3 million euros to 40.6 million euros. The cash investments were financed entirely out of the company's retained earnings.

32.3 CASH FLOWS FROM FINANCING ACTIVITIES

Cash flows from financing activities changed from – 192.3 million euros in the prior-year period to – 318.0 million euros. The change is mainly the result of the prior-year inflows from the bridge loan for the acquisition of the shares in CECONOMY and from raising a promissory note loan in the amount of 376.3 million euros. In addition, two prior-year effects attributable to the repayment of the bridge loan raised (277.8 million euros) and the repayment of a promissory note loan (54.5 million euros) had the opposite effect. Repayments of borrowings in the amount of 31.0 million euros in financial year 2019 relate to the early repayment of a portion of two promissory note loan from 2016. Cash payments for the principal portion of lease liabilities amounted to 74.6 million euros in the past year. In the previous year (21.8 million euros), this item only included the master lease agreement classified as a finance lease; now it also includes payments relating to operating leases.

An unchanged dividend of 211.2 million euros was distributed in May 2019.

32.4 CALCULATING THE UNDERLYING FIGURE FOR THE CONSOLIDATED STATEMENT OF CASH FLOWS

The underlying figure for the statement of cash flows is 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	1.1.2019–31.12.2019	1.1.2018–31.12.2018
Earnings before taxes	238,078	234,002
Financial result	31,876	77,986
EBIT	**269,954**	**311,988**

32.5 RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

The following reconciliation shows the liabilities from financing activities for the period from 1 January 2019 to 31 December 2019.

In EUR '000s	1.1.2019	Effects of changes in the basis of consolidation[1]	Cash changes[2]	Changes in fair value[3]	Other changes[4]	31.12.2019
Non-current borrowings	1,699,424	0	0	1,288	– 272,703	1,428,009
Current borrowings	14,985	0	– 31,000	0	274,213	258,198
Current financial borrowings from interest accruals	8,491	0	0	0	– 1,079	7,412
Liabilities from finance leases	630,672	– 1,371	– 74,603	0	– 1,422	553,276
Total liabilities from financing activities	**2,353,572**	**– 1,371**	**– 105,603**	**1,288**	**– 991**	**2,246,895**

[1] This includes effects from the initial consolidation of The Cloud Group (0.6 million euros) and the deconsolidation of MOTION TM (– 2.0 million euros).
[2] The cash changes within borrowings include cash repayments of borrowings (– 31.0 million euros) as well as cash repayments of lease liabilities (– 74.6 million euros).
[3] This includes the non-cash unwinding of discounts in accordance with the effective interest method.
[4] This includes non-cash changes due to reclassifications and interest accruals.

Liabilities from financing activities for the period from 1 January 2018 to 31 December 2018 break down as follows:

In EUR '000s	1.1.2018	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.

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 2019 and 31 December 2018:

Financial instruments according to categories as at 31 December 2019

In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement				Fair value of financial instruments
		31.12.2019	Amortised cost	Cost	Fair value through profit or loss	Fair value through other comprehensive income	31.12.2019
Assets							
Cash/liquid assets	AC	133,692	133,692				—[1]
Trade accounts receivable		294,431					
At amortised cost	AC	187,283	187,283				—[1]
Fair value through profit or loss	FVTPL	107,148			107,148		—[1]
Other financial assets		314,667					
Lease receivables	n/a	82,178					
Non-derivative financial assets							
At amortised cost	AC	23,402	23,402				—[1]
Other financial assets							
Fair value through profit or loss	AC	6,207	6,207				—[1]
Fair value through other comprehensive income	FVTPL	22,765			22,765		
Other equity instruments							
Fair value through profit or loss	FVTPL	826			826		—[1]
Fair value through other comprehensive income	FVTOCI	179,289				179,289	179,289
Equity and liabilities							
Lease liabilities	n/a	553,276					
Trade accounts payable	AC	465,230	465,230				
Borrowings		1,693,619	1,693,619				
Borrowings from promissory notes	AC	1,077,261	1,077,261				1,087,259
Other borrowings	AC	616,358	616,358				
Other financial liabilities		95,594					
Non-derivative financial liabilities	AC	68,881	68,881				
Fair value through other comprehensive income	FVTPL	26,713			26,713		—[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.

Continued on the next page.

In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement				Fair value of financial instruments
		31.12.2019	Amortised cost	Cost	Fair value through profit or loss	Fair value through other comprehensive income	31.12.2019
Thereof aggregated by IFRS 9 measurement category							
Assets							
At amortised cost	AC	350,584	350,584				—[1]
Fair value through profit or loss	FVTPL	130,739			130,739		—[1]
Fair value through other comprehensive income	FVTOCI	179,289				179,289	179,289
Equity and liabilities							
Fair value through profit or loss	AC	2,227,730	2,227,730				1,087,259[1]
Fair value through other comprehensive income	FVTPL	26,713			26,713		—[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 categories as at 31 December 2018

In EUR ’000s	IFRS 9 measurement category	Carrying amount 31.12.2018	Measurement: Amortised cost	Measurement: Cost	Measurement: Fair value through profit or loss	Measurement: Fair value through other comprehensive income	Fair value of financial instruments 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		161,122					
Non-derivative financial assets							
At amortised cost	AC	22,053	22,053				—[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	FVTOCI	104,954				104,954	104,954
Equity and liabilities							
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]

[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.

Continued on the next page.

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 com-prehensive income	31.12.2018
Thereof aggregated by IFRS 9 measurement category							
Assets							
At amortised cost	AC	387,959	387,959				—[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.

The non-financial assets constitute that part of the balance sheet item “Other receivables and other assets” which is not covered by the scope of IFRS 7.

The non-financial liabilities constitute 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 or higher, 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 2019: 178.8 million euros) and securities to back pension obligations. As of 31 December 2019, the impairment loss on the fair value of the interests in CECONOMY was reversed through OCI in the amount of 74.4 million euro (carrying amount as of 31 December 2018: 104.4 million euros).

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 9,998 thousand euros as at 31 December 2019 (previous year: 5,900 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.

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 2019.

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 are 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 2019.

Fair value hierarchy as of 31 December 2019

In EUR '000s	Total	Level 1	Level 2	Level 3
Assets				
Trade accounts receivable, at fair value through profit or loss	107,148	0	0	107,148
Other financial assets, at fair value through profit or loss	22,765	0	0	22,765
Other equity instruments, at fair value through profit or loss	826	0	0	826
Other equity instruments, at fair value through other comprehensive income	179,289	179,289	0	0
Equity and liabilities				
Borrowings from promissory notes	1,087,259	0	0	1,087,259
Other financial liabilities, at fair value through profit or loss	26,713	0	0	26,713

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

The following table shows the changes to Level 3 instruments for financial year 2019:

In EUR '000s	1.1.2019	Additions	Disposals	31.12.2019
Assets				
Trade accounts receivable, at fair value through profit or loss	76,008	31,140	0	107,148
Other equity instruments, at fair value through profit or loss	24,273	0	1,508	22,765
Other equity instruments, at fair value through other comprehensive income	654	172	0	826
Equity and liabilities				
Borrowings from promissory notes	1,112,651	0	25,392	1,087,259
Other financial liabilities, at fair value through profit or loss	0	26,713	0	26,713

The following disclosures were made in the previous year 2018: 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, the following net gains/losses were shown in financial year 2019 and in the previous year:

Net gains/losses by measurement category 2019

2019	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)	3,316	0	– 35,256	0	– 31,940
Assets measured at fair value through profit or loss (FVTPL)	– 1,130	0	– 7,858	3,632	– 5,356
Assets measured at fair value through other comprehensive income (FVTOCI)	0	73,206	0	0	73,206
Liabilities measured at amortised cost (AC)	– 26,115	0	0	0	– 26,115
Total	**– 23,929**	**73,206**	**– 43,114**	**3,632**	**9,795**

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	– 43,517	0	– 43,353
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**	**– 49,393**	**2,727**	**– 220,063**

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 and losses on financial liabilities measured at amortised cost consist mainly of interest expense due to banks and income arising on the remeasurement of the other financial liability from the put option in connection with the deconsolidation of MOTION TM.

