freenet GROUP

TWENTY

20

ANNUAL REPORT 2020

OVERVIEW OF KEY FINANCIALS[1] GROUP

OPERATIONS

In EUR millions/as indicated	2020	2019	Q4/2020	Q3/2020	Q4/2019
Revenue	2,576.2	2,932.5	670.7	634.5	802.5
Revenue exclusive of MOTION TM[2]	2,576.2	2,609.1	670.7	634.5	706.1
Gross profit	862.1	896.2	218.2	218.1	230.1
EBITDA	425.9	426.8	96.7	115.2	101.0
EBIT	263.0	270.0	52.6	75.0	59.7
EBT[3]	217.5	223.8	41.7	63.7	54.9
Consolidated profit	561.0	184.7	391.6	60.1	15.5
thereof from discontinued operations	370.5	12.7	353.2	6.3	– 7.7
Earnings per share in EUR (diluted/basic)	4.44	1.49	3.08	0.48	0.11
thereof from discontinued operations	2.91	0.10	2.77	0.05	– 0.06
Dividend per share in EUR	1.65[4]	0.04	—	—	—

BALANCE SHEET

In EUR millions/as indicated	31.12.2020	31.12.2019	31.12.2020	30.09.2020	31.12.2019
Total equity and liabilities	4,505.6	4,839.6	4,505.6	4,764.9	4,839.6
Equity	1,821.1	1,321.6	1,821.1	1,409.8	1,321.6
Equity ratio in %	40.4	27.3	40.4	29.6	27.3

FINANCES AND INVESTMENTS

In EUR millions	2020	2019	Q4/2020	Q3/2020	Q4/2019
Free cash flow	237.3	249.0	17.1	79.5	49.8
Depreciation, amortisation and impairment	162.9	156.8	44.1	40.3	41.3
Net investments[5] (CAPEX)	46.2	40.6	14.9	14.0	13.6
Net debt	740.6	2,031.1	740.6	1,840.0	2,031.1
Adjusted net debt	555.8	1,078.0	555.8	588.7	1,078.0

SHARE

as indicated	31.12.2020	31.12.2019	31.12.2020	30.09.2020	31.12.2019
Closing price Xetra in EUR	17.20	20.44	17.20	17.27	20.44
Number of issued shares in '000s	128,061	128,061	128,061	128,061	128,061
Market capitalisation in EUR millions	2,202.0	2,617.6	2,202.0	2,211.6	2,617.6

EMPLOYEE

	31.12.2020	31.12.2019	31.12.2020	30.09.2020	31.12.2019
Employee	4,004	4,238	4,004	4,062	4,238

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[1] Unless indicated otherwise, key financials are defined in the section "Corporate management" of the Group management report.
[2] Revenue for financial year 2019 and the fourth quarter of 2019 includes hardware revenue of 323.5 million euros and 96.4 million euros, respectively, from the subsidiary MOTION TM Vertriebs GmbH (MOTION TM), which was sold and deconsolidated at the end of 2019. The subsidiary was sold for strategic reasons. However, to ensure comparability with the previous year, prior-year revenue is also shown adjusted for these figures.
[3] Retrospective restatement of prior-year comparatives and prior-year Q4/2019, and prior-quarters 2020 due to discontinued Sunrise operations in accordance with IFRS 5.
[4] The dividend will be paid subject to a resolution adopted by 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	2020	2019	Q4/2020	Q3/2020	Q4/2019
Postpaid	7.079	6.903	7.079	7.005	6.903
Net change, postpaid	0.176	0.007	0.074	0.066	0.037
freenet FUNK and freenet Flex	0.057	0.034	0.057	0.050	0.034
Net change, freenet FUNK and freenet Flex	0.023	0.034	0.006	0.008	0.004

OPERATIONS

In EUR millions	2020	2019	Q4/2020	Q3/2020	Q4/2019
Revenue	2,306.1	2,658.9	602.4	567.0	730.2
Revenue exclusive of MOTION TM [3]	2,306.1	2,335.5	602.4	567.0	633.8
Gross profit	658.7	691.8	169.7	162.8	174.0
EBITDA	354.8	367.3	77.6	94.6	85.4

MONTHLY AVERAGE REVENUE PER USER (ARPU)

In EUR	2020	2019	Q4/2020	Q3/2020	Q4/2019
Postpaid	18.2	18.7	18.0	18.3	18.5

TV AND MEDIA SEGMENT

CUSTOMER FIGURES [6]

In '000s	2020	2019	Q4/2020	Q3/2020	Q4/2019
freenet TV subscribers (RGU)	901.9	1,021.1	901.9	942.0	1,021.1
Net change, freenet TV subscribers (RGU)	– 119.2	6.9	– 40.2	– 63.0	– 15.5
waipu.tv subscribers	572.5	408.3	572.5	509.5	408.3
Net change, waipu.tv subscribers	164.2	156.5	63.0	5.4	42.5

OPERATIONS

In EUR millions	2020	2019	Q4/2020	Q3/2020	Q4/2019
Revenue	259.0	253.9	68.1	65.0	66.1
Gross profit	168.8	166.2	43.5	44.1	45.8
EBITDA	79.7	73.5	20.7	22.6	20.9

SELECTED KEY FINANCIALS

4,004
EMPLOYEE

2,576.2 EUR millions
REVENUES

425.9 EUR millions
EBITDA

237.3 EUR millions
FREE CASH FLOW

8,610,000
SUBSCRIBERS

The photos used in this annual report (photographer: Malte Christians, Hamburg) show the "freenet Campus", the Group's training centre which was refurbished in 2020 and serves as a central hub for the training and continuing professional development of the Group's employee, shop and store staff and franchisees.

ALWAYS THE RIGHT CHOICE.

As the freenet Group, we want to be the right choice for all of our stakeholders – for our employee, our customers, our partners and our shareholders.

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IN 2020

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Ingo Arnold, Chief Financial Officer

Stephan Esch, Chief Technical Officer

Christoph Vilanek, Chief Executive Officer

Antonius Fromme, Chief Customer Experience Officer

IN 2020

CORONAVIRUS WAS THE TOPIC EVERYONE WAS TALKING ABOUT

Rickmann v. Platen, Chief Commercial Officer

AND, OF COURSE, THE VIRUS WAS ALSO AN ISSUE FOR US DURING THE PAST YEAR!

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

In March in particular, when there were only vague indications of the eventual extent and consequences of the pandemic, we were already working carefully and thoroughly on potential scenarios, including the prospect of a lockdown similar to those already introduced in other countries at that point. When this scenario actually came to pass, we did one thing above all else: we continued working routinely, professionally and according to plan. We did this either in one of the one-third of our shops that remained open by being classed as essential, remotely while working from home or on the move, or even from the office, depending on what was required or permitted under the circumstances.

> “FIRST AND FOREMOST, FREENET HAS – AND HAS ALWAYS HAD – A STRONG TEAM”
>
> *Christoph Vilanek*

In doing so, we benefited from several of freenet’s specific advantages. Many of the processes within our company are digitalised, while our employee are also accustomed to working independently and in a less hierarchical way. The Group’s decentralised structure also enables our individual locations and subsidiaries to react quickly and individually to changing circumstances. Last, but not least, our synchronised and interconnected sales channels can be ramped up and down depending on the situation, enabling our already-strong online retail activities to grow further in lockdown.

This means that our results for the past financial year in no way reflect the fact that 2020 was one of the most exceptional and challenging years in Germany’s post-war history, both economically and in social terms:

Revenue of 2,576.2 million euros (–1.3 per cent compared to the 2019 figure as adjusted by the effect of Motion TM), EBITDA of 425.9 million euros (–0.2 per cent) and free cash flow of 237.3 million euros (–4.7 per cent compared to 2019) all remained very stable and within the guidance we communicated at the start of 2020, when all still seemed right with the world.

These figures once again demonstrate the resilience of our business model in times of crisis. We generate the majority of our revenue and margins from subscriptions in both our Mobile Communications and TV and Media segments as well as in the digital lifestyle business. We do this within our traditional core business as a service provider. What’s more, every segment within the freenet Group offers services that people find indispensable, crisis or no crisis: Internet access, TV and radio consumption and, in particular, mobile digital interaction, including essential hardware such as smartphones, tablets and notebooks, and value added services.

As in previous years, we were able to set new standards in each area in which we compete during 2020. For example, in Mobile Communications we introduced ‘freenet Flex’, our second purely app-based tariff after ‘freenet FUNK’ was launched in 2019. Our subsidiary klarmobil also introduced new, similarly variable tariff packages for business customers who highly value flexibility, particularly in light of the ongoing coronavirus pandemic. Finally, we relaunched and upgraded several of our ‘traditional’ tariffs, seamlessly transitioned all legacy tariffs to LTE and introduced numerous special promotions as well as attractive bundles with devices.

Around 56,800 users opted for the freenet FUNK and freenet Flex tariffs by the end of 2020, despite somewhat limited marketing expenses. In what is an important customer group for us, the number of valuable postpaid customers rose by 175,800 during the year to 7.08 million, while ARPU remained fairly stable, not taking into account the negative effects of the coronavirus crisis on roaming revenue (2020: 18.2 euros; 2019: 18.7 euros). As a result, the total number of comparatively highly-profitable mobile communications customers was 7.14 million.

As in previous years, the digital lifestyle portfolio also made another noteworthy contribution to the freenet Group’s revenue in 2020. At 188.6 million euros, revenue was roughly on a par with the previous year. Of this figure, 53.4 million euros was generated during the traditionally strong fourth quarter, despite the renewed partial lockdown in the autumn and the full closure of stores from mid-December.

In the TV and Media segment, both of our subsidiaries expanded their content offering. As well as adding a dozen German-speaking channels in 2020, waipu.tv also entered into new partnerships. Its Turkish channel package has been marketed in partnership with Telefónica Deutschland since the first half of the year, while it also began a collaboration with Netflix in August in response to numerous customer requests. For the first time, users can now receive a comprehensive entertainment solution called the "Perfect Plus with Netflix" package, which consists of HD television, including more than 45 pay TV channels, plus Netflix for the price equivalent of an SD cable connection. As a result, the number of waipu.tv subscribers rose to 572,500 as of the end of December 2020 – an increase of 164,200 over the course of the year.

In October, Media Broadcast as the sole network operator put the second nationally multiplex for the DAB+ digital radio into operation. For this purpose, this freenet subsidiary had planned and rolled out a completely new radio network in recent years. As a result, since the start of 2021 a total of 67 million listeners or 83 per cent of the German population can receive the new channels outside, with 49 million being able to tune in from inside their homes. The radio programmes are marketed via the "Antenna Deutschland" subsidiary – a joint venture with broadcasting company "Absolut Radio".

By contrast, Media Broadcast's television business has suffered. During the course of the year, the number of revenue-generating freenet TV users (RGU) fell by 119,200 to 901,900. This is due to the shutdown of satellite customers for profitability reasons and the price increase of around 20 per cent in May 2020. Taking into account the significantly lower customer base, the price increase ensures that the business generates higher profitability even with fewer customers.

> "THE FREENET GROUP IS SIGNIFICANTLY BETTER OFF AND MORE ROBUST THAN IT WAS AT THE START OF THE YEAR."
>
> *Ingo Arnold*

However, the success of the past financial year is not only reflected in highly positive overall customer figures and robust results but is also evident once again from the various awards collected by companies and brands within the freenet Group. These go far beyond the usual top ratings for our mobile communications products and services:

- FOCUS MONEY, in partnership with the Hamburg Institute of International Economics (HWWI), named us as a "Digital Champion" in the mobile communications sector.
- Our main brand mobilcom-debitel claimed five individual top spots in the Telecom Handel reader survey on retail-specific products and services offered by mobile providers.
- freenet subsidiary GRAVIS was ranked second among specialist computer retailers in an analysis conducted by DEUTSCHLAND TEST in association with Service Value of 900 companies whose value for money was rated by more than 177,000 customer reviews.
- freenet also placed second in FOCUS's 2020 Careers Atlas for the telecommunications segment. The "Top-Karrierechancen" ("Top Career Opportunities") study analysed the employee prospects offered by the 22,500 largest companies headquartered in Germany, taking factors such as training, promotion and salary into account.
- waipu.tv received the German Fairness Award from n-TV and the German Institute for Service Quality (DISQ) in the Premium TV Provider category. The criteria for the award were a fair value for money proposition, transparent information about product features and fair overall customer service.
- Media Broadcast was ranked inside the top ten in its industry in an analysis of the most family-friendly employers in Germany conducted by women's magazine 'freundin'.
- And, of course, it was a particularly special honour for us to hear the education minister of Schleswig-Holstein referring to our "exemplary commitment to training" during a visit to our Büdelsdorf site – and call us a "highly attractive employer within the region"!

In addition to several awards, however, the long-term strengthening of the freenet Group's capital base represented another important milestone in the "year of coronavirus". There were still two significant action areas at the start of 2020: the pending maturity and refinancing of almost 700 million euros – or around 40 per cent – of our debt by the end of March 2021 as well as a high amount of leverage.

With respect to the upcoming refinancing, we refrained from paying the dividend in May – usually paid each year without fail – with the consent of our shareholders on a one-off basis in order to initially remain liquid on the capital markets and create greater leeway given the uncertainty over the impact of COVID-19. At the start of the third quarter, we were then able to take the first step of refinancing a promissory note loan of 345 million euros with a term of up to six years on relatively good terms while at the same time smoothing out the maturity structure and reducing time-related “cluster risks” from the financing.

We achieved a similarly elegant solution for our second capital-related project. In mid-August, UPC’s major shareholder Liberty Global announced its intention to make a public offer to purchase Sunrise shares for 110 Swiss francs per share. We backed this offer and agreed a duty to tender with Liberty Global on the same day, which obligated us to tender all of our more than eleven million Sunrise shares accordingly. The necessary terms of acceptance for the transactions were then met during the course of the autumn, and the freenet Group received around 1.1 billion euros in cash in November.

We are using the majority of this figure – around 800 million euros – to directly reduce the Group’s debt. 610 million euros was repaid before the end of November, immediately after the Sunrise funds reached our account. The remainder was and is available for reinvestment or for our shareholders in one form or another. As a result, we were able to reduce our leverage from 4.8 at the start of 2020 to below 2.0 at the end of the year, thus significantly improving our debt situation and creating greater financial flexibility for the future.

Even before it became apparent that we would be able to dispose of our interest in Sunrise, the Executive Board adopted a resolution at the end of August to initiate a share buyback programme totalling up to 100 million euros. This is designed to provide shareholders with some form of compensation after the dividend was suspended in May.

If we were to draw a general conclusion from 2020, the “year of coronavirus”, it would be somewhat surprising: overall, the freenet Group is significantly better off and more robust than it was at the start of the year. There are probably not many companies that can make such a statement in light of the global crisis – and that makes us understandably proud of what we have achieved.

“WE ARE CONSTANTLY OPTIMISING OUR PROCESSES TO CREATE MORE FLEXIBILITY. PERSONAL EXCHANGE IS PARTICULARLY IMPORTANT FOR THIS.”

Christoph Vilanek

But does that mean we want these exceptional circumstances to continue this year and beyond? Of course not! First and foremost, freenet has – and has always had – a strong team, one that thrives on togetherness and mutual support, direct, personal one-on-one interaction, intensive dialogue and even the occasional spirited debate. This collaborative approach to the latest tasks, problems and decisions only works to a very limited extent via videoconferencing, emails or telephone calls. What’s more, running a company with more than 4,000 employee working like freelancers is unimaginable and completely undesirable for us in the long run.

That’s because we also make an especially fantastic team under “normal” working conditions – and we are really looking forward to being able to prove that once again as things hopefully return to something nearer to normal over the coming months and quarters.

Christoph Vilanek   Ingo Arnold   Stephan Esch

Antonius Fromme   Rickmann v. Platen

"RATHER THAN GETTING EMBROILED IN LENGTHY DISCUSSIONS DURING THE "YEAR OF CORONAVIRUS", WE REACTED QUICKLY AND DECISIVELY TO THE FRESH CHALLENGES IT BROUGHT."