As a consequence of the deconsolidation of MOTION TM with effect from 31 December 2019, the put option in place until then for the acquisition of the remaining 49 per cent of the shares in the company lapsed. As a result, the Group also disposed of other non-current financial liabilities of 7,000 thousand euros, which were recognised as an increase in equity (line item: consolidated net retained profits) without affecting profit or loss. Beforehand, due to the signing of the agreement on the Group's withdrawal from MOTION TM, the other financial liability from the put option until then measured at 13,256 thousand euros was valued at 7,000 thousand euros (in line with the compensation), resulting in income of 6,256 thousand euros presented under "Interest and similar income".

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 2019

31.12.2019 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	467,785	173,354	294,431	0	294,431
Other financial assets	320,651	5,984	314,667	0	314,667
Total	**788,436**	**179,338**	**609,098**	**0**	**609,098**
Financial liabilities					
Trade accounts payable	638,584	173,354	465,230	4,020	461,210
Other provisions	63,930	5,984	57,946	0	57,946
Total	**702,514**	**179,338**	**523,176**	**4,020**	**519,156**

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	168,228	7,106	161,122	0	161,122
Total	**639,888**	**172,372**	**467,516**	**0**	**467,516**
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**

In 2019, trade accounts receivable from network operators (e.g. from bonuses, commissions) were offset against trade accounts payable and other liabilities to the same network operators. The amount set off as at 31 December 2019 was 173,354 thousand euros (31 December 2018: 165,266 thousand euros). The conditions for offsetting are met 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 5,400 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 semi-retirement amounted to 285 thousand euros (31.12.2018: 546 thousand euros). Please refer to our explanations in note 30, 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 finance 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 in 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 2019, it was above the target of 25.0 per cent (31 December 2019: 27.3 per cent; previous year: 27.6 per cent). At the beginning of financial year 2019, the target equity ratio was reduced from 50.0 per cent to 25.0 per cent in order to improve capital structure management. At the same time, the definition of the debt ratio relevant for management purposes was changed. The debt ratio (31 December 2019: 4.8; previous year 2018 restated: 4.2) is now determined as the ratio of net debt to EBITDA generated over the last twelve months. Net debt is defined as borrowings in the balance sheet, less liquid assets and plus net lease liabilities.

In the previous year 2018, the debt ratio relevant for management purposes (31 December 2018: 1.3) was calculated as the ratio of net borrowings to EBITDA generated in the last twelve months. Net borrowings were 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) and CECONOMY (32,633,555 shares multiplied by the closing price) as at the reporting date.

As of 31 December 2019, all covenants were met. 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, the management is permitted to sell assets to reduce debt, and to implement measures such as issuing new shares.

The following information concerning the 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 loan (disclosed as a total net amount of 1,083.5 million euros as of 31 December 2019 (previous year: 1,114.2 million euros) – including 420.5 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 610.0 million euros as of 31 December 2019) (previous year: 608.6 million euros). The Group also has a revolving credit line amounting to 300.0 million euros (previous year: 300.0 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 2019, the Group reported variable-interest financial liabilities amounting to 1,030.5 million euros (previous year: 1,059.1 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 1,693.6 million euros are shown under short-term and long-term borrowings as at 31 December 2019 (previous year: 1,722.9 million euros), 1,030.5 million euros (previous year: 1,059.1 million euros) of which have variable interest rates. The variable-interest liabilities to banks as at the closing date carried interest of 1.7 per cent. Of the aggregate amount shown for borrowings as at 31 December 2019, 265.6 million euros are shown as current. Of this amount, 7.4 million euros is deferred expected payments of accrued interest, and 258.2 million euros is earmarked for repayment of financial liabilities in 2020. As of 31 December 2019, the variable portion of the loans bears interest within a corridor of 1.1 to 1.9 percent. 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 2020. This means that the cash outflows for the entire borrowings in 2020 would amount to 29.8 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 – 1.6 million euros on earnings before tax (previous year: – 2.0 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: 0.3 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: 26 thousand euros) on equity, while a downward shift of 5 per cent would have an impact of – 26 thousand euros (previous year: – 26 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, it must be borne in mind that the company holds an interest of 24.56 per cent in the share capital of Sunrise. Sunrise uses the Swiss franc (CHF) as the reporting currency for preparing its consolidated financial statements. The exchange rate risk between the euro and Swiss franc has an impact on determining both elements of the position of our consolidated income statement “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: 300.0 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 2019 and 2018:

Financial liabilities 31.12.2019

In EUR '000s	Carrying amount	Cash flows 2020			Cash flows 2021			Cash flows 2022 and later		
	31.12. 2019	Interest fixed	Interest variable	Payments of principal	Interest fixed	Interest variable	Payments of principal	Interest fixed	Interest variable	Payments of principal
Trade accounts payable	465,230	0	0	465,230	0	0	0	0	0	0
Borrowings (liabilities to banks)	1,693,619	9,377	20,436	265,610	7,141	15,967	427,596	10,285	45,249	1,000,413
Other non-derivative financial liabilities	95,594	0	0	64,546	0	0	22,287	0	0	8,761
Lease liabilities	553,276	13,517	0	69,437	11,827	0	67,848	37,487	0	364,953
Other financial liabilities	0	0	0	0	0	0	0	0	0	0

Financial liabilities 31.12.2018

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

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 and on lease receivables. For further information, please refer to our comments under note 21, 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.

Against this backdrop, factoring agreements were signed with two banks in 2014 and 2019. These are master agreements with indefinite terms. 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 3.6 million euros was incurred from the sale of receivables (previous year: 2.7 million 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 129.6 million euros, previous year: 106.7 million euros), a total of 2.8 million euros (previous year: 2.5 million euros) was expensed. 1.6 million euros (previous year: 1.4 million euros) of this amount concerns the default risk taken on from the bank (del credere discount and fees) and 1.2 million euros (previous year: 0.8 million euros) concern interest expenses from the late payment risk. As at the balance sheet date, receivables amounting to 99.8 million euros (previous year: 82.5 million euros) have been sold and derecognised but not yet paid for. The expenses of 20 thousand euros (previous year: 10 thousand euros) to be anticipated from the late payment risk and the servicing will be realised over the residual term of the receivables (6 months). The maximum loss risk for the Group is 1.0 million euros (previous year: 0.8 million euros).

The bank automatically assigns the newly defaulted receivables from the financial period ended to freenet at a fixed price each month. The buyback has no effect on either the apportionment of the risk of 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	2019	2018
Revenue attributable to billing of services		
Joint ventures		
Jestoro GmbH, Hamburg	451	413
Unconsolidated companies		
Bayern Digital Radio GmbH	379	337
Digital Radio Südwest GmbH	337	335
Hessen Digital Radio GmbH	946	601
Total	**2,112**	**1,686**

In EUR '000s	2019	2018
Expenses from the purchase of services		
Joint ventures		
Jestoro GmbH, Hamburg	8	24
Funview GmbH, Hamburg (Tochterunternehmen der Jestoro GmbH)	0	104
Check Tech Service GmbH, Hamburg (Tochterunternehmen der Jestoro GmbH)	70	92
Unconsolidated companies		
Bayern Digital Radio GmbH	104	84
Hessen Digital Radio GmbH	52	0
Total	**235**	**304**

The following significant receivables from and liabilities to related parties existed as at 31 December 2019:

In EUR '000s	31.12.2019	31.12.2018
Receivables from current service transactions		
Joint ventures		
Jestoro GmbH, Hamburg	54	59
Total	**54**	**59**

In EUR '000s	31.12.2019	31.12.2018
Liabilities from current service transactions		
Joint ventures		
Check Tech Service GmbH, Hamburg (subsidiary of Jestoro GmbH)	21	16
Total	**21**	**16**

Total remuneration of 420 thousand euros (previous year: 385 thousand euros) was granted to the employees' representatives on the Supervisory Board in financial year 2019.

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 25.2, Programme 2 and 25.3, Programme 3.

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 2019

In EUR '000s	Fixed benefits	Other variable benefits	Subtotal	Variable benefits with long-term incentive effect[1]	Total benefits[2]
Christoph Vilanek	1,015	688	1,703	2,099	3,802
Ingo Arnold	510	287	797	419	1,216
Stephan Esch	494	229	723	611	1,334
Rickmann v. Platen	510	287	797	250	1,047
Antonius Fromme	509	287	796	250	1,046
Total	**3,038**	**1,778**	**4,816**	**3,629**	**8,445**

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**

[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 1,262 thousand euros (previous year: 1,177 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 2019

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	– 3,322	5,421	2,099
Ingo Arnold	419	0	419
Stephan Esch	611	0	611
Rickmann v. Platen	250	0	250
Antonius Fromme	250	0	250
Total	**– 1,792**	**5,421**	**3,629**

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**

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 with Mr Esch, granted on 19 March 2019) and the appointment to the Executive Board made (for both Mr von 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. 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.

In financial year 2019, cash payments of 5,421 thousand euros (previous year: 0) from the current LTIP programmes (Programmes 2 and 3) for present Executive Board members related to Mr Vilanek.

As at 31 December 2019, the provision for the LTIP programmes amounted to 1,305 thousand euros (previous year: 4,627 thousand euros) for Mr Vilanek, 419 thousand euros (previous year: 0 thousand euros) for Mr Arnold, 2,097 thousand euros (previous year: 1,486 thousand euros) for Mr Esch, 485 thousand euros (previous year: 235) for Mr v. Platen and 485 thousand euros (previous year: 235 thousand euros) for Mr Fromme. The provision for LTIP programmes for former Executive Board member Mr Preisig amounted to 678 thousand euros as at 31 December 2019 (previous year: 1,781 thousand euros).

In 2019, 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 6,207 thousand euros (previous year: 6,630 thousand euros). For 2019, this includes benefits with a long-term incentive effect from the grant of LTIP Programme 3 in the amount of 1,391 thousand euros (thereof 785 thousand euros for Mr Esch and 606 thousand euros for Mr Arnold). For 2018, this includes benefits with a long-term incentive effect 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 von Platen and Mr Fromme).

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 in the previous year, of which 930 thousand euros were 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 was to compensate for the loss of entitlements under LTIP Programme 2 for the tranche relating to financial year 2019. This amount had 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 the financial year 2009, Mr Vilanek was granted an indirect pension commitment on the occasion of his appointment as chairman of the Executive Board as of 1 May 2009. freenet AG had taken on the pension commitment granted to Mr Preisig from the former debitel AG as of 1 September 2008. In February 2014, adjustments were made to pension commitments made to Mr Vilanek, Mr Preisig and Mr Esch. For further details, see the section “Remuneration arrangements in the event of a termination of employment” in the Executive Board remuneration report within the Group management report. Mr v. Platen, Mr Fromme and Mr Arnold were each granted defined contribution benefits on the occasion of their appointment as members of the Executive Board (on 1 June 2018 for Mr v. Platen and Mr Fromme and on 1 January 2019 for Mr Arnold), with the pension benefits being reinsured by a life insurance policy.

As at 31 December 2019, the defined benefit obligation (DBO) for Mr Vilanek amounted to 6,219 thousand euros (previous year: 4,612 thousand euros) and for Mr Esch to 5,522 thousand euros (previous year: 4,024 thousand euros). The DBOs for Messrs Preisig, Spoerr, Krieger and Berger, as former Executive Board members, totalled 17,054 thousand euros as at 31 December 2019 (previous year: 14,079 thousand euros). Due to the nature of the selected commitment, there are no defined benefit obligations for Messrs v. Platen, Fromme and Arnold.

Current service costs of 1,040 thousand euros (previous year: 1,177 thousand euros) were recognised in total in personnel expenses for the members of the Executive Board as a result of the pension commitments. In 2019, Mr Vilanek accounted for 468 thousand euros (previous year: 463 thousand euros) of this amount, Mr Esch for 272 thousand euros (previous year: 270 thousand euros), Mr von Platen for 100 thousand euros (previous year: 58 thousand euros), Mr Fromme for 100 thousand euros (previous year: 58 thousand euros), Mr Arnold for 100 thousand euros (previous year: 0 euros) and Mr Preisig for 0 euros (previous year: 328 thousand euros). The expenses for Messrs von Platen, Fromme and Arnold relate to amounts paid into a pension scheme for the defined contribution benefits granted. These benefits are not included in the above tables "Executive Board benefits for 2019” and “Executive Board benefits for 2018”.

In 2019, personnel expenses recognised for Mr Esch in relation to pension commitments included past service costs of 222 thousand euros. In the previous year, no past service costs related to the pension commitments were recognised for the members of the Executive Board.

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 MitbestG) – 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 euros 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 2019, the members of the company’s Supervisory Board received fixed remuneration of 405 thousand euros plus attendance fees amounting to 82 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 2019. The aggregate expenses for Supervisory Board activities thus amounted to 892 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 2019

In EUR ’000s	Basic remuneration	Attendance fees	Performance-related remuneration	Total
Active members				
Prof. Dr Helmut Thoma	60.0	12.0	60.0	132.0
Knut Mackeprang[1]	45.0	6.0	45.0	96.0
Claudia Anderleit[1]	30.0	5.0	30.0	65.0
Thorsten Kraemer	30.0	5.0	30.0	65.0
Marc Tüngler	30.0	7.0	30.0	67.0
Robert Weidinger	30.0	13.0	30.0	73.0
Sabine Christiansen	30.0	5.0	30.0	65.0
Thomas Reimann[1]	30.0	8.0	30.0	68.0
Fränzi Kühne	30.0	4.0	30.0	64.0
Theo-Benneke Bretsch[1]	30.0	4.0	30.0	64.0
Bente Brandt[1]	30.0	8.0	30.0	68.0
Gerhard Huck[1]	30.0	5.0	30.0	65.0
Total	**405.0**	**82.0**	**405.0**	**892.0**

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

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 MitbestG of 4 May 1976.

35 ACQUISITIONS

On 19 December 2018, the Group had entered into a purchase agreement to acquire all shares and voting rights in The Cloud Networks Germany GmbH, Munich, and The Cloud Networks Nordic 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 part of the purchase price allocation, an amount (after discounting) of 6,570 thousand euros was recognised as a non-current other financial liability for the earn-out.