Christoph Vilanek

IN 2020

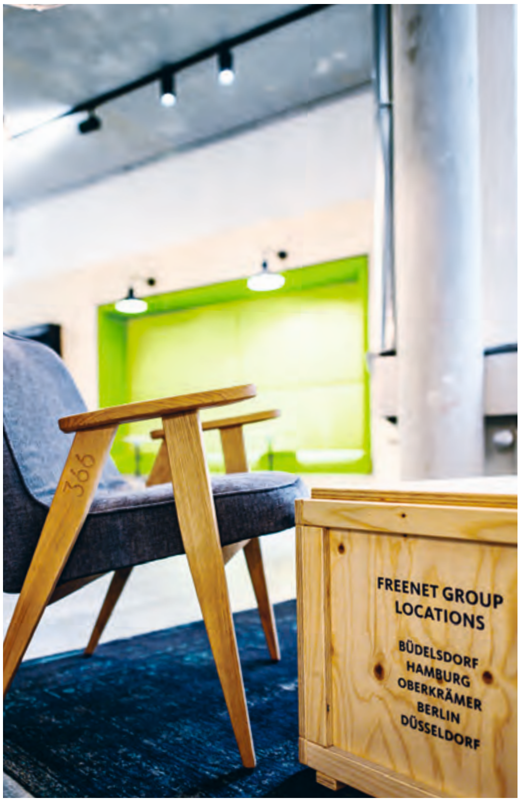
CORONA-VIRUS WAS THE TOPIC EVERYONE WAS TALKING ABOUT

– BUT NOT US!

Rather than getting embroiled in lengthy discussions during the “year of coronavirus”, we reacted quickly and decisively to the fresh challenges it brought. Otherwise, we simply kept on working – in the office, from home or even on the move, depending on each employee’s individual situation.

We continued our long track record of customer growth, created innovative new products and improved our services even further.

We very successfully disposed of our interest in Swiss telecoms provider Sunrise – generating hundreds of millions of euros in profit in the process.



IN 2020
BUSINESS AS USUAL UP NORTH!

AND IN THE WEST, SOUTH AND EAST TOO!

freenet calmly continued to develop its business areas during the 2020 financial year, both at our Hamburg head office, our main brand mobilcom-debitel's headquarters in Büdelsdorf, Schleswig-Holstein, as well as at eight other sites across Germany – just as in previous years. Undeterred by the coronavirus crisis while still reacting quickly and efficiently to the virus – and with "innovative continuity" in our day-to-day work.

NO "BUSINESS AS USUAL"

Our omni channel approach was and is a key factor.

2020 was an exceptional year that could hardly be described as "business as usual". Yet for freenet, it was. At the start of March, when the eventual dramatic scale of the coronavirus pandemic was only very gradually becoming apparent, freenet had already set up a crisis team formed of representatives from the Human Resources and Legal departments, the individual managing directors of our shop chains, and three members of the Management Board, all led by the head of Internal Auditing. The crisis team defined four escalation levels for dealing with the crisis, and we quickly reached Level 2: the option of working from home, initially for selected groups of employee.

VIRTUAL MEETINGS, PODCASTS AND WEBINAR TRAININGS

Staff were provided with essential professional IT equipment as required, groups were defined based on their risk levels and needs, and management briefed them accordingly. Essential on-site employee make up around 60 per cent of our workforce: in mobilcom-debitel shops and GRAVIS stores – around 180 of which remained opened throughout the pandemic by being classed as essential – as well as in logistics, office infrastructure, maintenance and the construction crews who enabled the Hamburg site to move to a new building as planned during the first wave. Of the employee whose on-site attendance at work was deemed 'non-essential', approximately 90 per cent decided to work away from their offices during the peak of the pandemic. They did this as efficiently as ever, supported by daily virtual meetings, podcasts and webinar-based training sessions.

CONTINUOUS INCREASE IN THE LEVEL OF DIGITALISATION

freenet consciously created the conditions for this a long time ago, continuously increasing the degree of digitalisation within the Group from one quarter and one year to the next – and today we are one of Germany's most digitalised companies. While this naturally includes internal and external communication, it also encompasses everything from the release systems for projects and IT requirements, budget and sales force planning and staffing requirements, all the way through to regular app-based driving licence checks for company car users.

The successful implementation of the company's omni channel approach also enables us to serve individual and synchronised customer touchpoints – such as shops, online retail, written communication and telephone calls – in a highly versatile way and without disruption, according to demand. More than half of transactions with customers are now carried out via the Internet. After the majority of shops were closed during the first wave of coronavirus, online retail replaced most physical business in 2020.

LONG-STANDING, PROVEN, FAIR PARTNER

Notwithstanding this, freenet also proved itself to be a fair and trusted long-term partner, even in times of crisis. For example, employee in our directly managed shops continued to receive their average commission for the past 12 months during the months when the shops were closed. In March our franchise and distribution partners were offered rent deferrals and received their average share of revenue for January and February – even if targets were not met – with the same approach taken for the quality bonus usually calculated using staggered targets. In the case of those employee who claimed reduced hours compensation (Kurzarbeitergeld), freenet topped up their salaries to 100 per cent without exception.

MOBILE WORK & VIRTUAL MEETINGS

No new territory but part of our digital freenet DNA even before COVID-19.

FREENET CAMPUS

Space for creativity, innovation and constructive discussions

IN 2020

TEST THE TIES THAT BIND

NEW ACCENTS IN MOBILE COMMUNICATIONS

Test the ties that bind would be our advice to any customer struggling to find the best mobile tariff on the market. This is all the more important given that the customer does not necessarily have to enter into long-term contracts with mobilcom-debitel or other Group brands. After all, freenet customers can choose from innovative tariffs that offer the greatest possible flexibility and are radically shaking up what traditionally has been a very rigid market.

For more than two-and-a-half decades of mobile phone use, customers in Germany have primarily had two options: to enter into a contract usually lasting two years, or pay in advance for a fixed amount of minutes and data that can then be gradually used over a particular period of time – known as prepaid cards.

REVOLUTIONARY DIGITAL TARIFFS

In early summer 2019, freenet then found success with a tariff that represented a minor revolution for the industry, and was acknowledged as such: With two options and highly competitive terms, customers can use the tariff in a fully flexible way and even pause or cancel their plan on a daily basis. This purely digital product is available to order, activate and manage exclusively via the app, while billing is carried out on a calendar day basis by being debited from the user's PayPal account.

In August 2020, the company then launched another app-based product called 'freenet Flex'. In this case, the customer can choose from three tariff versions, each with different data volumes, and switch between these options at the start of each month. As with FUNK, ordering, management, tariff changes, customer service and cancellation are all processed via a dedicated app, while billing is also carried out via PayPal

FLEX FOLLOWS FUNK

At the end of 2020, the number of users of both tariffs totalled 56,800. This is a remarkable success when you consider that the freenet Group primarily focuses its sales and marketing activities on its particularly valuable contractual relationships.

FLEX FUNK

56,800 APP-BASED CUSTOMERS ALREADY

Simple, digital and flexible mobile communications.

ONE STEP AHEAD WITH IPTV – MORE THAN 0.5 MILLION TV USERS ARE ALREADY ON BOARD.

IN 2020
EVERYTHING HAS ITS PRICE...

...AND QUALITY IS NO EXCEPTION.

Since they were acquired by freenet five years ago, our two TV subsidiaries Media Broadcast and EXARING AG have continually invested in state-of-the-art transmitter technology and expanding their range of channels and programmes. The monthly fees for their high-tech products and services rose for the first time during the 2020 financial year. After all, these investments should ultimately pay off for both parties: the customer, of course, but also the product provider.

Take Germany's pride and joy – the car. Although cars are becoming increasingly expensive, each new model offers enhanced technology and increased performance as well as improved features and safety. The latest generation of the Golf, for example, now shares little more than its name with the original Golf.

It is a similar story with the TV products offered by freenet's subsidiaries Media Broadcast and EXARING, where both freenet TV's full-HD terrestrial TV and waipu.tv's IPTV entertainment offering has been expanded massively in recent years. In the first half of 2020, freenet TV's portfolio broadcast via DVB-T2 HD increased once again to its current total of 21 channels. In response to this, freenet TV raised its monthly fee from 5.75 euros to 6.99 euros in May. This is also due in no small part to the increase in initial costs.

waipu.tv also continued to steadily expand its portfolio of channels during the course of 2020. Finally, EXARING created an outstanding new entertainment package called 'Perfect Plus' during the fourth quarter. The package comprises 160 channels in total, including more than 135 in HD quality and more than 45 pay TV channels. The 'Perfect Plus with Netflix' bundle offers an additional option, and works out cheaper than if the two subscriptions are ordered separately.

CUSTOMER CENTRICITY

For us, this is more than just meeting customer expectations.

IN 2020

CUSTOMERS AT THE HEART OF EVERYTHING – WHAT'S NEW ABOUT THAT?

MACHINE LEARNING, CHAT BOTS, SELF-HELP UND DIGITALE INTERAKTION

The phrase "customer focus" appears to be an indispensable key element of any company's public image nowadays – particularly among service providers. Yet these companies are supposed to do one thing above all else: make money. Otherwise, they would eventually disappear – the companies and their customers with them. freenet tries to strike the best possible balance for the benefit of both parties.

Customers are a valuable asset. Companies spend a great deal of money on sales and marketing designed to entice them. This is especially true in mobile communications, as competition is traditionally particularly intense in this market with limited growth prospects. Customer retention should therefore be the next step in this segment given customers' willingness to switch providers – and this means more than merely making a telephone call to try and win them back after they have already terminated their contract at the end of its term.

At freenet, customer retention and development actually does mean more – and in Antonius Fromme, the company even has its own Chief Customer Experience Officer. His department evaluates all of the information available on each customer and their individual needs and preferences, in line with data protection considerations. This includes all interactions with our very diverse customer base across all business areas and touchpoints – previous purchases and sales, emails, letters, WhatsApp messages, telephone calls and shop visits. Algorithms and artificial intelligence are also used here – tools that freenet does not simply talk about but actually puts into practice. These include machine learning, chat bots, self-help, digital interaction – all concepts and applications that make freenet the frontrunner in its industry.

DIGITAL INNOVATION

We drive digital innovation and set new standards.

INCREASING CUSTOMER SATISFACTION

For example, during the contract term of each and every one of its customers, the company's main brand mobilcom-debitel identifies which services and products are interesting to them and what could therefore prompt them to extend their contract ahead of schedule, bei it an upgraded tariff or the latest model of smartphone or tablet from their preferred manufacturer or a cash bonus. In each case, the customer lifetime value determines the conditions under which the device is offered with the contract extension. Countless versions of highly personalised mailings are sent this way.

These automated contract extension mailings demonstrably enhance customer loyalty and reduce churn. They have now been rolled out by other brands within the Group and are continuously being developed and optimised in terms of both the content and timing of the individual offers. It is also clear that they enhance customers' satisfaction with their provider, with over 70 per cent of transactions now taking place via freenet's own "captive channels".

PERSONALIZED TV OFFERS

As the provider of waipu.tv, our Munich-based subsidiary EXARING also works with data. Its systems anonymously track customers' TV use and improve the services and channel selection based on this analysis, asking questions such as: where and for how long do customers consume which channels; when do they change channels, switch on, switch off, watch recorded programmes or advertisements; and what devices, Internet providers and access speeds do they use?

And what does the customer get out of this? In this case, they get products and services tailored to their preferences. These might include the Turkey package, to name one of the latest examples, or the new waiputhek product that provides access to countless films, as well as improved usability and an enhanced channel sorting function.

243,300 SUBSCRIBERS ADDED IN 2020

The result of our long-standing dedication to customer experience.

IN 2020
DIVERSITY IN ACTION

GROWN-UP COMPANY WITH A START-UP MENTALITY

Can an established company really have the culture, dynamism and creativity of a start-up? Yes it can! What's more, this can prove extremely helpful even in 'normal' times, but especially under the exceptional working conditions of a lockdown. However, you have to be prepared to tolerate different points of view and even withstand the occasional controversy – and harness all this for the company's benefit. After all, when each individual matters, their uniqueness becomes even more apparent.

WITH 60 NATIONS REPRESENTED, WE ARE AS DIVERSE AS SOCIETY

Different backgrounds, experiences and skills work together to find intelligent solutions.

freenet is already a very special company. This is partly due to the Group's specific history, which is made up of a series of mergers and acquisitions. This has thrown together some dramatically different corporate cultures: those of actual start-ups such as freenet, which was founded at the start of the 21st century, or EXARING AG, which is only a few years old, and those of subsidiaries of global corporations such as Daimler and former state-owned businesses such as Deutsche Telekom, namely debitel and Media Broadcast, which still has some civil servants from the post office days. However, it has also brought together a very diverse range of cultures in geographical terms, as the freenet Group's workforce is currently made up of 60 different nationalities.

UNIQUE CORPORATE CULTURE

Another difference is the special leadership and corporate culture at freenet, as is repeatedly testified not only by the company's first-ever employee and those from various backgrounds but also by new arrivals, whether they have come fresh from university or from other companies.

BUT WHAT EXACTLY IS THIS SPECIAL CULTURE ALL ABOUT?

- Each of the Group's diverse acquisitions has required a shift in perspective from both parties to ensure they can understand one another, something that cannot be achieved without openness, interaction, acceptance and a willingness to learn.

- In turn, this interaction and mutual learning is only possible with communication – something that we do well at freenet. It begins with a genuinely informal culture within the company that sees everyone addressing each other on a first-name basis all the way up to Management Board members. This reduces inhibitions and encourages everyone to coordinate directly with one another. This approach continues via Christoph Vilanek's blog "Ask Christoph", where the CEO provides information about targets, plans and developments within the Group and responds to anonymously submitted questions and points of criticism.

This communication can be quite intense at times. For example, the differences in opinion, dismay and emotional stress seen in the wider population in terms of what are appropriate coronavirus measures were also reflected within the freenet Group.

In addition to the blog, employee regularly engage in open dialogue in virtual town hall meetings with the individual offices of freenet Group companies.

Ultimately, working for freenet primarily means that there is plenty of scope for personal creativity and rapid decision-making, a high degree of flexibility and a great deal of trust in every role. Each individual at freenet is encouraged to think and act like entrepreneurs, which includes having the freedom to make mistakes, learn from them and then either improve processes or abandon things that aren't working. If you want to harness all of this creativity and independent thinking for your company, you cannot encourage or cultivate accommodating yet unremarkable individuals.

Diversity and flexibility, direct, often digital exchanges with one another, entrepreneurial work with demonstrable tolerance for errors, personal responsibility when designing processes and, last, but not least, self-confidence when entering into critical discussions with colleagues and 'superiors' – these are not just key elements of freenet's unique corporate culture but also enabled us to weather the turbulence of coronavirus in 2020 relatively successfully.

WORKING AT FREENET MEANS ...

... scope for personal creativity and a high degree of flexibility.

IN 2020
OUR OWN PERSONAL "GRETA'S"

SUSTAINABLE ACTION IS FIRMLY ANCHORED

As well as being vital for protecting our environment and climate, using resources efficiently and saving energy also contributes to a company's economic success. Our new sustainability ambassadors are now providing freenet with additional impetus – from the company for the company. What's more, they are doing this voluntarily outside of normal working hours, driven by pure conviction.

"DO GOOD AND TALK ABOUT IT!"

Sustainability is increasingly becoming part of our corporate and financial market communications.

Sustainable action is part of our corporate policy at the freenet Group. Here are some examples of how we put this policy into practice:

- The Group's data centre in Düsseldorf has been supplied exclusively by renewable energy for years now and focuses on green IT.
- We are also actively involved in electromobility! The company is investing in charging station infrastructure at its sites, adjusting its choice of vehicles accordingly and introducing an eCar policy.
- freenet consistently embraces digital communication when interacting with both its customers and business partners. In Mobile Communications, for example, the proportion of online invoices is as high as 90 per cent.
- The GRAVIS and mobilcom-debitel subsidiaries are helping to extend the lifecycle of old devices by purchasing used smartphones, tablets and CPUs.

Nevertheless, "better is the enemy of good", as Voltaire once said. A discussion between employee and the Management Board resulted in the idea of "sustainability ambassadors" – staff who are keen to volunteer to make a positive impact on the wider world with small initiatives in addition to their everyday work.

The initiative launched with several employee at almost all freenet locations. Their vision and mission is clear: to make their workplaces and day-to-day work more sustainable in terms of ecological footprint and social responsibility. They are also keen to be points of contact for suggestions of how to improve sustainability at each site, and in doing so promote the issue in their role as disseminators, instructors and idea generators while launching projects that make sense from a cost-benefit perspective. They do all this based on the firm conviction that even the smallest steps can move things forward a long way.

IN 2020
“MIA SAN MIA!”

> “THE SALE OF THE SUNRISE SHARES HAS STRENGTHENED OUR CAPITAL BASE IN THE LONG TERM.”
>
> *Ingo Arnold*

MORE THAN 4 YEARS OF SUNRISE

Victorious battles are not limited to just sport – they happen in the business world too. A fighting spirit, can-do attitude and perseverance are vital in both domains – as well as an appropriate amount of self-assurance about the strength of one’s own position. freenet’s management harnessed these characteristics to achieve a remarkable victory of their own – in the interests of the Group’s shareholders above all else.

As a resident of Munich and avowed fan of Bayern Munich, Christoph Vilanek is no doubt very familiar with the perennial Bundesliga champions’ and Champions League winners’ recipe for success. Did he also draw inspiration from this when he went with CFO Ingo Arnold into the takeover battle for freenet’s interest in Swiss company Sunrise?

The story started as follows: In February 2019, Sunrise – Switzerland’s second-biggest telecoms group, in which freenet held an equity interest of almost 25 per cent – announced its intention to acquire UPC Switzerland, the country’s largest cable operator. Its owner, US group Liberty Global, would receive 6.3 billion Swiss francs, including 2.7 billion as a cash payment. Sunrise intended to primarily finance the acquisition with a capital increase of 4.1 billion Swiss francs, in addition to taking on UPC’s debt.

The proposed deal did not go down well, neither on the financial markets – where Sunrise shares shed more than 11 per cent of their value immediately after the announcement – nor a freenet, where CFO Ingo Arnold criticised the structure proposed for the deal, suggesting that it did not sufficiently involve the seller, Liberty Global, in the risks and would not deliver the synergies that could be achieved by the takeover. Last, but not least, Ingo Arnold criticised the decision to pay for part of the acquisition in cash. As a result, freenet planned to withhold its consent for the deal at the extraordinary general meeting and thus refuse to support the capital increase, not least in the interests of its own shareholders, as this move would dilute the company’s interest in Sunrise.

A SUCCESSFUL FINANCIAL INVESTMENT

Weeks of intensive discussions followed. These occasionally tough negotiations drew on the experience and expertise of the numerous takeovers the freenet Group has successfully completed in the past, and were driven by the kind of self-assurance and fighting spirit that would be vital for success. The eventual outcome was a positive one as the extraordinary general meeting rejected the takeover and Sunrise subsequently made changes to its management team.

The extent to which this battle ultimately paid off for freenet’s shareholders became apparent during the 2020 financial year, when freenet sold its interest in Sunrise at a profit to US group Liberty Global for around 1.2 billion Swiss francs – which converts to around 1.1 billion euros. Of this figure, 800 million euros was used to repay freenet Group debt, while the remaining 300 million euros is intended to, and will, benefit its shareholders in one form or another.

“A SHARE BUYBACK IS THE BEST WAY TO RETURN VALUE TO SHARE-HOLDERS“

Christoph Vilanek

IN 2020
NO-ONE IS A PROPHET IN THEIR OWN LAND

NO!

The freenet Group performs well, achieves demonstrable results and meets its forecasts in an exemplary way – year in, year out, even despite the current challenges presented by coronavirus. Was this reflected in rising share prices in 2020? Not necessarily! As a result, freenet began share buy-backs during 2020 in addition to continuing with its intensive investor communications.

Apple and many other US tech companies have been almost continually buying back their own shares for many years now in some cases. This has two main advantages: the additional demand for the shares bolsters prices when markets are weaker and drives their growth in more favourable phases. It also means that any accruing profits and dividends are divided among smaller numbers of shares, which benefits the shareholders.

COVID-19 CRISIS MASTERED

Although freenet AG was not among the outright winners of the coronavirus crisis in 2020, the figures from the past financial year are quite respectable given the prevailing conditions. There were no slumps in revenue and earnings; instead, the Group once gain met its previously-announced target figures and recorded rising customer numbers in the core and television business as well as exceptional profit from the sale of the equity interest in Sunrise – resulting in a dramatic reduction in the Group's debt level.

OUR CORPORATE CULTURE...

...includes maintaining an ongoing long-term dialogue with all stakeholder groups based on a spirit of trust.

“WE STAND FOR TRANSPARENCY AND INTEGRITY IN CAPITAL MARKET COMMUNICATIONS.”

Ingo Arnold

Despite this, freenet shares were repeatedly dragged into a kind of volatile ‘collective punishment’. For example, they endured the wider stock market slump after the introduction of lockdown measures in spring 2020 and, before that, the turbulence surrounding the billions of euros in 5G costs incurred by competitors in the mobile communications sector – even though the freenet Group itself is not an investor in this space. All this despite the significant improvement in the intensity, quality and consistency of freenet’s investor communications over recent years. During 2018, the Management Board and Investor Relations team provided reports on the Group’s economic development and prospects in 380 meetings at international conferences and roadshows, via conference calls and webcasts. The number of investor interactions rose to 420 in 2019 and still reached 350 during the past financial year, despite the challenging conditions surrounding coronavirus and the temporary interruptions to professional lives and business travel.

TO OUR SHARE-HOLDERS

01

TO OUR SHAREHOLDERS

TO THE ANNUAL GENERAL MEETING

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,
In the reporting period, the Supervisory Board fulfilled all of the duties assigned to it by the law, the articles of association and the rules of procedure. My colleagues and I 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 us informed about business developments and current issues. Moreover, information was regularly exchanged between me as 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.

ISSUES CONSIDERED BY THE FULL SUPERVISORY BOARD

During the 2020 financial year, the Supervisory Board held a total of seven virtual meetings and passed resolutions via written procedures on four occasions.

The subject of our meetings of the full Supervisory Board were 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. In these meetings, we primarily focused on the consequences of the latest COVID-19 pandemic situation for the company and the Group.

We were closely involved in business transactions of particular relevance to the Group. Our key focus points included decisions on reducing the dividend, disposing of the equity investment in Sunrise Communications Group AG and the buyback of almost three million shares carried out as part of the share buyback programme.

The Supervisory Board's work also focused on overhauling the Executive Board remuneration system introduced in 2018, which we are presenting to the Annual General Meeting for resolution on 18 June 2021.

The revised version of the German Corporate Governance Code (GCGC) also provided us with an opportunity to address the Supervisory Board's own matters of governance. With this in mind, we conducted a self-evaluation of our activities, began developing a profile of skills for Supervisory Board members, addressed the independence of Supervisory Board members and revised the remuneration system for the Supervisory Board. We will also present the newly developed remuneration system for the Supervisory Board to the 2021 Annual General Meeting for resolution.

DETAILS OF MATTERS ADDRESSED AT MEETINGS

The Executive Board reported in detail on the impact of the COVID-19 pandemic on the freenet Group for the first time in its first regularly scheduled meeting on 25 March 2020. This reporting continued at all subsequent meetings throughout the year. The main subject of discussion at the first meeting was the annual and consolidated financial statements as at 31 December 2019. We discussed the findings of the annual financial statements audit 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.

We also discussed the review of the non-financial statement as at 31 December 2019. This review was again conducted by Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (Mazars WPG), Hamburg, with the support of the audit committee. Based on the review procedures carried out and the evidence obtained, the auditor did not identify any issues which would lead him to conclude that the information in the non-financial statement was not prepared in all material respects in compliance with the legal requirements. The Supervisory Board agreed with the results of the review conducted by Mazars WPG on the recommendation of the audit committee.

The Supervisory Board was also kept informed of the status of preparations for the company's Annual General Meeting. We also dealt with the requirements arising from the updated GCGC by carrying out a self-evaluation of Supervisory Board activities and starting efforts to develop a profile of skills, which began by obtaining an overview of the expertise that currently exists on the Supervisory Board. The Supervisory Board also carried out a self-assessment of its independence conducted by the shareholders' representatives and established that all six members representing the shareholders are to be classified as independent of the company and the Executive Board. The shareholders' representatives also established that having at least four shareholders' representatives on the Supervisory Board classified as independent is considered a reasonable figure.

Finally, the Supervisory Board adopted a resolution regarding the targets agreed with members of the Executive Board for 2020.

We dealt with final preparations for the Annual General Meeting on 27 May 2020 in our meeting on 3 May 2020. The main topic was the Executive Board's proposal, contrary to their previous announcement, to propose only a minimum dividend for the appropriation of profits to the Annual General Meeting. The Supervisory Board members discussed this issue in depth and at length and, in view of the short-term refinancing requirement and fears over uncertainty in the capital markets, ultimately agreed with the Executive Board to secure liquidity first and thus propose a reduced dividend. Conducting the Annual General Meeting as a virtual event in light of the pandemic was also discussed at this meeting.

At the meeting on 27 May 2020, we reviewed the first virtual Annual General Meeting together with the Executive Board and addressed the latest pandemic situation within the Group.

In three written procedures on 12 June 2020, 3 July 2020 and 20 July 2020, we passed resolutions regarding the issuance of a promissory note loan that was subsequently successfully placed with a volume of 345 million euros, the refinancing of a promissory note loan from 2016 and an agreement to acquire additional shares in EXARING AG.

At its meeting on 11 August 2020, the Supervisory Board addressed Liberty Global plc's offer to acquire the equity interest in Sunrise Communications Group AG and approved a corresponding obligation to sell the equity interest. The Supervisory Board also approved the sale of the freenet digital Group to Media and Games Invest plc.

On 31 August 2020, the Supervisory Board approved the implementation of a share buyback programme, which allowed for approximately three million shares to be bought back by the end of 2020.

Prof. Dr. Helmut Thoma, Chairman of the Supervisory Board

At the regularly scheduled meeting on 23 September 2020 and based on preparations made by the personnel committee, we passed a resolution to extend the appointments of Executive Board members Antonius Fromme and Rickmann v. Platen for a period of five years in each case from 1 June 2021. At the same meeting, the Supervisory Board talked about fundamental strategic concerns and reviewed the current situation and prospects of the core business and the TV and Media segment. We also discussed the results of the self-assessment we conducted with external support from KPMG Law Rechtsanwaltsgesellschaft mbH. In addition, the Supervisory Board summarised the results of a survey concerning the Supervisory Board members' areas of expertise.

In a written procedure, the Supervisory Board issued recognition awards to CEO Christoph Vilanek and CFO Ingo Arnold on 19 October 2020 to acknowledge their exceptional performance in connection with preventing the acquisition of UPC Schweiz GmbH by Sunrise Communications Group AG in 2019 and selling the equity interest in Sunrise Communications Group AG to Liberty Global plc for approximately 1.1 billion euros.

In its meeting on 9 December 2020, the Supervisory Board discussed and noted with approval the planning for the 2021 financial year presented by the Executive Board. Remuneration issues were another key topic addressed at this meeting. Based on preparations made by the personnel committee and the steering committee of the Supervisory Board, the Supervisory Board adopted regulations governing the future remuneration of the Executive Board and Supervisory Board with the aim of proposing them to the 2021 Annual General Meeting for resolution. Due to the content of the future remuneration regulations, reference is made to the documentation for the Annual General Meeting. We also passed a resolution on the submission of the annual Declaration of Compliance with the GCGC.

After the end of the 2020 financial year, we extended the appointment of Ingo Arnold as CFO by five years from 1 January 2022 and appointed him as Deputy Chairman of the Executive Board with effect from 1 January 2021. On 23 March 2021, a Supervisory Board meeting was held mainly for the purpose of discussing the annual and consolidated financial statements as at 31 December 2020. The details concerning this matter are the subject of the separate section "Audit of the annual and consolidated financial statements for financial year 2020" in this report.

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

The steering committee met three times in 2020 in virtual sessions and prepared the proposal for the revised Supervisory Board remuneration system to be presented to the full Supervisory Board. Marc Tüngler actively supported the steering committee members with his expertise in this process. The focus of the steering committee also was on the performance of the equity investment Sunrise Communications Group AG and the takeover offer submitted by Liberty Global plc. The members also deliberated on the equity interest held in EXARING AG.

PERSONNEL COMMITTEE

The members of the personnel committee held a total of four virtual meetings in 2020. The committee prepared the Supervisory Board resolution to extend the appointment of Antonius Fromme, Rickmann v. Platen and Ingo Arnold and conducted negotiations regarding their employment contract. The work of the personnel committee focused on revising the remuneration system for the Executive Board to reflect new legal requirements. The committee also established whether and to what extent the parameters for the variable remuneration of the Executive Board members for 2019 were reached, set new parameters for the targets agreed for the 2020 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, of which three were held as virtual meetings. 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 and granted one approval in writing. For the review of the 2020 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 was 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 2020.

NOMINATION COMMITTEE
The nomination committee did not convene in 2020.

DISCLOSURE ON INDIVIDUAL MEMBERS' ATTENDANCE AT MEETINGS
The attendance rate of the members of the Supervisory Board and its committees was 100 per cent. This means that all Supervisory Board members attended all plenary meetings and all relevant committee meetings. The attendance of individual members in the meetings of the Supervisory Board and its committees is disclosed below.

Table 1: Meeting attendance 2020

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

* Attended a committee meeting as a Supervisory Board member called in to add his expertise

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

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS AUDIT FOR FINANCIAL YEAR 2020

The annual financial statements prepared by the Executive Board in accordance with the provisions of the German Commercial Code (HGB) for the financial year ended 31 December 2020 and the freenet AG management report were audited by PwC GmbH WPG. The audit assignment had been awarded by the chairman of the audit committee in accordance with the resolution adopted by the Annual General Meeting on 27 May 2020. The auditor issued an unqualified auditor's report. The consolidated financial statements of freenet AG as at 31 December 2020 were prepared in accordance with section 315e HGB on the basis of the international financial reporting standards (IFRSs). The auditor issued an unqualified auditor's report for these consolidated financial statements and the Group management report.

The auditor's report of the auditor, PwC GmbH WPG, has been signed by Niklas Wilke in his capacity as the responsible auditor. Niklas Wilke has been responsible for the audit of the company for the third 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 23 February 2021 and at the Supervisory Board meeting on 23 March 2021. 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 23 March 2021. The annual financial statements are thus adopted. At its meeting on 23 March 2021, the Supervisory Board also examined the Executive Board's proposal for the appropriation of net retained profits and discussed it with the auditor. Subsequent to this, the Supervisory Board – following the audit committee's recommendation – gave its consent to the Executive Board's proposal.

REVIEW OF THE NON-FINANCIAL STATEMENT FOR THE 2020 FINANCIAL YEAR

The non-financial statement for the financial year from 1 January to 31 December 2020 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 on the basis of the Supervisory Board resolution of 9 December 2020. After reviewing the non-financial statement, the auditor concluded that he had not identified any issues which would cause him to believe that the disclosures in the non-financial statement have not been prepared, in all material respects, in compliance with the legal requirements 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 23 February 2021. The Supervisory Board agreed with the findings of the auditor following a corresponding recommendation by the audit committee.

CHANGES TO THE EXECUTIVE BOARD AND SUPERVISORY BOARD

In financial year 2020, there were no changes in the composition of the Supervisory Board or the Executive Board.