The purchase price allocation carried out in these consolidated financial statements with regard to the acquisition of The Cloud Group in accordance with IFRS 3 is final.

The following overview provides information on the assets and liabilities of The Cloud Group acquired at fair value at the time of initial consolidation:

Balance sheet of “The Cloud Group” according to HGB as of 1 January 2019 at carrying amounts

ASSETS

In EUR ’000s	01.01.2019
Non-current assets	
Intangible assets	8,817
Lease assets	579
Goodwill	5,428
Fixed assets	717
Other receivables and other assets	647
Other financial assets	2,467
	18,655
Current assets	
Inventories	532
Current income tax assets	99
Trade accounts receivable	1,621
Other receivables and other assets, and other financial assets	94
Liquid assets	3,052
	5,398
Total	**24,053**

EQUITY AND LIABILITIES

In EUR ’000s	01.01.2019
Non-current liabilities	
Lease liabilities	399
Deferred income tax liabilities	2,593
Other provisions	5
	2,997
Current liabilities	
Lease liabilities	180
Trade accounts payable	965
Other liabilities and deferrals	197
Other financial liabilities	450
Current income tax liabilities	235
Other provisions	20
	2,047
Total	**5,044**

The difference between assets and liabilities in the amount of 19,009 thousand euros represents the total purchase price determined at the time of initial consolidation (cash purchase price of 12,439 thousand euros plus earn-out of 6,570 thousand euros). The purchase price allocation results in goodwill of 5,428 thousand euros that is attributable mainly to future earnings opportunities in connection with the expansion of the freenet Group's offering. This goodwill has been allocated to the "Mobile Communications" cash-generating unit. In our segment reporting, The Cloud Group was allocated to the Mobile Communications segment. In addition to the goodwill, intangible assets amounting to 8,568 thousand euros were identified during purchase price allocation. Customer relationships with a useful life of between ten- and twenty-years account for 5,903 thousand euros of the intangible assets, software with a useful life of between three and six years for 2,398 thousand euros and favourable contracts with a useful life of ten years for 267 thousand euros. The subsequent amortisation of these intangible assets will result in amortisation charges of 922 thousand euros per financial year. The fair value of the receivables acquired (including other receivables and other assets as well as other financial assets) was 4,829 thousand euros as at 1 January 2019 (gross receivables of 4,951 thousand euros less loss allowances of 122 thousand euros). No contingent liabilities and no transactions required to be presented separately from the acquisition of the assets and assumption of the liabilities were identified.

The purchase price allocation was based on a forecast relevant for measurement purposes based, in turn, on the DCF method, which covered a detailed period of five years. The direct cash flow method was used to determine the fair value of the aforementioned intangible assets recognised as part of the preliminary purchase price allocation. The fair values of the customer relationships, software and favourable contracts were measured using a discounted cash flow technique and Level 3 inputs (unobservable inputs) in accordance with IFRS 13. This valuation technique is based on a cash flow forecast that a hypothetical market participant would take as the basis.

From the date of its initial consolidation (1 January 2019), The Cloud Group contributed 11.9 million euros to the Group's revenue from third parties. The contribution to the Group's EBITDA was insignificant.

36 NON-CURRENT ASSETS HELD FOR SALE, DISCONTINUED OPERATIONS AND DISPOSAL OF SUBSIDIARIES

As was the case at the prior-year reporting date, the Group had no discontinued operations or non-current assets held for sale as at 31 December 2019.

Under the agreement dated 18 December 2019 and through its performance on 31 December 2019, the Group divested itself of its 51 per cent interest in the share capital of MOTION TM. This was effected by mobilcom-debitel GmbH retiring from MOTION TM as a shareholder on the basis of a withdrawal of shares in return for compensation and MOTION TM being continued by its former shareholders.

Through this transaction, the Group lost control of MOTION TM. This company was deconsolidated on 31 December 2019, as a result of which it was fully included in the income statement for financial year 2019, but not in the consolidated balance sheet as at 31 December 2019.

MOTION TM's main activities relate to the sale/distribution of mobile communications devices, the rendering of sales services and the operation of online platforms to provide sales support to specialist dealers. In the segment reporting, this company forms part of the “Mobile Communications” segment. The requirements for a discontinued operation codified in IFRS 5 were therefore not met.

An amount of 7,000 thousand euros was agreed as compensation and is not subject to any subsequent adjustments. Of this, 6,000 thousand euros were recognised as a cash item in financial year 2019. Half of the remaining 1,000 thousand euros will be recognised as a cash item in financial year 2020 and half in financial year 2021. MOTION TM's withdrawal from the Group resulted in a net disposal for the Group of 1,108 thousand euros (cash and cash equivalents of MOTION TM less the portion of the compensation received in 2019).

The following overview provides information on the disposal of other assets and liabilities due to deconsolidation as at 31 December 2019:

ASSETS

In EUR '000s	31.12.2019
Non-current assets	
Intangible assets	27
Lease assets	1,725
Goodwill	2,010
Fixed assets	163
Other financial assets	88
	4,013
Current assets	
Inventories	4,533
Current income tax assets	4
Trade accounts receivable	27,756
Other receivables and other assets	30
Sonstige finanzielle Vermögenswerte	242
Liquid assets	1,108
	33,673
Total	**37,686**

EQUITY AND LIABILITIES

In EUR '000s	31.12.2019
Non-current liabilities	**4,731**
Non-controlling interests in equity	
Lease liabilities	1,644
Other financial liabilities	500
Other provisions	31
	2,175
Current liabilities	
Lease liabilities	306
Trade accounts payable	26,574
Other liabilities and deferrals	1,314
Other financial liabilities	1,148
Current income tax liabilities	1,431
Other provisions	73
	30,846
Total	**37,752**

MOTION TM's deconsolidation therefore led to the Group disposing of assets of 37,686 thousand euros and liabilities (including non-controlling interests in equity) of 37,752 thousand euros in total, resulting in a gain on deconsolidation of 66 thousand euros presented in other operating income.

Also as a consequence of the transaction described, the put option in place until then for the acquisition of the remaining 49 per cent of the shares in MOTION TM lapsed. As a result, the Group also disposed of other non-current financial liabilities of 7,000 thousand euros, which were recognised as an increase in equity (line item: consolidated net retained profits) without affecting profit or loss. Beforehand, due to the signing of the agreement on the Group's withdrawal from MOTION TM, the other financial liability from the put option until then measured at 13,256 thousand euros was valued at 7,000 thousand euros (in line with the compensation), resulting in income of 6,256 thousand euros presented under "Interest and similar income".

In financial year 2019, MOTION TM generated external revenue of 323.5 million euros, gross profit of 11.0 million euros and EBITDA in a small amount of insignificance for the Group.

37 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 3 December 2019. 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 1,216 thousand euros in fees was paid to the auditor in accordance with section 314 (1) no. 9 HGB during financial year 2019. Of this figure, 1,105 thousand euros is attributable to auditing services (thereof 1,102 thousand euros for the current audit for 2019 as well as 3 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), 6 thousand euros is attributable to other services (in relation to IT security) and 80 thousand euros is attributable to tax consultancy services. These consist mainly of support during tax audits and tax advice on value added tax.