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

Büdelsdorf, 23 March 2021

For the Supervisory Board

Prof. Dr. Helmut Thoma
Chairman of the Supervisory Board

FREENET AND THE CAPITAL MARKETS

THE FREENET SHARE

- 2020 – an exceptional and challenging year at the stock markets
- freenet buys back around 2.3 per cent of its own shares
- Debt structure optimised considerably

PERFORMANCE OF SELECTED INDICES

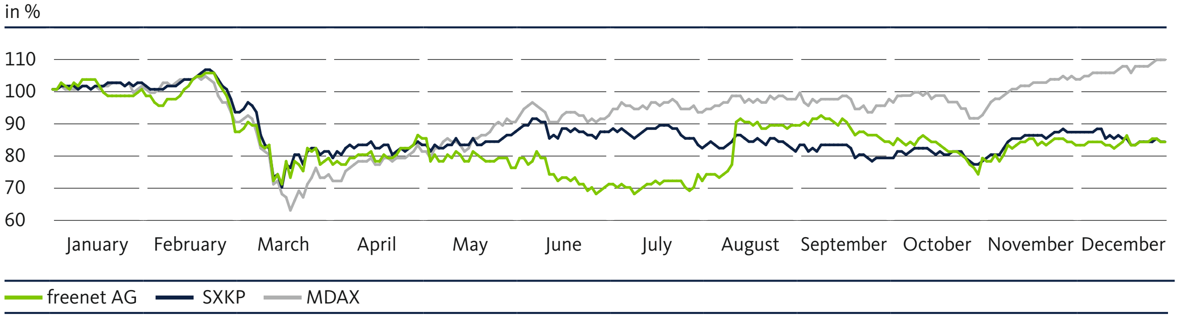
The 2020 trading year saw extreme fluctuations as well as both upward and downward trends across all equity indices. After a successful 2019, experts expected 2020 to be similarly positive, particularly for equities. Indeed, the leading German DAX index initially reached a record high of 13,789 points on 19 February 2020. However, this positive trend was dramatically reversed as the coronavirus pandemic spread across Germany and Europe. As a result of the first lockdown, the DAX slumped by around 39 per cent to an annual low of 8,442 points on 18 March.

Improved market sentiment at the end of the year bolstered the equity market, which primarily recorded price gains. Events such as the agreement of a Brexit trade deal, the approval of the US economic package and expectations that coronavirus vaccines will bring a return to normality were all significant in this regard. As a result, the DAX climbed above 13,790 points for the first time after the Christmas break and ended the year up 3.5% at 13,719 points. The MDAX and TecDAX, where the freenet share is also listed, outperformed the DAX to close the year with gains of 9 per cent (MDAX) and 7 per cent (TecDAX).

It was a different story for the multi-segment STOXX Europe 600 Telecommunications (SXSP) index. This trend indicator for the expected performance of listed European telecommunication stocks recorded a weaker performance in the second half of the year in particular, closing 16 per cent lower than at the start of the year. This meant that telecommunications stocks were generally unable to profit from the rebound on the capital markets.

Figure 1: Performance of the freenet share in 2020

(indexed; 100 = Xetra closing price on 31 December 2019)



FREENET SHARE PERFORMANCE

The pandemic-related turbulence on the capital markets also impacted the performance of the freenet share and meant that the stock was ultimately also affected by various price fluctuations.

The freenet shares began the year at 20.44 euros and rose to an annual high of 21.55 euros on 21 February 2020. This upward trend was disrupted by the first lockdown in early March. As a result, the price of freenet's shares fell to their annual low of 13.94 euros.

The share price recovered slightly in the second half of the year. This upturn was primarily bolstered by the freenet Group's ability to ensure the stability of its operating business in what was a challenging market environment dominated by the coronavirus crisis. The company's omni channel sales strategy and its flexibility to offset the lockdown-related closure of its stores with well-established non-retail-based sales channels were among the decisive factors here.

Nevertheless, the share price did not return to the same levels as in the first half of the year despite a series of positive additional corporate events including the disposal of all Sunrise shares, the share buyback programme and further simplification of the business model via the sale of freenet digital. The shares ended the year at a price of 17.20 euros, which meant that the freenet Group's trading year was as weak as that of the SXKP (approximately –16 per cent).

ANALYSTS' RECOMMENDATIONS

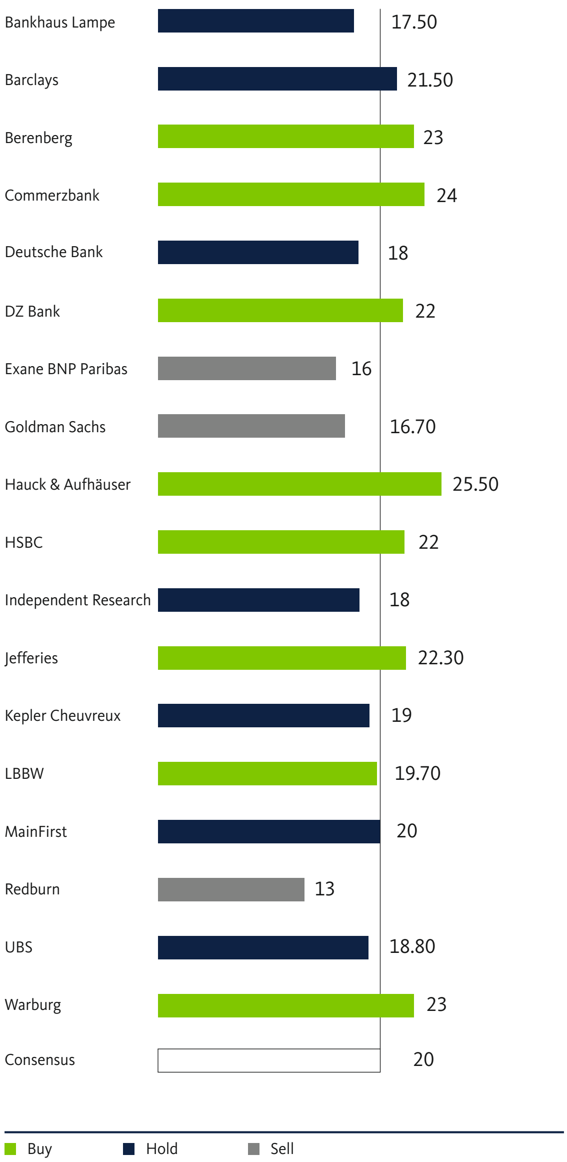
A total of 18 (2019: 17) analysts of international investment firms regularly published studies and recommendations regarding the current performance of the freenet Group in financial year 2020. During the year, analysts published around 100 comments and recommendations on the freenet share, representing a considerable increase compared with the previous year (2019: 72 comments and recommendations). Analysts' recommendations on freenet AG remained mixed in the 2020 financial year, ranging all the way from Buy and Hold to Sell.

During the 2020 financial year, three analysts lifted their recommendations from Hold to Buy while two raised theirs from Sell to Hold. Eleven analysts left their recommendations unchanged from the previous year. Two analysts (both Hold) commenced coverage of freenet in 2020, while one analyst (Buy) discontinued its coverage. At the end of 2020, a total of analysts issued a "buy" recommendation (2019: six analysts) for freenet's shares, while seven analysts advised investors to "hold" them (2019: six analysts). The other three analysts said "sell" (2019: five analysts).

As at 31 December 2020, the average target price given by the analysts was 20.08 euros (2019: 20.63 euros).

Figure 2: Recommendations for the freenet share

Target prices in euro



As per 31 December 2020

CONFERENCES AND ROADSHOWS

The first quarter of 2020 was dominated by traditional investor relations activities, including participating in a number of in-person events around the world.

This method of capital markets communication could not continue in the usual way from the second quarter of 2020 onwards as a result of the coronavirus pandemic, prompting the Executive Board and Investor Relations team to integrate into their everyday work all of the technical elements required to ensure a smooth transition from live to virtual events as quickly as possible. The transparent exchange of information became increasingly important in a new digital world, and the company addressed this with face-to-face video conferencing at international conferences and roadshows.

As all participants were able to plan their events without logistical limitations, the virtual event format resulted in greater intercontinental interaction. Hosting events virtually increased the flexibility of all participants, without any time or geographical barriers.

As in previous years, 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 350 times during the year (2019: 420). The decrease is due to the fact that many events had to be cancelled at short notice, especially at the beginning of the second quarter of 2020, because of country-specific coronavirus restrictions.

The 2020 goal of further stepping up communication with the capital markets and 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 even amid the challenges posed by a new digital world and received positively by the financial community.

In the 2021 financial year, the Executive Board and Investor Relations team are planning to bring together the advantages of in-person and virtual events and combine the best elements of both worlds.

CHANGES IN THE FREENET GROUP SHAREHOLDER STRUCTURE

As at 31 December 2020, freenet AG had around 99,000 shareholders, a figure virtually unchanged from the previous year. Institutional investors again held the majority of the issued shares, accounting for approximately 60 per cent (previous year: 56 per cent).

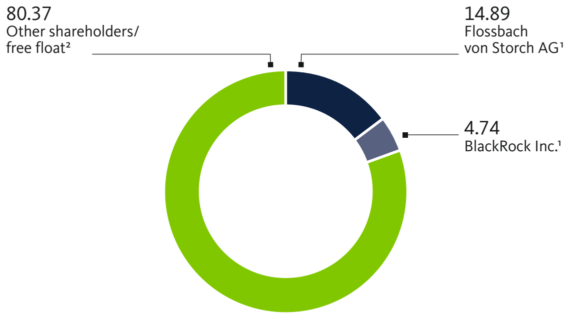
At 14.89 per cent, German asset management firm Flossbach von Storch AG remained the largest shareholder at year-end 2020, followed by the world's largest asset manager, BlackRock Inc., which held 4.74 per cent of issued shares. The remaining 80.37 per cent was held by institutional or retail investors whose equity interest in each case was 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 2020 financial year have been published at www. freenet-group.de/investor-relations.

In March 2020, the CFO, Ingo Arnold, acquired 2,500 freenet shares at an average price of around 17.90 euros per share. The total volume amounted to 44,745.77 euros. Reports on managers' transactions in accordance with Art. 19 of the Market Abuse Regulation (MAR) are disclosed in the "Directors' Dealings" section under www.freenet-group.de/investor/corporate-governance/index.html.

Upon completion of the share buy-back programme on 28 December 2020, freenet AG held around 2.3 per cent of the company's shares in treasury. More information on the share buyback programme can be found at www.freenet-group.de/investor/share/index.html.

Figure 3: Shareholder structure of freenet AG on 31 December 2020

in %



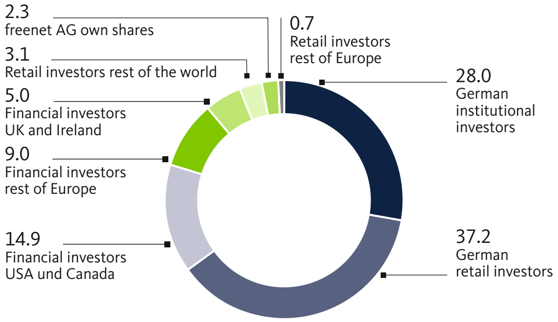
[1] incl. attributions according to the German Securities Trading Act (Wertpapierhandelsgesetz–WpHG).
[2] The free float according to Deutsche Börse AG amounts to 80.37 per cent.

Based on an analysis carried out in December 2020, Germany again represents the largest regional group of freenet investors with a share of 65.2 per cent (2019: approx. 66.0 per cent). Within this group, the past year saw a slight shift from institutional investors to private investors. At 14.9 per cent, investors from the United States and Canada make up the second largest regional group, followed by investors from the UK and Ireland at 5.0 per cent. The remainder is attributable to investors from various countries (12.6 per cent) and to freenet AG (2.3 per cent).

Over half (53 per cent) of all invested financial institutions followed a value-oriented investment approach. The remaining investor groups were index- and/or returns-oriented or pursue specialised investment strategies. The percentage distribution largely corresponded to the previous year's ratio and thus remained unchanged.

Figure 4: Geographical distribution of the shareholder structure of freenet AG on 31 December 2020

in %



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

DIVIDEND AND EARNINGS PER SHARE

To ensure the financial stability and flexibility of the freenet Group at a time when the effects of the coronavirus crisis could not yet be foreseen, the proposal by the company's management to suspend the dividend for the 2019 financial year and only distribute the legally binding statutory minimum of 0.04 euros per share was adopted with a majority of 94.74 per cent at the Annual General Meeting on 27 May 2020.

The payment of the mandatory minimum dividend of 0.04 euros per eligible no-par-value share was equivalent to a distribution rate of 0.25 per cent of free cash flow. The dividend was distributed to the shareholders on 2 June 2020 through Clearstream Banking AG, Frankfurt am Main, by way of the respective custodian banks and financial institutions. The distribution was made from the tax-specific deposit account in accordance with section 27 of the German Corporation Tax Act (Körperschaftsteuergesetz–KStG). This means that the minimum dividend was paid out without any deduction of withholding tax and the solidarity surcharge.

In future, the Executive Board will maintain its dividend policy of distributing a stable dividend equivalent to 80 per cent of free cash flow. The Executive Board and Supervisory Board intend to propose to the Annual General Meeting on 18 June 2021 to pay a dividend for the 2020 financial year in the amount of 1.50 euros per no-par-value share from net retained profits.

The Executive Board also plans to pay a special dividend of 0.15 euros per share. Together with the share buyback programme of up to 135.0 million euros resolved on 2 February 2021 and the 2020 share buyback programme already completed (volume: 51.4 million euros), this is intended to compensate freenet shareholders retrospectively for the dividend withheld for the financial year 2019. In total, the dividend paid out in 2021 would amount to 1.65 euros per eligible share. In addition, up to an additional 186.4 million euros would be distributed to freenet shareholders by way of share buybacks (both programmes).

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 4.44 euros in the 2020 reporting year were much higher than in the previous year (1.49 euros) due to the gain realised from the sale of Sunrise shares. The earnings per share attributable to Sunrise for the reporting year amount to 2.91 euros (2019: 0.10 euros). The adjusted basic/diluted earnings per share rose from 1.39 euros to 1.53 euros.

The basis for calculating the earnings per share is the weighted average of shares outstanding.

Table 2: Earnings per share

In EUR/as indicated	2020	2019
Basic earnings per share	**4.44**	**1.49**
Diluted earnings per share	**4.44**	**1.49**
Weighted average number of shares outstanding in thousands (basic)	127,465	128,011

FINANCING ACTIVITIES

EARLY REPAYMENT OF THE BANK LOAN OF 610.0 MILLION EUROS AND EXTENSION OF THE REVOLVING CREDIT FACILITY TO FIVE YEARS

In November 2020, freenet AG repaid a bullet loan of 610.0 million euros with part of the proceeds from the sale of Sunrise shares. The revolving credit facility for a maximum of 300.0 million euros that forms part of the syndicated bank loan was extended by one year to five years and now runs until November 2025.

DEBT STRUCTURE OPTIMISED CONSIDERABLY AND PROMISSORY NOTE PORTFOLIO IMPROVED

The freenet Group successfully placed a promissory note loan with a total volume of 345.0 million euros during 2020. The bullet financing instrument consists of three tranches with maturities of 3.5 years, 5 years and 6 years. The 3.5-year tranche of 166.5 million euros bears interest at an initial margin of 1.50 per cent p.a., while the 5-year tranche of 168.5 million euros has an initial margin of 1.70 per cent p.a. The 6-year tranche of 10.0 million euros bears interest at an initial margin of 1.90 per cent p.a. The initial margin is expected to decline by 0.30 percentage points over time based on a step-down mechanism linked to leverage. The inflowing funds were directly offset against due or redeemable tranches. In 2020, an amount of 258.5 million euros from the existing promissory note loans was due for regular repayment; these tranches were repaid on time accordingly. In addition, freenet made voluntary repayments of 100.0 million euros in September 2020 and 128.0 million euros in November 2020. This reduced the outstanding nominal volume of the corresponding promissory note loan tranches due in March 2021 by 228.0 million euros for the next calendar year. This has eased the financial position and maturity profile of the freenet Group's debt financing in the long term.

SUSTAINABLE ACTION

For the Executive Board of the freenet Group, sustainable action involves more than just a narrow focus on its commercial and economic duties and how to exercise them. The freenet Group is aware of the external impact of its actions and the various roles associated with this, and focuses on the different requirements and interests of its stakeholders when addressing its corporate responsibilities. Responsible action is part of our company's culture and the key to the freenet Group's sustained success.

In order to live up to these standards, the Group maintains an ongoing long-term dialogue with all stakeholder groups based on a spirit of trust. It is this dialogue that enables us to identify new trends and changing requirements at an early stage and to incorporate this into our corporate governance. The frequency and nature of this dialogue with our stakeholders, who can be broadly divided into capital providers (e.g. banks, shareholders and analysts), partners (e.g. customers, employee, service providers and suppliers), public institutions and society as a whole, is based on their specific needs and expectations.

In particular, there has been steadily growing interest in non-financial issues (sustainability matters) among investors, analysts and employee in recent years – particularly during the pandemic in 2020. As a result, we dealt with these issues in greater depth as a company over the past financial year. The issue was addressed internally in June as part of an Executive Board dialogue between CEO Christoph Vilanek and members of the Group. This discussion resulted in the freenet sustainability ambassador initiative, which a number of employee have signed up for at almost all of our locations. The aim of this initiative is to make workplaces and day-to-day work within the freenet Group more sustainable, particularly in terms of social responsibility and ecological footprint. The sustainability ambassadors consider themselves to be idea generators, instructors, disseminators and points of contact for suggestions of how to improve sustainability. They discuss measures that make sense from a cost-benefit perspective at the company's various sites and work together to push these measures forward.

When it comes to the capital markets, the Investor Relations & ESG department maintains an active and ongoing dialogue with investors and ESG rating agencies and addresses their information interests by disclosing key non-financial issues in the non-financial statement. To ensure the comparability of published information, the freenet Group has been reporting its ESG information in accordance with the "Core" option of the Global Reporting Initiative (GRI) standards since 2019. Since 2018, the freenet Group has participated in the Carbon Disclosure Project (CDP) by disclosing its carbon emissions and reports its impact on the environment in a transparent way.

As economic success is the prerequisite for delivering reliable and measurable value for all of our stakeholders, our actions are primarily focused on economic principles. This enables us to deliver measurable value for our employee by ensuring that they are appropriately remunerated based on performance and are involved in the company's success. Capital providers are kept continually and comprehensively informed about the freenet Group's current performance and participate in the company's success via interest and dividends. Reliability and continuity are particularly important to us in this respect. In turn, our tax payments make a direct monetary value contribution to society.

Expressed in figures, the value contributed by freenet is as follows: during the 2020 financial year, the freenet Group generated revenue of 2,576.2 million euros (2019: 2,932.5 million). Investments totalling 46.2 million euros (2019: 40.6 million euros) were made, payments of 229.6 million euros (2019: 236.5 million euros) were made to employee (personnel expenses) and taxes of 28.0 million euros (2019: 30.6 million euros) were paid. As a result of the impact of the coronavirus pandemic on the financial sector, which could not yet be foreseen in the spring, as well as upcoming refinancing, the dividend for the 2019 financial year was suspended on an exceptional basis and only a legally binding minimum dividend of 0.04 euros per eligible share was distributed to our shareholders (previous year: 1.65 euros per share). Interest payables of 47.3 million euros (2019: 48.0 million euros) were satisfied.

The Executive Board

Christoph Vilanek   Ingo Arnold   Stephan Esch

Antonius Fromme   Rickmann v. Platen

FOR INFORMATION

INVESTOR RELATIONS CONTACT

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

Phone: +49 (0)40/513 06 – 778

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-relations.

Table 3: Information on the freenet share

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

GROUP MANAGE-MENT REPORT

02

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

ORGANISATIONAL STRUCTURE AND BUSINESS MODEL

- Digital lifestyle provider with a customer base of approximately 8.6 million subscribers
- Focus on long-term customer contracts with constant value added
- IPTV as growth driver

OVERVIEW OF THE FREENET GROUP

The freenet Group sees itself as a digital lifestyle provider. Digital lifestyle mainly includes telecommunications, TV, Internet and mobile devices as well as all services, applications and equipment associated with mobile devices or that can be controlled or used via an intelligent device. With a business model consistently geared towards customers and their needs, the freenet Group is one of Germany's leading market players with just under 8.6 million subscribers.

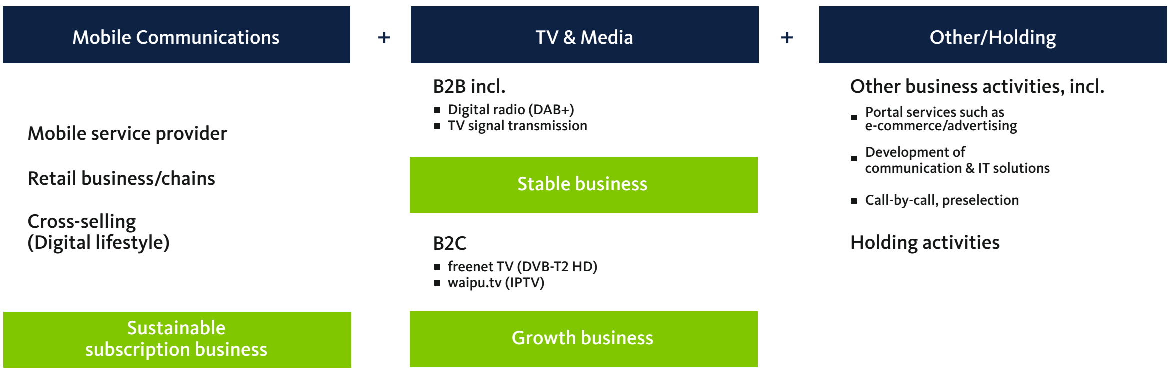
Its operating activities are limited mainly to private customers in the German market. freenet AG, the parent company of the freenet Group, is a listed German public limited company (Aktiengesellschaft – AG) with its registered office in Büdelsdorf and administrative headquarters in Hamburg. The company's financial year is the calendar year (1 January to 31 December). As of 31 December 2020, the Executive Board comprised five departments:

Table 4: 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)

In accordance with the corporate strategy and IFRS 8, the freenet Group is divided into two operating segments: Mobile Communications and TV and Media. The additional Other/Holding segment consists of holding functions and activities as well as Group units that cannot be directly allocated to one of the operating segments. The segments are divided by products and not by customer segments or geographical areas in line with the structure of the internal management system.

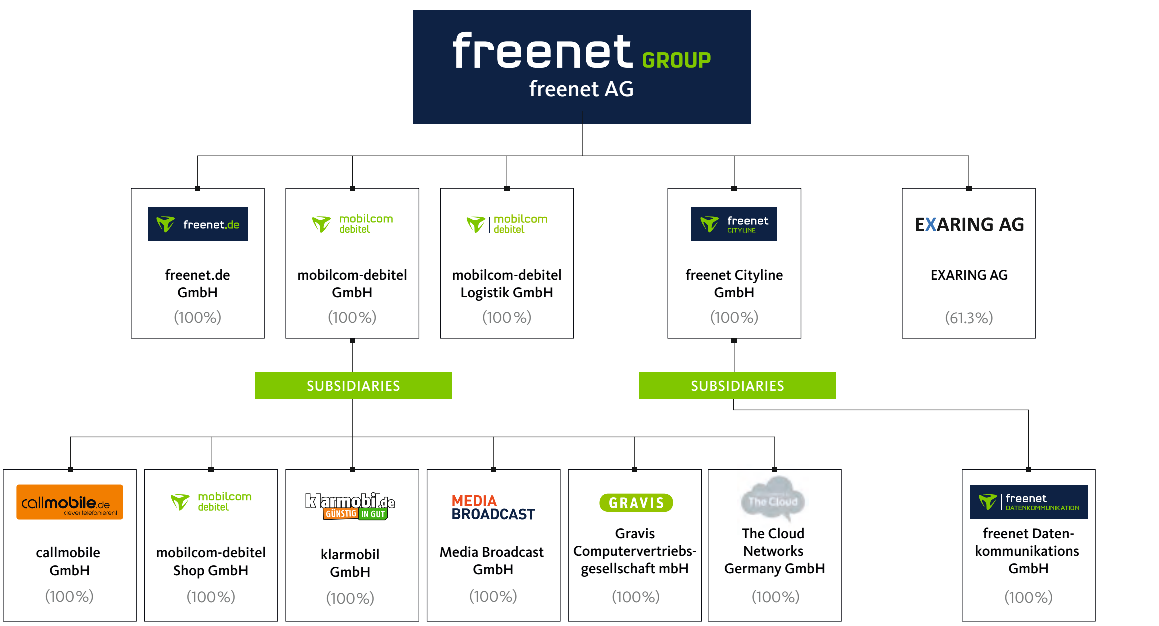
Figure 5: Segment overview



On 30 September 2020, freenet digital GmbH, Berlin, 100 per cent of which is indirectly held by freenet AG, was sold together with all major subsidiaries to Media and Games Invest plc, Malta. The company formed part of the Other/Holding segment and was deconsolidated once the sale was concluded on 30 September 2020. Furthermore, in November 2020, the freenet Group's entire stake in Sunrise Communications Group AG (24.56 per cent), which since 2016 had been accounted for using the equity method, was sold to Liberty Global plc ("Liberty Global"). The equity investment allocated to the Mobile Communications segment was deconsolidated upon completion of the transaction on 11 November 2020.

The main Group companies as of 31 December 2020, measured in terms of their contribution to the financial performance indicators of the Group, are set out in the following:

Figure 6: Material Group companies of freenet AG as of 31 December 2020



CUSTOMER-FOCUSED VALUE CREATION AND BUSINESS MODEL

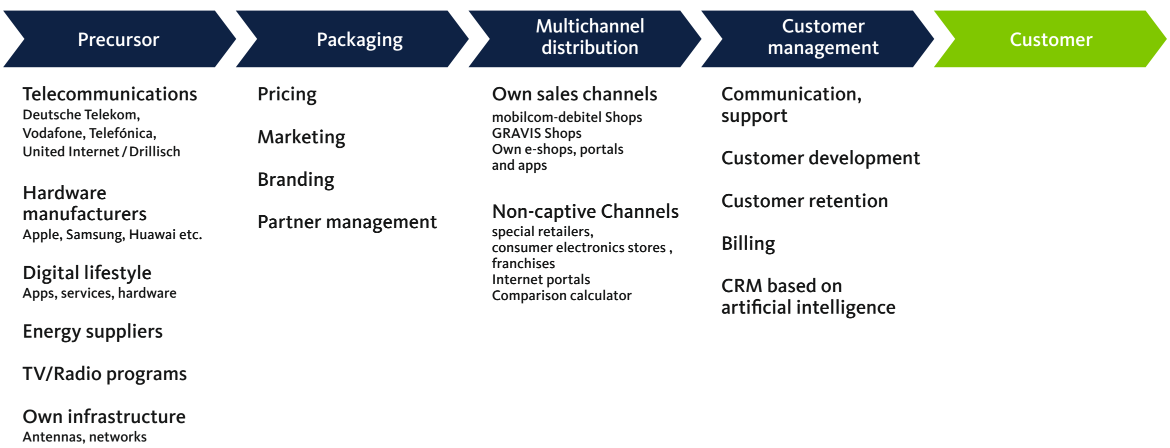
The activities within the freenet Group's value chain that generate value are situated in packaging, multichannel distribution and customer management. In addition to using our own infrastructure in the area of TV and Media, major partners such as network operators, hardware and application manufacturers, energy suppliers and producers of TV and radio programmes supply the relevant precursors for this. The freenet Group generally places great emphasis on forming sustainable long-term partnerships.

With the help of tailor-made tariffs and branding, freenet products and services are marketed across a multi-channel distribution network in Germany using a multi-brand strategy. The focus here is on direct customer relationships as well as directly managed sales channels (known as 'captive channels'), which include approximately 520 mobilcom-debitel and 40 GRAVIS shops as well as numerous additional (online) marketing platforms. These channels in particular provide the freenet Group with direct customer access with upselling and cross-selling potential as well as strong customer retention while at the same time keeping distribution costs low. Mobilcom-debitel also holds exclusive marketing rights for mobile communication services on the Deutsche Telekom and Vodafone networks in more than 420 electronics stores operated by Media-Saturn-Deutschland GmbH (Media Markt and Saturn).

For more than 25 years now, customer experience management has been one of the freenet Group's most important core strengths and something from which the company's TV and Media business has also profited. Customer management, which encompasses everything from billing to customer support, development and retention, thus completes the freenet Group's almost entirely integrated value chain.

Long-term customer contracts that make steady value contributions form the basis for our business and the starting point for growth via continuous optimisation and expansion of the digital lifestyle portfolio. The emphasis here is on consistently harnessing our established sales strength and expertise as well as new and existing sales channels.

Figure 7: Customer-focused value creation and business model



OPERATING SEGMENTS IN DETAIL

MOBILE COMMUNICATIONS: LARGEST NETWORK-INDEPENDENT MOBILE COMMUNICATIONS PROVIDER

Mobile communications is the freenet Group's core business. Its products and services include mobile telecommunications and mobile Internet products, services and hardware. This is complemented by a variety of digital lifestyle products and services. For the freenet Group these include mobile phone accessories, home entertainment (music and video offerings), smart home and WiFi services.

In providing mobile communications services, the freenet Group follows a business model that is both unique and supported by the regulatory environment in Germany. Unlike mobile network operators (MNOs), the company 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 the customer relationship 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. As a result, the freenet Group benefits from the advantages of a direct customer relationship while having to incur only little capital expenditure in infrastructure.

Another unique selling proposition of the freenet Group on the German market is the fact that its tariff portfolio includes the original tariffs of the three German network operators – Deutsche Telekom, Vodafone and Telefónica Deutschland – while own tariffs of Group brands such as mobilcom-debitel or klarmobil can be developed and offered as well. This allows freenet to have a high degree of flexibility in addressing customers and designing innovative mobile communications products, such as the app-based freenet FUNK and freenet Flex offerings. Over the past 20 years, this approach enabled freenet Group to evolve into the largest network-independent mobile communications provider in Germany.

TV AND MEDIA: IPTV AS GROWTH DRIVER

The experience gained in the Mobile Communications business laid the foundation for the company's entry into the TV and media business. The freenet Group has been active in this market via its acquisition of the Media Broadcast Group and a majority holding in EXARING AG since 2016 and has gradually expanded this segment into another key revenue pillar.

Media Broadcast designs, sets up and operates multimedia broadcast infrastructure for TV and radio based on state-of-the-art digital transmitter technology. 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.

EXARING AG operates the first fully integrated platform for IP entertainment services in Germany. Its business model 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 more than 13,000 km. The IPTV product is sold to private users in a subscription model via the freenet Group's distribution channels, among others. Business with private customers is complemented with an offering for business users including addressable TV and web-to-TV services. This modern, convenient and affordable way of receiving TV content has enabled waipu.tv to gain a relevant market position in the growing German IPTV market within just a few years.

GROUP MANAGEMENT REPORT

CORPORATE STRATEGY AND GOALS

The freenet Group aligns its commercial activities with its vision of "Always the Right Choice". Its stated goal is to achieve lasting customer satisfaction with the quality of the services it offers and, in doing so, ultimately acquire new customers while retaining long-standing ones. In particular, the success of these efforts can be measured based on a steady increase in the number of subscribers as well as excellent reliability in reaching the financial and non-financial targets formulated each year.

Three major action areas provide crucial support in achieving these targets:

- continual improvement of the customer experience,
- sustainable growth in the TV and Media segment, and
- a flexible business model without high infrastructure costs (asset-light strategy).

CUSTOMER EXPERIENCE IS MORE THAN JUST MEETING CUSTOMER EXPECTATIONS

As service quality is considered to be a strategic asset, the freenet Group has spent years on enhancing customer experience and established a separate Executive Board department for these activities in 2018.

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 differing needs provides a basis for maintaining long-term commercial success. This is particularly true of the Mobile Communications segment, which continues to be the main driver of the freenet Group's business. Acquiring loyal contract customers (particularly postpaid customers with 24-month contracts) with high ARPUs is the focus here and the strategic cornerstone for reliable and secure value contributions. The extent to which this focus pays off has been demonstrated by the coronavirus crisis, when the freenet Group's business model has proven itself to be both flexible and robust in the face of external influences.