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):

Consolidated companies

	Share in capital in %
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
vitrado GmbH, Hamburg (formerly new directions GmbH)	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
The Cloud Networks Germany GmbH, Munich	100.00
The Cloud Networks Nordic AB, Stockholm (Sweden)	100.00
Gravis-Computervertriebsgesellschaft mbH, Berlin	100.00
MOTION TM Vertriebs GmbH, Troisdorf[1]	51.00
freenet digital GmbH, Berlin	100.00
Ilove GmbH, Berlin	100.00
Lorena Medienagentur GmbH, Berlin	100.00
Ojom International GmbH, Berlin	100.00
freenet digital Espana S.L., Barcelona (Spain)	100.00
freenet digital Entretentimendo do Brasil Ltda., Sao Paulo (Brazil)	100.00
Vene International GmbH, Berlin	100.00
freenet digital Holdings Inc., Wilmington (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
Sure Yield Inc Limited, Hong Kong (China)	100.00
EXARING AG, Munich	58.63
Synergy Networks GmbH, Leipzig	58.63
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

[1] Deconsolidation as of 31.12.2019

38 EVENTS OF MATERIAL IMPORTANCE AFTER THE REPORTING DATE

No events of major significance for the freenet Group have occurred after the balance sheet date.

39 DEVELOPMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Development of intangible assets, goodwill and property, plant and equipment as at 31 December 2019

In EUR '000s	Cost								
	1.1.2019	Reclassifications from the transition to IFRS 16 as of 1.1.2019	Additions basis of consolidation	Additions	Reclassifications	Disposals basis of consolidations	Disposals	Foreign currency	31.12.2019
Intangible assets									
Internally generated software	121,251	0	249	18,919	0	0	979	0	139,440
Software, licenses and right-of-use assets	176,064	0	2,665	3,249	225	260	635	0	181,308
Trademarks	346,352	0	0	0	0	1,105	0	0	345,247
Customer relationships	113,520	0	5,903	0	0	0	12,189	0	107,234
	757,187	**0**	**8,817**	**22,168**	**225**	**1,365**	**13,803**	**0**	**773,229**
Goodwill									
Goodwill	1,380,056	0	5,428	0	0	2,010	0	0	1,383,474
	1,380,056	**0**	**5,428**	**0**	**0**	**2,010**	**0**	**0**	**1,383,474**
Property, plant and equipment									
Land, property facilities and buildings	38,120	0	0	1	0	0	14	0	38,107
Switches and networks	926	0	0	0	0	0	– 2	0	928
Technical equipment and machinery	521,322	– 324,900	588	10,713	1,702	0	4,876	– 89	204,460
Other operating and office equipment	101,016	0	92	11,944	410	493	7,561	0	105,408
Prepayments made and assets under construction	2,471	0	37	2,155	– 2,337	0	3	0	2,323
	663,855	**– 324,900**	**717**	**24,813**	**– 225**	**493**	**12,452**	**– 89**	**351,226**
Total	**2,801,098**	**– 324,900**	**14,962**	**46,981**	**0**	**3,868**	**26,255**	**– 89**	**2,507,929**

	Depreciation, amortisation and impairment						Carrying amounts		
	1.1.2019	Reclassifications from the transition to IFRS 16 as of 1.1.2019	Additions	Disposals basis of consolidations	Disposals	Foreign currency	31.12.2019	31.12.2019	1.1.2019
	84,099	0	11,736	0	977	0	94,858	44,582	37,152
	76,333	0	37,128	232	635	0	112,594	68,714	99,731
	44,925	0	673	1,105	0	0	44,493	300,754	301,427
	26,475	0	5,120	0	12,189	0	19,406	87,828	87,045
	231,832	**0**	**54,657**	**1,337**	**13,801**	**0**	**271,351**	**501,878**	**525,355**
	0	0	0	0	0	0	0	1,383,474	1,380,056
	0	**0**	**0**	**0**	**0**	**0**	**0**	**1,383,474**	**1,380,056**
	13,183	0	1,153	0	14	0	14,322	23,785	24,937
	926	0	0	0	–2	0	928	0	0
	184,033	–76,835	16,434	0	4,774	–77	118,781	85,679	337,289
	66,889	0	13,896	331	7,089	0	73,365	32,043	34,127
	0	0	0	0	0	0	0	2,323	2,471
	265,031	**–76,835**	**31,483**	**331**	**11,875**	**–77**	**207,396**	**143,830**	**398,824**
	496,863	**–76,835**	**86,140**	**1,668**	**25,676**	**–77**	**478,747**	**2,029,182**	**2,304,235**

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	Reclassifications	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	Change in companies included in consolidation	Additions	Reclassifications	Disposals	31.12.2018	31.12.2018	**01.01.2018**
73,241	0	11,138	0	280	84,099	37,152	33,195
37,792	0	39,207	0	666	76,333	99,731	134,025
44,124	0	801	0	0	44,925	301,427	302,228
19,461	0	7,014	0	0	26,475	87,045	94,059
174,618	**0**	**58,160**	**0**	**946**	**231,832**	**525,355**	**563,507**
0					0	1,380,056	1,379,919
0	**0**	**0**	**0**	**0**	**0**	**1,380,056**	**1,379,919**
12,022	0	1,161	0	0	13,183	24,937	25,961
906	0	20	0	0	926	0	23
136,177	0	55,668	– 3	7,809	184,033	337,289	377,418
59,221	0	14,187	3	6,522	66,889	34,127	31,273
0	0	0	0	0	0	2,471	1,143
208,326	**0**	**71,036**	**0**	**14,331**	**265,031**	**398,824**	**435,818**
382,944	**0**	**129,196**	**0**	**15,277**	**496,863**	**2,304,235**	**2,379,244**

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, 9 March 2020

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 statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive in-come, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, 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 January 1 to December 31, 2019. In accordance with the German legal requirements, 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 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, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, 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") 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 January 1 to December 31, 2019. 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
2. Recoverability of goodwill and intangible assets
3. Recoverability of deferred tax assets on loss carryforwards
4. Impact of the initial application of IFRS 16 on lease accounting

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

1. Revenue recognition

1. Revenue totaling EUR 2.9 billion is reported in the consolidated income statement in freenet AG's consolidated financial statements.

   In the case of mobile communications contracts with terminal equipment sold in the postpaid segment, the transaction price agreed over the entire contract term is allocated to the hardware delivery and mobile communications service obligations on the basis of the relative individual sales prices and recognized as revenue in accordance with the satisfaction of the respective service obligation. Contract acquisition costs are capitalized and amortized over the underlying contract term. Network operator commissions received are recognized as reductions in the cost of materials and therefore do not represent revenue. To the extent that these relate to the term of the contract, they are 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.

   In order to correctly apply the accounting standard on revenue recognition (IFRS 15), the Group has implemented respective systems and processes, primarily for the mobile communications business.

   The accounting treatment of revenue is material in terms of the amount and subject to considerable risk due to the complexity of the systems necessary for properly recording and identifying revenue and the impact of everchanging business, price and tariff models (including tariff structures, customer discounts, incentives). In addition, revenue recognition is based to a large extent on estimates and assumptions made by the executive directors. Against this background and taking into consideration the associated considerable uncertainties, revenue recognition was of particular significance during our audit.

2. In light of the knowledge that the complexity and the estimates and assumptions that have to be made give rise to an increased risk of accounting misstatements, our audit included assessing the freenet Group's processes and controls for recognizing and deferring revenue. We also assessed the IT system environment for invoicing and measurement and other relevant systems supporting the accounting treatment of revenue, including the implemented controls, as well as the invoicing and measurement systems up to entries in the general ledger. We also assessed the identification of performance obligations with respect to customer contracts, and evaluated whether these performance obligations are satisfied over time or at a point in time. As part of this, we assessed whether revenue had been recognized completely and accurately and verified the allocation to the correct periods or the deferral. We also examined customer invoices and the associated customer contracts and receipts of payment on a test basis and obtained balance confirmations.