As a result, maintaining our 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 are intended to contribute significantly to this effort. Our aim is to optimise the quality of the customer base in the long term and thus stabilise monthly revenue per customer. This is also crucial for preserving the strategically important potential for upselling and cross-selling measures.

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 TV and Media segment. Marketing consumer-focused subscription services – under the freenet TV and waipu.tv brands – also serves the purpose of establishing profitable long-term customer relationships. The business potential will primarily be used to ensure and enhance the operational performance of the freenet Group. The IPTV product waipu.tv is a key growth driver in this strategy. As an aggregation platform for linear and non-linear TV content, waipu.tv has the potential to participate in the overall growth of the IPTV market in Germany. In this respect, the continuous customer growth in recent years and our collaboration with well-known partners (including Telefónica Deutschland and Netflix) paint a positive picture for the future.

MAINTAINING THE ASSET-LIGHT STRATEGY

Long-term customer contracts that make consistent value contributions and the continued pursuit of its asset-light strategy are the basis for the freenet Group’s stable business performance and reliable forward planning of revenue, EBITDA and free cash flow. In addition to organic growth, the freenet Group also continuously monitors the market for acquisitions, equity 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 always takes into account the different needs and expectations of all other freenet-specific stakeholders, including employee, shareholders and lenders too. 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 prudent way of doing business.

GROUP MANAGEMENT REPORT

CORPORATE MANAGEMENT

The freenet Group uses a standardised and reliable management system to implement its strategic goals and measure its operating performance across the entire Group. Performance is measured using financial and non-financial performance indicators that provide a foundation for value-oriented corporate governance. This value-oriented corporate governance includes addressing and balancing various stakeholders’ expectations of the freenet Group. For example, equity providers expect an adequate and secure long-term return on their invested capital, debt investors expect the Group to make interest payments on time and maintain its ability to repay debts, and employee expect job security. The practicality of the management system is regularly reviewed by management and adjusted where necessary.

The performance indicators used for corporate management purposes also regularly represent alternative performance measures (APMs). Even though that companies and investors commonly use APMs for assessing 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 APMs are not necessarily equivalent to the APMs used by other companies because of different calculation methods used. In order to take account of the low degree of standardisation, the respective calculation system is disclosed below.

FINANCIAL PERFORMANCE INDICATORS

In order to measure and present the company's financial success in a comprehensible way, the freenet Group uses the following financial performance indicators:

Table 5: Financial performance indicators 2018 – 2020

In EUR '000s/ as indicated	2020	2019	2018
Revenue	2,576,230	2,932,544	2,897,466
EBITDA	425,878	426,795	441,184
Free cash flow	237,325	249,027	263,773
Postpaid ARPU (in EUR)	18.2	18.7	19.0

The financial performance indicator free cash flow is not used for management purposes at segment level whereas postpaid ARPU is used for management purposes in the Mobile Communications segment only. The financial performance indicators EBITDA, free cash flow, postpaid ARPU, and adjusted EBITDA, which is calculated for information purposes, are also alternative performance measures.

REVENUE AND EBITDA

Revenue is equivalent to the gross value created from of operating activities and is therefore a key measure of the company's success. Revenue in the Mobile Communications segment 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 future revenue performance.

EBITDA reflects a company's short-term operating performance and is generally regarded as a key indicator for assessing performance over time and companies within the same market segment. Since EBITDA measures operating efficiency, this performance indicator also enables comparability of business models with different capital costs and structures of capital expenditures. Accordingly, EBITDA is also used for valuation purposes in connection with company acquisitions and sales.

EBITDA also includes special factors, giving a holistic view of income and expenses. However, comparability with previous years is only possible to a limited extent as a result. In order to increase transparency, the freenet Group reports EBITDA adjusted for one-time effects (adjusted EBITDA) for information purposes. One-time effects can represent both expenses and income. They relate to significant one-time and/or regulatory effects (e.g. restructuring expenses) which, based on the Executive Board's assessment, distort the transparent presentation of the freenet Group's operating results. Adjusted EBITDA thus supplements management-relevant EBITDA as an additional information indicator. The starting point for both performance indicators is EBIT.

Table 6: EBITDA and adjusted EBITDA

In EUR '000s	1.1.2020 – 31.12.2020	1.1.2019 – 31.12.2019
EBIT	262,981	269,954
Depreciation, amortisation and impairment	162,897	156,841
EBITDA	**425,878**	**426,795**
One-time effects	0	0
Adjusted EBITDA	**425,878**	**426,795**

FREE CASH FLOW

Free cash flow as a Group-wide liquidity-based indicator is an important supplement to earnings-oriented performance assessment and is of equal importance for equity and debt investors. It 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 is managed by the Treasury department based on established cash management. In addition to the continuous optimisation of payment terms for liabilities, the control measures also include efficient receivables management, including factoring.

The freenet Group uses a very narrow definition of free cash flow, as interest paid and received as well as proceeds from and repayments of leases are included in the calculation of free cash flow. As a result, the definition shows the amount of cash generated that can be used to pay dividends or repay borrowings.

Table 7: Free cash flow

In EUR '000s	1.1.2020 – 31.12.2020	1.1.2019 – 31.12.2019
Cash flows from operating activities (without payments for transaction costs from acquiring/ selling companies)	367,628	364,232
Payments to acquire property, plant and equipment and intangible assets	– 49,881	– 45,155
Proceeds from disposal of intangible assets and property, plant and equipment	3,657	4,553
Cash repayments of lease liabilities	– 84,079	– 74,603
Free cash flow	**237,325**	**249,027**

POSTPAID ARPU

Postpaid ARPU is the monthly average revenue per postpaid customer in the Mobile Communications segment. It serves as an indicator of the willingness of customers to pay corresponding monthly fees for mobile communications services and, conversely, of the sales success in marketing high-quality mobile communications tariffs. Consequently, postpaid ARPU is an indicator of the quality of the customer base, the safeguarding of which 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 this performance indicator. Regulatory requirements and force majeure (e.g. restrictions on travel due to pandemics) can also influence the level of postpaid ARPU.

Post-paid ARPU is calculated without factoring in the subsidy portion for supplied hardware included in the basic fee. The development of postpaid service revenues is therefore derived directly from the development of postpaid ARPU and postpaid customer numbers.

NON-FINANCIAL PERFORMANCE INDICATORS

The development of the freenet Group's financial performance indicators is closely linked to the development of subscription customers as aggregated non-financial performance indicators for relevant customer groups. The strategically relevant customer group in each case varies 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. Customer acquisition and retention are therefore essential for the successful development of the freenet Group.

The postpaid customer base, which comprises strategically important mobile communications customers, ensures the medium-term profitability and liquidity strength of the freenet Group thanks to its fixed-term contracts and is thus integral for managing the company's performance. As a result of entering the field of TV business, freenet AG addresses a further segment that strengthens and expands the company's strategic positioning as a digital lifestyle provider. The development in freenet TV subscribers (RGU) as well as waipu.tv subscribers is used as a measure for the success in establishing the new segment and thus for market penetration.

The performance indicators provide a more transparent view of the strategic alignment of the freenet Group and reflect the perception of the relevant customer groups on the capital market.

Table 8: Non-financial performance indicators 2018 – 2020

In '000s	2020	2019	2018
Postpaid customers	7,079	6,903	6,896
freenet TV (RGU)	902	1,021	1,014
waipu.tv subscribers	572	408	252
Total subscriber base (excl. app-based customers)	**8,553**	**8,332**	**8,162**

Group management report

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 key figures and measures that are indicative of the company's success. These comprise:

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

EBIT, financial result and gross profit and gross profit margin are also APMs.

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 are presented in the list below.

Table 9: Significant product brands, new products, partnerships and sales activities

mobilcom-debitel	Establishment of the MegaSIM online sales platform
klarmobil	freenet Flex expands app-based mobile services
waipu.tv	In addition to own sales, marketing launch of Turkish channel package in partnership with Telefónica Deutschland (O_2 TV Turkey)
freenet Group	Cooperation with Netflix complements mobile communications and TV product offering
waipu.tv	Launch of the "Perfect Plus" entertainment package that includes more than 45 pay TV channels and can be expanded to include Netflix at a special price
freenet AG	freenet AG: strategic partnership with "Media and Games PLC" through sale of freenet digital GmbH

RESEARCH AND DEVELOPMENT

freenet AG does not have its own research and development department. However, in view of the rapid technological progress being made in the telecommunication industry, the company is closely monitoring and analysing all significant innovations in this sector. 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 22.1 million euros in 2020 (2019: 20.3 million euros).

EMPLOYEE MATTERS

At year-end, the freenet Group employed 4,004 persons at nine 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 20 training courses at more than 150 training locations. At the end of 2020, the number of apprentices in the freenet Group was 329 (2019: 336). Vocational training and continuing professional development (CPD) as well as dual studies also serve to maintain employee skills. The freenet Group believes that continually developing employee expertise in view of current market and technological developments is essential for its future business success.

Detailed information about employee issues can be found in the non-financial statement on pages 80 – 87.

EBIT AND FINANCIAL RESULT

EBIT is defined as earnings before financial result and income taxes. The financial result comprises the items "profit or loss of equity-accounted investments", "interest and similar income", "interest and similar expenses" and "other 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 10: Calculation of gross profit

In EUR '000s/as indicated	1.1.2020 – 31.12.2020	1.1.2019 – 31.12.2019
Revenue	2,576,230	2,932,544
Cost of materials	– 1,714,171	– 2,036,334
Gross profit	**862,059**	**896,210**
Gross profit margin (in %)	**33.5**	**30.6**

FINANCIAL MANAGEMENT

The management team uses an established financial management system to manage the company's strategy and operations. The aims of this management approach are to ensure access to the debt capital market and define a reliable and sustainable dividend policy.

CASH, LIQUIDITY AND CAPITAL STRUCTURE MANAGEMENT

The financial management system mainly comprises cash and liquidity management along with capital structure management, and is handled centrally by the Treasury department, supported 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 controls the capital resources of the freenet Group and its subsidiaries. Two alternative performance measures – equity ratio and leverage – are an integral part of structuring the Group's capital. Mandatory limits have been defined for both of these APMs. In addition, an adjusted leverage is also reported for information purposes. This provides a less conservative perspective on the freenet Group's debt by including the market values of equity investments in net debt (adjusted net debt).

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 leverage capped at 3.0 times EBITDA.

Table 11: Capital structure management KPIs

as indicated	Target	Achieved
Equity ratio (in %)	> 25.0	✓
Leverage	≤ 3.0	✓
Adjusted leverage	≤ 3.0	✓

The equity ratio represents the relationship between equity and total assets. As at 31 December 2020 it amounted to 40.4 per cent, thus exceeding the target of 25.0 per cent and representing an improvement of 13.1 percentage points compared with year-end 2019. In addition to the collection of current profits from continuing operations, this rise was primarily due to the sale of the equity interests in Sunrise Communications Group AG in November 2020 and the suspension of the dividend payment in May 2020. The share buyback programme resolved by the freenet Group Executive Board had a reducing effect on equity since treasury shares are to be deducted from equity in accordance with IAS 32.33.

Table 12: Equity ratio

In EUR '000s/as indicated	31.12.2020	31.12.2019
Equity	1,821,079	1,321,601
Total equity and liabilities	4,505,634	4,839,597
Equity ratio (in %)	**40.4**	**27.3**

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

The leverage at the end of 2020 is 1.7, which is below the maximum limit. The significant year-on-year improvement in leverage is mainly attributable to the undistributed dividend for the 2019 financial year and the sale of the Sunrise shares to Liberty Global for just under 1.1 billion euros by way of a public takeover offer. Taken together with the refinancing of promissory note loans carried out in the third quarter of 2020 and the repayment of the syndicated bank loan in the amount of 610.0 million euros in the fourth quarter of 2020, this has massively eased the freenet Group's financing and maturity structure within one year.

Table 13: (Adjusted) net debt and (adjusted) net leverage

In EUR '000s	31.12.2020	31.12.2019
Long-term borrowings	734,826	1,428,009
Short-term borrowings	206,001	265,610
Net lease liabilities	466,661	471,176
Liquid assets	– 666,867	– 133,692
Net debt	**740,621**	**2,031,103**
Leverage	**1.7**	**4.8**
Market value of CECONOMY (2019 incl. Sunrise)[1]	– 184,869	– 953,151
Adjusted net debt	**555,752**	**1,077,952**
Adjusted leverage	**1.3**	**2.5**

[1] 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.

DIVIDEND POLICY

The dividend policy is another key component of the Group's financial management activities. In principle, the freenet Group's Executive Board pursues a policy of consistent dividend payments aligned with the Group's operational performance. The dividend policy is based on the liquidity indicator free cash flow. As a reliable and stable point of reference for shareholders to derive the expected dividend, this indicator is integral to forecasting and managing the company's performance.

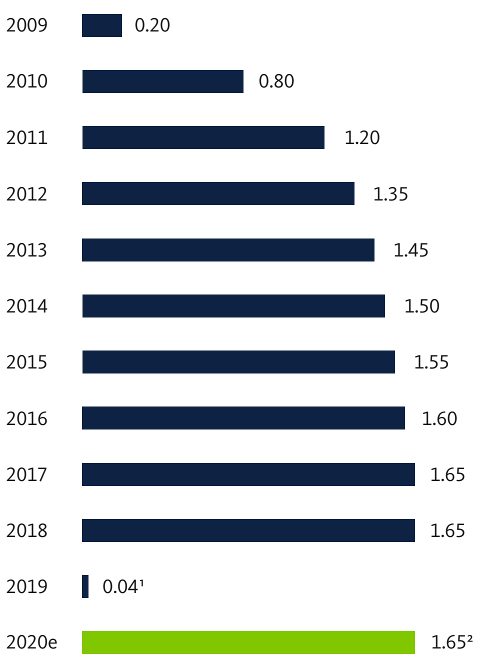
In the interest of continuing to regularly pay dividends, management has defined a long-term, stable distribution rate of 80 per cent of free cash flow as the basis. The basic dividend represents the Executive Board's fundamental commitment to a reliable and appropriate participation of shareholders. Moreover, the Group has not ruled out the possibility letting freenet shareholders participate in the distribution of the free cash flow remaining after deduction of the basic dividend. One such form of further shareholder participation is buying back own shares.

The Executive Board intends to propose to the Annual General Meeting on 18 June 2021 to distribute a dividend of 1.50 euros per share for the 2020 financial year. This represents a dividend yield of 8.71 per cent based on the closing price on the last trading day in 2020.

The Executive Board also plans to pay a special dividend of 0.15 euros per share. Together with the share buyback programme of up to 135.0 million euros resolved on 2 February 2021 and the 2020 share buyback programme already completed (volume: 51.4 million euros), this is intended to compensate freenet shareholders retrospectively for the dividend withheld for the financial year 2019. In total, the dividend paid out in 2021 would amount to 1.65 euros per eligible share. In addition, up to an additional 186.4 million euros would be distributed to freenet shareholders by way of share buybacks (both programmes).

Figure 8: Dividend per share 2009 – 2020

In euros



[1] In view of the COVID-19 situation and pending refinancing, the Executive Board and the Supervisory Board of freenet AG had proposed to the Annual General Meeting on 27 May 2020 that the dividend be suspended, apart from the mandatory minimum dividend of 0.04 euros per share. This proposal was adopted by a 94.74% majority.

[2] Including special dividend (0.15 euros) and subject to resolution at the Annual General Meeting.

The 2020 share buyback programme announced on 1 September 2020 in accordance with Article 2 (2) of Delegated Regulation (EU) 2016/1052 was completed on 28 December 2020. In total, 2,956,232 shares were purchased under the share buyback programme at an average price of 17.85 euros. equating to 2.3 per cent of the share capital. The aggregated volume of the repurchased shares excluding ancillary costs was 51.4 million euros.

GROUP MANAGEMENT REPORT

REPORT ON ECONOMIC POSITION

- German economy significantly impacted by coronavirus pandemic
- Mobile communications market largely resilient to the impact of the crisis
- IPTV gaining further prominence in Germany

MACROECONOMIC ENVIRONMENT

The coronavirus pandemic and subsequent measures to limit its spread triggered a deep economic slump in both the German and global economies in 2020. As a result of the virus's spread, the International Monetary Fund (IMF) revised its GDP growth forecasts for Germany downwards in the middle of the year and initially anticipated a 7.8 per cent decline in economic output for the 2020 reporting year (previous year: 0.6 per cent increase). In its economic outlook published in October, the IMF then revised its forecasts for global and German economic output in 2020 slightly upwards again.

Table 14: IMF economic forecasts for 2020

In %	2019	2020		
	October	April	June	October
Germany	0.5	– 7.0	– 7.8	– 6.0
Global economy	3.0	– 3.0	– 4.9	– 4.4

Germany has so far prevented massive job losses by paying employee reduced hours compensation (Kurzarbeitergeld). As a result, the unemployment rate for 2020 is only expected to reach an average of 5.9 per cent (November 2019: 4.8 per cent). Short-term government decisions such as extending the subscription period for reduced hours compensation and follow-up regulations for 2021 are also likely to continue softening the negative impact of the coronavirus pandemic on consumer behaviour and/or purchasing power as well as employment.

Nevertheless, the COVID-19 pandemic is affecting different industries in Germany to varying degrees. For example, heavily goods-based and exporting sectors are more adversely impacted than technology companies. Sentiment in the ITC industry has been divided recently. According to the Bitkom ifo Digital Index, although the business situation continued to improve slightly, companies had significantly less positive expectations for their business than they did even in October 2020 as a result of the latest coronavirus developments. Nevertheless, the sentiment barometer for the ITC sector is significantly higher than that for the economy as a whole.

SECTOR-SPECIFIC DEVELOPMENT

MOBILE COMMUNICATIONS MARKET

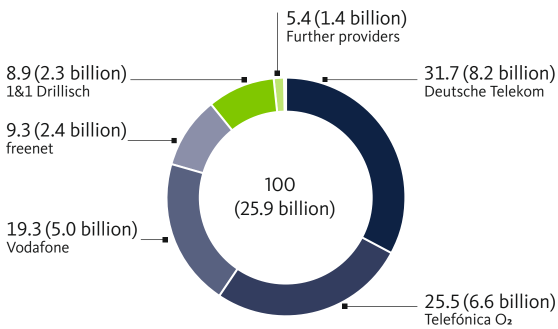
According to estimates from the German Association of Providers of Telecommunications and Value-Added Services (VATM), around 58.9 billion euros was generated from telecommunications services in Germany during the 2020 reporting year. Even when taking COVID-19 into account, this corresponds to an increase of around half a billion euros for the second successive year (2019: 58.3 billion euros; 2018: 57.9 billion euros). For the private customer segment, which makes up around two thirds of total revenue, the VATM predicts revenue growth of 1.6 per cent to 37.9 billion euros in 2020. Almost 70 per cent of private use happens via mobile communications, contributing annual revenue of around 25.9 billion euros (2019: 25.5 billion euros). When it comes to smartphone sales, the downward trend of the last five years associated with less innovative devices is continuing: with an expected 19.7 million devices, fewer smartphones were sold in 2020 than at any time since the years 2011/12.

The number of actively-used SIM cards increased to 148.7 million cards (+8.6 million cards); of these, around 26 per cent are used for communication between computer systems (machine-to-machine). The almost uniform distribution of all SIM cards among the three network operators Deutsche Telekom, Vodafone and Telefónica Deutschland did not change significantly during the year under review.

The market share of the competitors based on revenue also remained constant over the last 12 months. This development illustrates (as it did during the global financial and economic crisis in 2008/09) that the telecommunications sector is crisis-resistant and has come through the pandemic relatively unscathed. In particular, the established multi-channel strategy – that is, the combination of online sales activities and bricks-and-mortar retail – as well as income guaranteed by long-term commitments proved their worth during the store closures triggered by lockdown and safeguarded the business.

Figure 9: Mobile revenue by network operator and service provider

in % or EUR



The measures introduced to contain the COVID-19 pandemic are acting as a catalyst for technology trends. For example, applications such as web conferencing and video telephony have become much more relevant due to increased home working and less travelling. Network providers are also continuing to expand the 5G network in order to be able to meet future demand for fast, stable connections. According to the Ericsson Mobility Report, the new standard in mobile communications was already reaching a billion people worldwide by the end of 2020. In Germany, VATM estimates that the number of domestic 5G-ready SIM cards was around 4.2 million as of December 2020. Overall, this means that two thirds of all active SIM cards in Germany will be using the fourth and fifth generation of mobile networks by the end of the year.

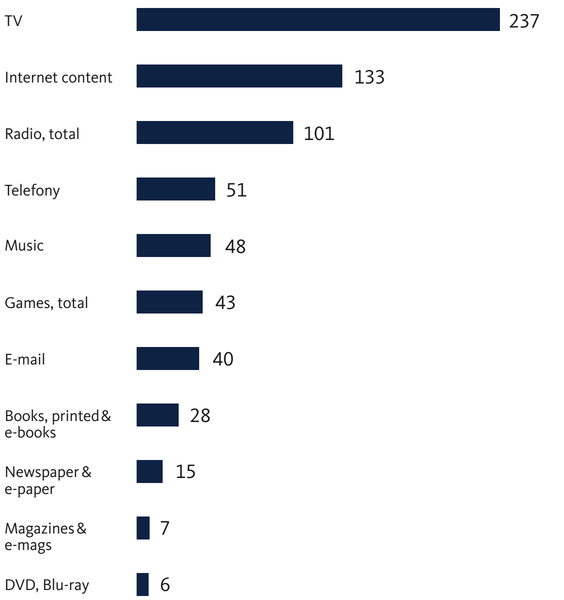
At a regulatory level, draft legislation to modernise the German Telecommunications Act (TKG Amendment) was approved by the German Federal Cabinet on 16 December 2020, thus triggering the implementation of the European Electronic Communications Code (Directive (EU) 2018/1972). The TKG Amendment particularly focuses on market regulation, strengthening customer and consumer protection, abolishing what is known as the Nebenkostenprivileg (landlords' right to add cable TV fees to rents) and regulating higher-capacity frequencies and networks. Experts expect the Bundesrat and Bundestag to approve this legislation in the first half of 2021.

TV / VIDEO MARKET

The revenue generated from subscriptions for linear television and pay TV in Germany is expected to total 5.6 billion euros in 2020 (2019: 5.7 billion euros). This assumes a slight decline of 2.6 per cent compared to the previous year. Nevertheless, the COVID-19 pandemic has once again highlighted the special significance of (linear) television. Interviews with economic experts and virologists are broadcast first-hand via this channel, offering viewers reliable and up-to-the-minute information. In addition, the centre of the population's life has been drastically shrunk down to their own four walls, making this the primary location for media consumption. The significance of television is also reflected in its daily use figures. At an average of 237 minutes of use per day, the television is still the primary source of information and content, followed by the Internet (Ø 133 minutes/day) and radio (Ø 101 minutes/day).

Figure 10: Daily usage of selected media in Germany

in minutes



Details: Germany; March 2020; 14-69 years; n-8.613; including communications media

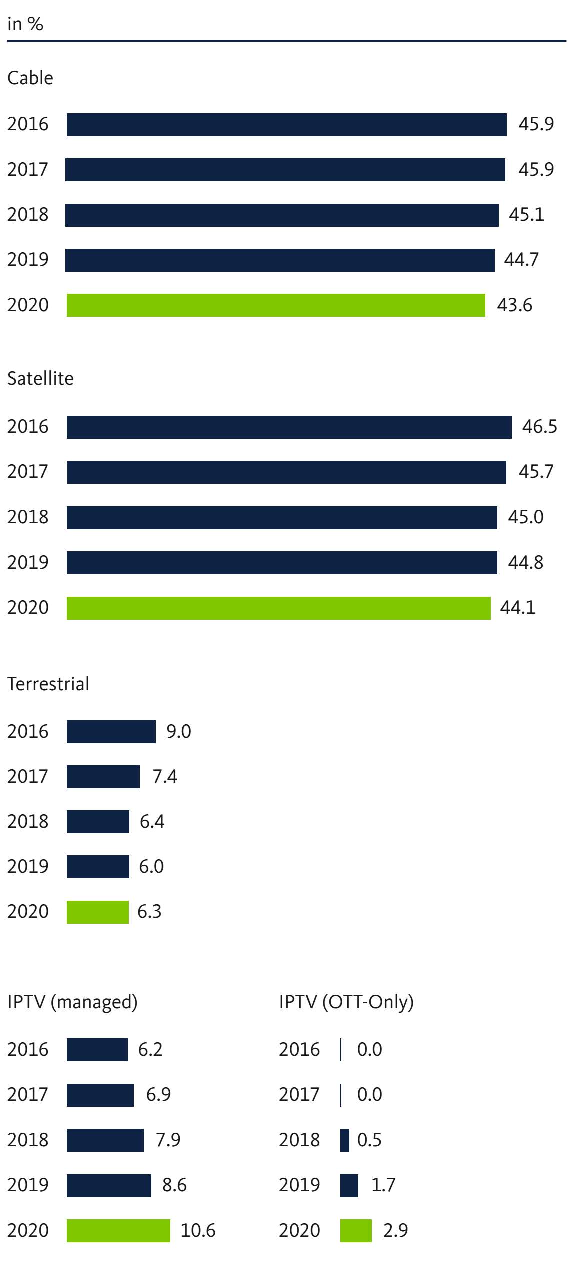
Source: SevenOne Media

Germany demonstrates a certain degree of momentum when it comes to reception types. Although around 87.7 per cent of TV households in Germany still receive their TV signal via cable or satellite, this figure fell by 1.8 percentage points compared to the previous year. Since 2016, both broadcasting methods have jointly lost around 4.7 percentage points, primarily to IPTV.

Almost 13.5 per cent of German TV households now receive their television programmes via IPTV. This is 3.2 percentage points more than in the previous year and corresponds to around 5.2 million households. With more than half a million subscribers, the OTT product waipu.tv offered by EXARING AG (a subsidiary of the freenet Group) holds a significant share in this growth market (IPTV market share (total): approx. 11.0 per cent; OTT market share only: approx. 51.2 per cent). The abolition of the Nebenkostenprivileg as a result of the TKG Amendment could accelerate the shift in broadcasting methods even further, as to date this has restricted competition and limited the freedom of choice available to consumers.

Since the completion of the switch to DVB-T2 HD in March 2017, the market share of terrestrial television reception has stabilised at around 6 per cent. 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 of broadcasting methods, 2016 – 2020



Total >100% due to multiple reception; Basis: 38.076/38.306/38.697/38.491/38.520 million TV households in Germany (n = 7,786)

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR ENDED 2020

NEW SLOGAN TO STRENGTHEN THE STRATEGIC POSITIONING OF THE MOBILCOM-DEBITEL BRAND

In May 2020, mobilcom-debitel introduced its new slogan, "Weil du es bist" ("Because it's you"), which conveys the tailored, independent advice and services we offer as Germany's most personal mobile provider in an easy-to-understand way. The mobilcom-debitel's customer service advisor is the central figure here – an approachable point of contact for all of our customers' concerns in this digital age. They serve not only as an ambassador but also as an accessible provider of tailor-made solutions.

ANNUAL GENERAL MEETING RESOLVES BY A CLEAR MAJORITY TO SUSPEND THE 2019 DIVIDEND

As a result of the coronavirus pandemic, the freenet Group held its Annual General Meeting virtually for the first time on 27 May 2020. Overall, 49.66 per cent of the registered share capital was represented, and the suspension of the dividend for the 2019 financial year was agreed by a majority of 94.47 per cent to maintain financial stability and flexibility during the coronavirus crisis.

FREENET FLEX: NEW APP-BASED MOBILE PHONE TARIFF INTRODUCED

In August 2020, the freenet Group launched the second generation of its app-based mobile phone tariffs, further expanding its digital presence in the mobile communications market. Following on from freenet FUNK, the new freenet Flex product focuses even more strongly on flexibility and simplicity.

SUNRISE INTEREST SOLD AND CAPITAL BASE STRENGTHENED FOR THE LONG TERM

In August 2020, the freenet Group made a commitment to sell its shares in Sunrise to Liberty Global for a cash purchase price of 110.0 Swiss francs per share as part of an agreement reached with Liberty Global. Upon completion of the sale of all shares (11,051,578 units), the freenet Group received cash funds in Swiss francs equivalent to around 1.1 billion euros in November 2020.

The syndicated bank loan of 610.0 million euros taken out to finance this package of shares was also repaid ahead of schedule in November 2020. This, together with the refinancing of maturing promissory note loans already carried out in July 2020, substantially eased the debt situation of freenet AG during the past financial year.

SHARE BUYBACK PROGRAMME CARRIED OUT

Between 1 September and 28 December 2020, the freenet Group carried out a share buyback programme to at least partially compensate freenet shareholders for the dividend suspended at the start of the year. Overall, 2,956,232 shares were purchased for a total price of 51.4 million euros. This corresponds to 2.3 per cent of share capital.

NETFLIX COLLABORATION REINFORCES GROUP'S POSITIONING AS DIGITAL LIFESTYLE PROVIDER

In October 2020, the freenet Group became the first mobile provider to partner with Netflix. Customers can order a tariff that includes Netflix when entering into or extending their mobile phone contract with mobilcom-debitel or Klarmobil. The collaboration also applies to IPTV product waipu.tv, which has been offering the “Perfect Plus” subscription with Netflix since August 2020.

COURSE OF BUSINESS

MOBILE COMMUNICATIONS

Postpaid customers

Amid the restrictions caused by the coronavirus crisis, the development of the postpaid customer base during the past 2020 financial year illustrates the robustness of the service provider business model in the Mobile Communications segment. Our interconnected sales channels and a high proportion of directly managed, non-retail-based channels combined with customer retention and development efforts tailored to individual requirements provide the framework for this. The first quarter (approximately 22,100 net new customers) remained virtually unaffected by the spread of the pandemic. The fact that restrictions and store closures only caused a moderate weakening in the net new customer figure in the second quarter (+14,500) demonstrates the strength and flexibility of the distribution platform. With 65,500 net new customers in the third quarter, growth multiplied compared to the previous quarter. This positive trend continued in the fourth quarter (73,700 net new customers) despite the reintroduction of strict anti-coronavirus measures and the closure of bricks-and-mortar retail from mid-December onwards. Overall, the postpaid customer base grew by around 175,800 new customers to 7.079 million during the year under review (previous year: 6.903 million).

The number of users of the new freenet FUNK and freenet Flex app-based tariffs previously not included in the postpaid customer base also rose by 22,500 during the year to 56,800 users as of 31 December 2020. As a result, the total number of comparatively highly-profitable mobile communications customers was 7.135 million (previous year: 6.937 million) – an increase of almost 200,000.

Postpaid ARPU and revenue from services

The development of postpaid ARPU is affected by the travel restrictions triggered by COVID-19 (lower roaming revenue) and (delayed) regulatory effects (international calls/roaming/mobile communications fee reduction [MNP]). After taking these effects into consideration, however, postpaid ARPU remained virtually unchanged from the previous year’s figure at 18.2 euros (–2.7 per cent). The same is true of postpaid revenue from services, which continued to make a lasting contribution to total revenue in the Mobile Communications segment during the year under review at 1,521.6 million euros (previous year: 1,540.9 million euros).

Digital lifestyle

The sale of devices, applications and services in the areas of entertainment, security, smart home and e-health have complemented our range of tariffs in the Mobile Communications segment for several years. At 188.6 million euros, the business once again made a noteworthy contribution to total revenue and remained virtually unchanged from the previous year’s level (189.9 million euros). This stable revenue performance is particularly attributable to the high proportion of subscription-based products and thus to contractually secure revenue streams comparable to postpaid revenue from services.

TV AND MEDIA

During the past year, both EXARING and Media Broadcast expanded the content offered by their waipu.tv and freenet TV products by adding new channels and partnerships. The number of waipu.tv subscribers rose during the year from 408,300 to 572,500 as of the end of December 2020. This represents an increase of 40.2 per cent or 164,200 subscribers, which means that waipu.tv once again participated in the growth of the IPTV market in Germany.