   We applied consistent audit procedures for the audit of the subsidiaries included in the consolidated financial statements to ensure that we responded appropriately to the inherent audit risk in this audit area.

   We were able to satisfy ourselves that the systems, processes and controls 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 appropriately accounted for.

3. The Company's disclosures on revenue are contained in note 4 of the notes to the consolidated financial statements of freenet AG.

2. Recoverability of goodwill and intangible assets

1. Goodwill of EUR 1,383.5 million (28.5% of consolidated total assets and 104.7% of Group equity) is reported under the "Goodwill" balance sheet item in the Company's consolidated financial statements. Assets amounting to EUR 501.9 million (10.4% of consolidated total assets and 38.0% 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 2023, 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 unit. 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 during 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 plan prepared by the executive directors and approved by the supervisory board, 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 valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3. The Company's disclosures on goodwill and intangible assets are contained in notes 15 and 16 to the consolidated financial statements.

3. Recoverability of deferred tax assets on loss carryforwards

1. freenet AG's consolidated financial statements include deferred tax assets on loss carryforwards amounting to EUR 283.1 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 the starting point for tax planning, are derived from the multi-year plan for 2020 to 2023. 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. As part of 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. We also assessed the recoverability of the deferred tax assets on loss carryforwards, as described above, on the basis of the plan prepared by the executive directors with respect freenet AG's future taxable income and that of its consolidated income tax group subsidiaries, and we assessed the appropriateness of the planning premises used. Our assessment also covered the correctness of the reconciliation of the projected results to the tax result, compliance of the method used to calculate deferred taxes with IAS 12 and the mathematical accuracy of the calculations. We were able to satisfy ourselves as of the assumptions made by the executive directors and the method applied.

3. The Company's disclosures pertaining to deferred tax assets on loss carryforwards are contained in notes 2.14 and 18 to the consolidated financial statements.

4. Impact of the initial application of IFRS 16 on lease accounting

1. In the Company's consolidated financial statements right-of-use assets of EUR 452.0 million (9.3% of total assets) and lease liabilities of EUR 553.3 million (11.4% of total assets) are reported as of the balance sheet date. The initial application of the new accounting standard on leases (IFRS 16) had material effects on the carrying amounts in the opening balance sheet and subsequent measurement in the financial year. The Company transitioned to IFRS 16 using the modified retrospective approach. The comparative information for prior-year periods was not restated. Due to the large number of leases and the resulting transactions, the Company has put in place Group-wide processes and controls for the full and correct recognition of leases. Initial application also necessitated the implementation of two centralized IT systems to report leases. The new IFRS 16 requires that the executive directors make estimates and judgments for certain areas, which were assessed for appropriateness in the context of our audit. This applies in particular to the determination of the incremental borrowing rate and estimates regarding the exercise of options impacting the term of the lease.

   Against this background and due to the complexity of the new requirements of IFRS 16, lease accounting was of particular significance in the context of our audit.

2. As part of our audit and with the assistance of our internal specialists, we assessed, among other things, the appropriateness and effectiveness of the processes and controls established by the Group to record leases. This also applies to the implementation of the two centralized IT systems to report leases and to the required modifications of existing systems in order to process the transactions.

   In addition, as part of our audit and with the assistance of our internal specialists we assessed the impact of the initial application of IFRS 16. Together we assessed the implementation work and evaluated the design of the processes set up to report the transactions in accordance with IFRS 16 and of the IT systems in place to support the implementation of the new requirements. We inspected the lease agreements on a test basis, verified the identification of lease and non-lease components and assessed whether these were completely and accurately recorded in the centralized systems newly implemented to report leases. In particular, we interviewed Company employees and inspected the appropriate evidence to assess the determination of the incremental borrowing rate and the estimates regarding the exercise of options impacting the lease term.

   We were able to satisfy ourselves that the systems and processes put in place and adapted to IFRS 16, and the controls, are appropriate. Furthermore, we verified that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that leases are appropriately accounted for in accordance with IFRS 16 as applied for the first time.

3. The Company's disclosures on lease accounting as well as the impact of the initial application of IFRS 16 are contained in sections 2.5, 9 and 28 of the notes 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 i "Corporate Governance" of the group management report,
- the non-financial group statement pursuant to § 315b Abs. 1 HGB included in section h "Non-Financial Statement" of the group management report.

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation, and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- 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 by the annual general meeting on May 16, 2019. We were engaged by the supervisory board on September 24, 2019. We have been the group auditor of 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, 10 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

signed:
Niklas Wilke
Wirtschaftsprüfer
(German Public Auditor)

signed:
ppa. Benjamin Röhe
Wirtschaftsprüfer
(German Public Auditor)

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INDEPENDENT PRACTITIONER'S REPORT

ON A LIMITED ASSURANCE ENGAGEMENT ON NON-FINANCIAL GROUP STATEMENT

TO FREENET AG, BÜDELSDORF

We have subjected the non-financial statement of freenet AG, Büdelsdorf, for the period from 1 January to 31 December 2019 (hereinafter "Report") to a limited assurance engagement.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS

The executive directors of freenet AG are responsible for the preparation of the report in accordance with the principles stated in the Global Reporting Initiative Standards (hereinafter: "GRI criteria") and the requirements of the German Act to Strengthen Non-financial Disclosures by Companies in their Management and Group Management Reports (hereinafter: "CSR-RUG").

This responsibility on the part of the company's executive directors includes the selection and application of appropriate methods of sustainability reporting as well as making assumptions and estimates related to individual sustainability disclosures that are appropriate in the circumstances. The executive directors are also responsible for such internal control as they have determined necessary to enable the preparation of a report that is free from material misstatement, whether due to fraud or error.

PUBLIC AUDITOR'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 those requirements.

Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft applies national legal requirements and the German profession's pronouncements on quality control, in particular the by-laws governing the rights and duties of German public auditors and German sworn auditors 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 Qualitätssicherungsstandard: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)), which are consistent with the International Standard on Quality Control 1 issued by the International Auditing and Assurance Standards Board (IAASB).

PUBLIC AUDITOR'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 that no matters have come to our attention that cause us to believe that the disclosures in the company's report for the period from 1 January to 31 December 2019 were not prepared, in all material respects, in accordance with the requirements of the CSR-RUG and the GRI criteria.

In a limited assurance engagement, the assurance procedures performed 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 public auditor's professional judgement.

In the course of our audit, we performed the following assurance procedures and other activities, among others:

- Obtaining an understanding of the structure of the CSR organisation 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 process relating to this process
- Evaluation of the design and implementation of systems and processes for the collection, processing and control of the disclosures, including the consolidation of data
- Analytical evaluation of selected disclosures in the non-financial statement
- Evaluation of the presentation of the selected disclosures regarding CSR 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 2019 were not prepared, in all material respects, in accordance with the legal requirements of the CSR-RUG and GRI criteria.

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 is solely towards freenet AG. We do not assume any responsibility towards third parties.

Hamburg, 10 March 2020

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dirk Driesch	Kai M. Beckmann
German Public Auditor	

FURTHER INFORMATION

GRI INDEX AND MAIN MEMBERSHIPS

GRI INDEX

The non-financial statement of the freenet Group was reported in accordance with the "Core" option of the Global Reporting Initiative (GRI) standards. The following GRI Index provides a summary overview of the GRI disclosures – also beyond the non-financial statement:

GRI disclosure	GRI Standard	Reference and other sources/ notes/ disclosures	Page(s)
	1. Organisational profile		
102–1	Name of the organisation	Business model and organisation (Overview of the freenet Group)	38–40
102–2	Activities, brands, products and services	Business model and organisation; Notes (Note 3, Segment reporting)	38–40/ 136–139
102–3	Location of headquarters	Further information (Financial calendar, publishing information and contact)	217ff
102–4	Location of operations	Notes (Note 3, Segment reporting)	136–139
102–5	Ownership and legal form	The freenet share (changes in shareholder structure)	33
102–6	Markets served	Non-financial statement (supply chain); Notes (Note 3, Segment reporting)	88–89/ 136–139
102–7	Scale of the organisation	Key financials (overview)	U1f
102–8	Information on employees and other workers	Non-financial statement (employees); further information on employment: Part time: 25.4% of women/6.9% of men; Fixed-term employment contracts: 19.8% of women/21.0% of men; (Key figures collected for the first time for 2019)	75–80
102–9	Supply chain	Non-financial statement (supply chain);	88–89
102–10	Significant changes to the organisation and its supply chain	Non-financial statement (supply chain); Business model and organisation (Overview of the freenet Group)	88–89/ 38–40
102–11	Precautionary principle or approach	Reporting on opportunities and risks (risk management system) Non-financial statement (Non-financial risks)	58–70/ 75
102–12	External initiatives	Further information (GRI Index and main memberships)	220–224
102–13	Membership of associations	Further information (GRI Index and main memberships)	220–224

GRI disclosure	GRI Standard	Reference and other sources/ notes/ disclosures	Page(s)
	2. Strategy		
102–14	Statement from senior decision-maker	To our shareholders (sustainable action)	35f
	3. Ethics and integrity		
102–16	Values, principles, standards and norms of behaviour	Non-financial statement (employees: diversity); Non-financial statement (anti-corruption); Corporate Governance (Corporate Governance Statement)	76 87–88 90
	4. Governance		
102–18	Governance structure	To our shareholders (Report of the Supervisory Board); Corporate Governance	26–30
	5. Stakeholder engagement		
102–40	List of stakeholder groups	To our shareholders (sustainable action); Non-financial statement (materiality analysis)	35f
102–41	Collective bargaining agreements	Other disclosures: As of 31.12.2019, 14.9% (31.12.2018: 15.8%) of the salaried employees were paid in accordance with collective bargaining agreements. All of these are employees of Media Broadcast.	—
102–42	Identifying and selecting stakeholders	Non-financial statement (materiality analysis)	74
102–43	Approach to stakeholder engagement	Non-financial statement (materiality analysis, employees, customer matters)	74f
102–44	Key topics and concerns raised	Non-financial statement (materiality analysis)	74
	6. Reporting practice		
102–45	Entities included in the consolidated financial statements	Notes (Note 37, disclosures in accordance with Section 315a HGB)	202–203
102–46	Defining report content and the topic boundaries	Non-financial statement (materiality analysis)	74
102–47	List of material topics	Non-financial statement (materiality analysis)	74
102–48	Restatements of information	New presentations are indicated at the respective places.	—
102–49	Changes in reporting	Key topics of the non-financial statement were reported in accordance with GRI standards for the first time; Checking materiality in the context of NFS preparation did not result in any change.	—
102–50	Reporting period	Non-financial statement (general information)	75
102–51	Date of most recent report	31.12.2018 (GRI standards not applied at the time)	—
102–52	Reporting cycle	12 months	—
102–53	Contact point for questions regarding this report	To our shareholders (IR contact)	231
102–54	Claims of reporting in accordance with GRI Standards	Non-financial statement (general information)	75
102–55	GRI content index	Further information (GRI Index and main memberships)	220–224
102–56	External assurance	Further information (Independent practitioner's report on a limited assurance engagement on non-financial group statement)	218–219

GRI disclosure	GRI Standard	Reference and other sources/ notes/ disclosures	Page(s)
GRI 200	**Economic Topics**		
GRI 201	**Economic Performance**		
103–1/2/3	Management approach	Corporate management	42–47
201–1	Direct economic value generated and distributed	To our shareholders (sustainable action)	35f
201–3	Defined benefit plan obligations and other retirement plans	Notes (Note 2.11, Pension provisions)	131
GRI 205	**Anti-Corruption**		
103–1/2/3	Management approach	Non-financial statement (anti-corruption)	87f
205–3	Confirmed incidents of corruption and actions taken	Non-financial statement (anti-corruption)	87f
GRI 300	**Environmental Topics**		
GRI 302	**Energy**		
103–1/2/3	Management approach	Non-financial statement (corporate environmental protection)	84–87
302–1	Energy consumption within the organisation	Non-financial statement (corporate environmental protection)	84–87
GRI 305	**Emissions**		
103–1/2/3	Management approach	Non-financial statement (corporate environmental protection)	84–87
305–1	Direct (Scope 1) GHG emissions	Non-financial statement (corporate environmental protection)	84–87
305–2	Energy indirect (Scope 2) GHG emissions	Non-financial statement (corporate environmental protection)	84–87
305-4	GHG emissions intensity	Non-financial statement (corporate environmental protection)	84–87
GRI 307	**Environmental Compliance**		
103–1/2/3	Management approach	Non-financial statement (corporate environmental protection)	84–87
307–1	Non-compliance with environmental laws and regulations	Non-financial statement (corporate environmental protection)	84–87
GRI 400	**Social Topics**		
GRI 401	**Employment**		
103–1/2/3	Management approach	Non-financial statement (employees)	75–80
401–1	New employee hires and employee turnover	Non-financial statement (employees)	75–80
401–2	Benefits provided to employees	Non-financial statement (employees)	75–80
GRI 403	**Occupational Health and Safety**		
103–1/2/3	Management approach	Non-financial statement (employees)	75–80
403–1	Occupational health and safety management system	Non-financial statement (employees)	75–80
403–3	Occupational health services	Non-financial statement (employees)	75–80
403–4	Worker participation, consultation, and communication on occupational health and safety	Non-financial statement (employees)	75–80
403–5	Worker training on occupational health and safety	Non-financial statement (employees)	75–80
403–9	Work-related injuries	Non-financial statement (employees)	75–80

GRI disclosure	GRI Standard	Reference and other sources/ notes/ disclosures	Page(s)
GRI 404	**Training and Education**		
103–1/2/3	Management approach	Non-financial statement (employees)	75–80
404–1	Average hours of training per year per employee	Non-financial statement (employees)	75–80
404–3	Percentage of employees receiving regular performance and career development reviews	Non-financial statement (employees)	75–80
GRI 405	**Diversity and Equal Opportunity**		
103–1/2/3	Management approach	Corporate Governance (Corporate Governance Statement); Non-financial statement (employees)	90ff
405–1	Diversity of governance bodies and employees	Corporate Governance (Corporate Governance Statement); Non-financial statement (employees)	90ff
GRI 414	**Supplier Social Assessment**		
103–1/2/3	Management approach	Non-financial statement (supply chain);	88f
414–1	New suppliers that were screened using social criteria	Non-financial statement (supply chain);	88f
GRI 417	**Marketing and Labelling**		
103–1/2/3	Management approach	Non-financial statement (customer matters)	81–83
417–1	Requirements for product and service information and labelling	Non-financial statement (customer matters)	81–83
freenet–specific disclosure	Results of surveys to measure customer satisfaction	Non-financial statement (customer matters)	81–83
GRI 418	**Customer Privacy**		
103–1/2/3	Management approach	Non-financial statement (digital responsibility)	80f
418–1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Non-financial statement (digital responsibility)	80f

MAIN MEMBERSHIPS

Memberships are intended to support the business activities of the freenet Group and provide a framework for the exchange of information on economic and industry-specific topics. The following is an excerpt of our main national and international memberships:

NATIONAL MEMBERSHIPS

- Verband der Anbieter von Telekommunikations- und Mehrwertdiensten e.V. (VATM)
- Der Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e. V. (Bitkom)
- eco – Verband der Internetwirtschaft e.V.
- Vereinigung der Unternehmensverbände in Hamburg und Schleswig/Holstein e.V. (UV Nord)
- Gesellschaft für Datenschutz und Datensicherung e.V. (GDD)
- BMVI and BNetzA working groups
- 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
- Bundesverband Materialwirtschaft, Einkauf und Logistik (BME)
- Deutscher Investor Relations Verband e.V. (DIRK)
- Verband privater Medien e.V. (VAUNET)
- JusProg e.V.
- trusted Dialog

INTERNATIONAL MEMBERSHIPS

- MVNO Europe
- International Telecommunications Union - Radio sector (ITU-R)
- European Conference of Postal and Telecommunications Administrations (CEPT)
- WorldDAB Forum

FURTHER INFORMATION

MULTI-YEAR OVERVIEW AND QUARTERLY FIGURES 2019

MULTI-YEAR OVERVIEW

In EUR millions/as indicated	2019	2018	2017	2016	2015
Operations					
Revenue	2,932.5	2,897.5	3,507.3	3,362.4	3,117.9
Gross profit	896.2	903.7	949.8	898.7	790.4
EBITDA (new definition)[1]	426.8	441.2	—	—	—
EBITDA (old definition)[1]	—	485.5	541.2	438.8	370.2
EBIT (new definition)[1]	270.0	312.0	—	—	—
EBIT (old definition)[1]	—	337.1	373.0	298.8	298.8
EBT	238.1	234.0	322.7	244.0	254.7
Consolidated profit	184.7	212.2	275.6	216.4	221.5
Earnings per share (in EUR)[2]	1.49	1.74	2.24	1.78	1.73
Dividend per share (in EUR)[3]	1.65	1.65	1.65	1.60	1.55
Balance Sheet					
Total equity and liabilities	4,839.6	4,634.7	4,314.1	4,284.8	2,724.0
Equity	1,321.6	1,280.8	1,462.9	1,402.3	1,379.0
Equity ratio in %	27.3	27.6	33.9	32.7	50.6
Finances and investments					
Free cash flow (new definition)[1]	249.0	263.8	—	—	—
Free cash flow (old definition)	–	326.1	342.8	341.5	284.5
Net investments (CAPEX)[4]	40.6	43.3	42.5	48.1	30.4
Net debt	2,031.1	1,856.8	1,350.3	1,416.0	369.2
Adjusted net debt	1,078.0	904.3	510.0	725.8	369.2
Debt ratio	4.8	4.2	—	—	—
Adjusted debt ratio	2.5	2.0	—	—	—
Customer-related key figures					
Postpaid ARPU (in EUR)	21.6	21.6	21.4	21.4	21.4
Postpaid ARPU without hardware (IFRS 15) (in EUR)	18.7	19.0	—	—	—
Postpaid customers (in million)[5]	6.903	6.896	6.711	6.513	6.310
freenet TV subscribers (RGU) (in million)[5]	1.021	1.014	0.902	0.0	—
waipu.tv subscribers (in million)[5]	0.408	0.252	0.102	0.0	—

[1] Unless indicated otherwise, key financials are defined in the section "Corporate management" in the Group management report. The comparative figures were restated due to the refocusing of the internal management system effective from 2019 and the associated redefinition of various performance measures.
[2] Diluted and basic.
[3] The dividend will be paid subject to a resolution at the Annual General Meeting.
[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.

QUARTERLY FIGURES FOR 2019

In EUR millions/as indicated	Q1/2019	Q2/2019	Q3/2019	Q4/2019
Revenue	689.9	699.1	741.0	802.5
Gross profit	227.3	219.4	219.4	230.1
EBITDA	107.9	107.5	110.3	101.0
EBIT	69.3	68.8	72.1	59.7
EBT	61.1	62.0	66.2	48.7
Consolidated profit	56.2	55.5	57.6	15.5
Earnings per share (in EUR)[1]	0.47	0.45	0.46	0.11

[1] Diluted and basic.

FURTHER INFORMATION

GLOSSARY

5G Fifth generation mobile communications, which is to be based on the existing mobile communications standard LTE (see "LTE").

Adjusted EBITDA EBITDA (see “EBITDA”) adjusted for one-time effects.

Adjusted net debt Net debt (see "Net debt") less equity investments (see “Equity investments").

Adjusted debt ratio Ratio between adjusted net debt (see “Adjusted net debt”) and EBITDA (see “EBITDA”) generated in the last twelve months.

AktG German: Aktiengesetz; English: German Stock Corporation Act.

Equity investments 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 data of Bloomberg. 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.

App Add-on program for smartphones that is downloaded from the Internet onto the mobile phone. Application examples: Image editing, web browsers or computer games.

ARPU (Mobile Communications segment) 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 (subsidised) 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.

Digital lifestyle Describes the simplification of everyday life via technical tools based on the Internet and/or smartphones.

EBIT Earnings before interest and taxes.

EBITDA EBIT (see “EBIT”) plus depreciation, amortisation and impairment

EBT Earnings before taxes

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 less CAPEX (see "Net investments") and cash repayments of lease liabilities.

freenet TV subscribers (RGU) RGU means “revenue generating unit”; it refers to active freenet TV subscribers.

Overhead Overhead includes the items other operating income, other own work capitalised, personnel expenses and other operating expenses

Goodwill Value of a business entity not directly attributable to identifiable assets.

HGB Abbreviation 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.

IFRSs abbr. International Financial Reporting Standards. Collection of standards for external reporting by (publicly traded) companies issued by the International Accounting Standards Board.

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.

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 Abbreviation 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 investments (see “Equity investments”).

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.

Net lease liabilities Non-current and current lease liabilities shown in the balance sheet, less non-current and current lease receivables.

No-frills No-frills tariffs deliberately have a simple structure, and in general do not include a subsidised device. Traditionally, they are marketed by way of direct distribution (e.g. online) and not via specialist outlets.

Point of Sale (PoS) Point of sale.

Portal Central web site 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.

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 gross profit and revenue.

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 inhouse electricity (light, shutters etc.), electric appliances (washing machines, fridges etc.) and entertainment electronics (TV, radio and audio system etc.).

Smartphone Mobile device with touch and/or qwerty keyboard and feature set for easy Internet access and/or e-mail transfer.

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 debt (see “Net debt”) and EBITDA (see “EBITDA”) generated in the last twelve 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).

Net interest expense Interest and similar expenses less interest and similar income.

FURTHER INFORMATION

FINANCIAL CALENDAR

Date	Event
14 May 2020[1]	Quarterly Statement as of 31 March 2020 – First quarter 2020
27 May 2020[1]	Annual General Meeting of freenet AG
13 August 2020[1]	Interim Report as of 30 June 2020 – Second quarter 2020
6 November 2020[1]	Quarterly Statement as of 30 September 2020 – Third quarter 2020

[1] All dates are subject to change.

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.

FURTHER INFORMATION

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