By contrast, the number of freenet TV users fell significantly during the year under review. Satellite customers were shut down due to insufficient profitability, while a 20 per cent price increase in May 2020 also had a negative impact on user numbers. As a result, the number of revenue-generating users (RGU) was 901,900 as of the end of December 2020, down 11.7 per cent on the previous year's figure (2019: 1,021,100). Nevertheless, the price increase remains profitable despite the negative trend in customer figures.

Overall, the TV customer base increased by 3.1 per cent to 1.474 million during the financial year under review, due in particular to the solid growth of waipu.tv.

Table 15: Summary of course of business in 2020

as indicated	31.12.2020	31.12.2019	Change in %
Mobile Communications segment			
Postpaid customers (in millions)	7.079	6.903	2.5
Postpaid ARPU (in EUR)	18.2	18.7	– 2.7
Revenue from services, postpaid (in EUR millions)	1,521.6	1,540.9	– 1.3
Digital lifestyle revenue (in EUR millions)	188.6	189.9	– 0.7
TV and Media segment			
freenet TV subscribers (RGU) (in '000s)	901.9	1,021.1	– 11.7
waipu.tv subscribers (in '000s)	572.5	408.3	40.2

ACTUAL COURSE OF BUSINESS VS. FORECAST

Revenue in the Mobile Communications segment remained almost stable (–1.3 per cent) compared with the prior-year figure adjusted for the disposal of the MOTION TM equity investment. Revenue in the TV and Media segment rose by 2.0 per cent year-on-year to 259.0 million euros. On the whole, revenue stood at 2,576.2 million euros, remaining stable as against the prior year exclusive of MOTION TM (2019: 2,609.1 million euros). This figure also met the forecast target.

EBITDA in the 2020 financial year amounted to 425.9 million euros, which is in the middle of the target range of 415 to 435 million euros. Free cash flow of 237.3 million euros was also within the target range of 235 to 255 million euros. The number of strategically important postpaid customers increased from 6.903 million customers at 31 December 2019 to 7.079 million customers (+0.176 million). freenet therefore achieved the goal of moderately increasing the number of postpaid customers. Postpaid ARPU during the year under review remained stable compared with previous years and the competition at 18.2 euros (previous year: 18.7 euros).

In terms of the non-financial performance indicators of the TV & Media segment, the IPTV product waipu.tv continued its solid growth in financial year 2020, showing an end-of-year subscriber base of around 0.572 million. By contrast, the number of revenue-generating freenet TV users decreased significantly, which is in line with the forecast update made in the third quarter of 2020.

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

Table 16: Comparison of forecast and actual business performance 2020

In EUR millions/as indicated	2019	February 2020 forecast (yoy change)	Conformation of forecast, Q1/2020 and H1/2020	Forecast update, freenet TV subscribers (RGU), Q3/2020	2020
Financial performance indicators					
Revenue	2,932.5	stable[1]	stable[1]	stable[1]	2,576.2
EBITDA	426.8	415–435	415–435	415–435	425.9
Free cash flow	249.0	235–255	235–255	235–255	237.3
Postpaid ARPU (in EUR)	18.7	stable	stable	stable	18.2
Non-financial performance indicators					
Postpaid customers (in millions)	6.903	moderate increase	moderate increase	moderate increase	7.079
freenet TV subscribers (RGU) (in millions)	1.021	stable	stable	significant decrease	0.902
waipu.tv subscribers (in millions)	0.408	solid growth	solid growth	solid growth	0.572

[1] Revenue for financial year 2019 was 2,932.5 million euros. This included hardware revenue of 323.5 million euros from the subsidiary MOTION TM, which was sold and deconsolidated at the end of 2019. The subsidiary was sold for strategic reasons. On an adjusted basis, revenue for 2019 would be 2,609.1 million euros (basis of the forecast for 2020).

OVERALL ASSESSMENT BY THE EXECUTIVE BOARD OF THE COURSE OF BUSINESS

In the opinion of the Executive Board, the freenet Group came through the 2020 financial year remarkably well amid all of the exceptional challenges posed by the COVID-19 crisis. Although most of the Group's own stores and other key bricks-and-mortar sales channels like Media Markt or Saturn remained closed for several weeks, the freenet Group – contrary to market expectations – achieved its target of moderate customer growth in the Mobile Communications business. The Group registered net new customer growth both in the six-week lockdown in the first half of the year and during the rest of the year. The crucial factor here was the exceptional flexibility of the omni channel sales model and its ability to adapt rapidly to the “new normal”.

The well-balanced relationship between retail and non-retail sales channels adapted to the changing conditions on a near ad-hoc basis, diverting more resources and sales activities to online channels and digital customer loyalty activities. Despite the freenet Group's proven strength in online distribution, the chain of shops will remain an integral part of the Group's overall sales strategy. In fact, the COVID-19 crisis has demonstrated how shop concepts can potentially be reimagined to offer customers even greater added value via this local presence in future.

The operating activities of the TV and Media segment also showed solid development in line with our expectations. Partnerships with companies including Netflix were expanded and products were technologically upgraded. waipu.tv remains on track for robust growth and has now established a customer base that enabled it to break even on an EBITDA basis. Overall, the past year of crisis showed that the freenet Group's customer-focused business model, based on contractually secure revenue as well as flexible cost and sales structures, is exceptionally robust in the face of “exogenous shocks”. Nevertheless, the lessons that can be learned from this stress test should be preserved for the future and converted into efficiency gains.

In addition to the immediate operational reaction to this exceptional situation, there was also a focus on ensuring the financial flexibility and stability of the freenet Group. This initially led to the decision to propose to our shareholders a suspension of the dividend for the 2019 financial year. This was primarily because the effects of the COVID-19 pandemic on the financial sector could not yet be foreseen at such an early stage, which could have made it challenging to refinance two promissory note loans totalling around 700 million euros due within the next 12 months. The proposal was supported by a clear majority of shareholders at the Annual General Meeting, bolstering the freenet Group's finances ahead of the refinancing of the promissory notes.

We succeeded in raising the anticipated promissory note volume at an attractive interest rate level as early as July, despite continuing uncertainty on the capital markets. The sale of Sunrise shares to Liberty Global for approximately 1.1 billion euros, which the Executive Board considers to have been extremely successful, further eased the Group's financial situation. As a result, the freenet Group's leverage improved from 4.8 to below 2.0 within a year and the maturity profile of the remaining borrowings was significantly smoothed out. To enable our shareholders to participate in this improved situation and belatedly compensate them for the suspended dividend, the Group carried out a share buyback programme and raised the prospect of enabling shareholders to participate in its financial success beyond the usual dividend.

Overall, the Executive Board believes that the results for the 2020 financial year provide a strong foundation for similar success in 2021 and beyond!

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

PRELIMINARY REMARK ON THE SALE OF THE SUNRISE EQUITY INVESTMENT

When comparing these 2020 consolidated financial statements with the published 2019 consolidated financial statements, the following should be noted:

In financial year 2020, the freenet Group sold its equity interest in Sunrise Communications Group AG (24.56 per cent, or 11.05 million shares), which since 2016 had been accounted for using the equity method, to Liberty Global at a cash purchase price of 110.00 Swiss francs per share. The transaction closed on 11 November 2020 and the Group consequently received an amount in Swiss francs equivalent to 1,125.2 million euros.

In these consolidated financial statements for 2020, the equity investment in Sunrise has been presented as a discontinued operation in accordance with IFRS 5. As a result, the comparatives in the income statement were restated retrospectively. The "Profit or loss of equity-accounted investments" included in the financial result was reclassified into "Profit/loss from discontinued operations". In addition, in contrast to the disclosures in the consolidated financial statements published for 2019, the assets attributable to this operation in the previous year were reclassified out of "Equity-accounted investments" and into "Non-current assets held for sale".

Consolidated revenue decreased by 356.3 million euros year-on-year to 2,576.2 million euros in the 2020 financial year. This decline was primarily due to the disposal of subsidiary MOTION TM for strategic reasons on 31 December 2019, which means that its revenue (previous year: 323.5 million euros) is no longer included in consolidated revenue and Mobile Communications segment revenue. As a result, Mobile Communications revenue in the 2020 financial year also decreased by 352.8 million euros year-on-year to 2,306.1 million euros, mainly due to the sale of MOTION TM. In the Mobile Communications segment, the number of strategically important postpaid customers with a two-year contract (7.079 million customers at the end of December 2020 compared with 6.903 million customers at the end of December 2019) grew moderately while postpaid ARPU (2020: 18.2 euros, previous year: 18.7 euros) remained stable compared with previous years and the competitors. Revenue in the TV and Media segment rose by 5.1 million euros year-on-year to 259.0 million euros, driven by price increases and a growth in the customer base.

Gross profit in the reporting period amounted to 862.1 million euros, which is down on the prior year (896.2 million euros). However, the gross profit margin rose by 2.9 percentage points to 33.5 per cent due to the sale of Motion TM's high-revenue but low-margin hardware business.

Table 17: Key figures of results of operations

In EUR '000s	2020	2019[1] restated	Change
Revenue	2,576,230	2,932,544	– 356,314
Gross profit	862,059	896,210	– 34,151
EBITDA	425,878	426,795	– 917
EBIT	262,981	269,954	– 6,973
Financial result	– 45,476	– 46,162	686
EBT	217,505	223,792	– 6,287
Consolidated profit	**561,010**	**184,732**	**376,278**

[1] Retrospective restatement due to discontinued Sunrise operations in accordance with IFRS 5.

Other operating income decreased by 14.5 million euros compared with the prior-year period to 52.8 million euros – primarily as a result of lower dunning charges and charges for reversing direct debits as well as income from the charging-on of expenses.

Other own work capitalised relates to internally generated software for IT projects and, at 22.1 million euros, is higher than the previous-year figure (20.3 million euros).

Personnel expenses fell by 6.9 million euros to 229.6 million euros (previous year: 236.5 million euros). This trend is largely due to the decrease in the average number of Group employee, primarily on account of the sale of MOTION TM as of the prior-year reporting date and the freenet Digital Group effective 30 September 2020. In addition, lower expenses from employee incentive programmes led to a reduction in personnel expenses.

Other operating expenses decreased by 39.0 million euros to 281.5 million euros, mainly as a result of lower marketing, outsourcing and IT expenses. In addition, other operating expenses mainly comprise administrative expenses (e.g. incidental costs of the shops/stores and administration buildings), billing and impairment expenses, and legal and consultancy fees.

Due to the effects explained above, EBITDA amounted to 425.9 million euros, which is comparable with the prior-year figure of 426.8 million euros. The Mobile Communications segment contributed 354.8 million euros to EBITDA (previous year: 367.3 million euros), the TV & Media segment 79.7 million euros (previous year: 73.5 million euros) and the Other/Holding segment −8.6 million euros (previous year: −14.0 million euros).

Depreciation, amortisation and impairment losses increased by 6.1 million euros year-on-year to 162.9 million euros, mainly as a result of remeasuring lease assets in connection with contract modifications.

The financial result improved by 0.7 million euros year-on-year to -45.5 million euros. The decrease in interest expenses included in the financial result by 9.1 million euros (2020: −47.6 million euros, previous year: −56.7 million euros) is mainly due to lower bank interest and unwinding of discounts on liabilities, and the remeasurement of lease liabilities. The decrease in interest income (2020: 2.4 million euros; previous year: 9.6 million euros) is mainly attributable to the final remeasurement of the put option carried out in the previous year in connection with MOTION TM, which was sold on 31 December 2019.

This has resulted in consolidated earnings before tax (EBT) of 217.5 million euros in 2020 – representing a year-on-year decrease of 6.3 million euros (previous year: 223.8 million euros) triggered by slightly higher depreciation and amortization.

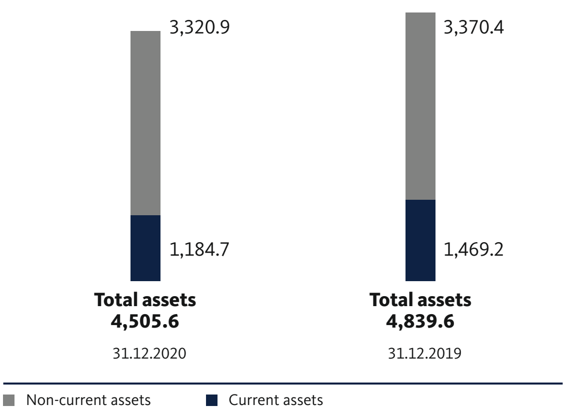
Income tax expenses fell by 24.8 million euros compared with 2019 to 27.0 million euros (previous year: 51.8 million euros). Expenses of 4.0 million euros from deferred taxes have also been netted in income tax expenses (previous year: 26.4 million euros). The improvement in deferred taxes is essentially attributable to a write-up on deferred tax assets on loss carryforwards of 9.8 million euros, while 9.6 million euros had been written off for deferred tax assets on loss carryforwards in the previous year. The current tax expenses fell by 2.4 million euros compared with the previous year, to 23.0 million euros.

Overall, the Group generated consolidated profit from continuing operations of 190.5 million euros in the 2020 financial year (previous year: 172.0 million euros). Consolidated profit from discontinued operations consists of 370.5 million euros (previous year: 12.7 million euros), which includes all expenses and income attributable to the discontinued Sunrise business unit (see note 35 of the notes to the consolidated financial statements for more details).

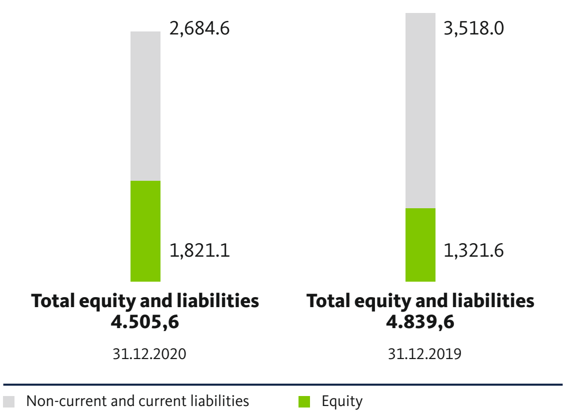
As a result, the consolidated profit reported in the 2020 financial year totalled 561.0 million euros – up from 184.7 million euros in the same period in 2019.

Figure 12: Selected balance sheet figures of the Group

Assets in EUR millions



Equity and liabilities in EUR millions



Total assets/total equity and liabilities amounted to 4,505.6 million euros as at 31 December 2020, a reduction of 334.0 million euros, or 6.9 per cent, compared with the previous year, primarily due to the sale of the package of Sunrise shares to Liberty Global.

The assets side was dominated by the steep decline in current assets of 284.4 million euros to 1,184.7 million euros. As at 31 December 2019, assets amounting to 783.9 million euros were allocated to the discontinued Sunrise business unit, which was reported within current assets under “Non-current assets held for sale” in accordance with IFRS 5. Due to the successful completion of the transaction in November 2020, this item was recognized as zero as of the end of December 2020 (see note 35 of the notes to the consolidated financial statements for more details).

Liquid assets rose by 533.2 million euros to 666.9 million euros as of the end of December 2020, primarily in connection with the inflow of cash funds from the Sunrise transaction. While the Group received a net cash inflow of 357.1 million euros from operating activities and 1,074.2 million euros from investing activities in 2020, there was a net cash outflow from financing activities of 898.1 million euros.

Trade accounts receivable, which are reported within current assets, were primarily owed by end customers, network operators, dealers and distributors and amounted to 189.3 million euros as at 31 December 2020, down 36.5 million euros compared to the previous year. This reduction was primarily attributable to receivables due from end customers, dealers and distributors.

On the equity and liabilities side, equity increased sharply by 499.5 million euros to 1,821.1 million euros (31 December 2019: 1,321.6 million euros). This positive change is primarily attributable to the consolidated profit (561.0 million euros). The main offsetting effect was due to the share buyback programme carried out between 1 September 2020 and 28 December 2020 (–51.4 million euros). However, the equity ratio rose considerably from 27.3 per cent to 40.4 per cent as of 31 December 2020.

Total current and non-current liabilities fell by 833.4 million euros to 2,684.6 million euros. Borrowings, still the largest item within current and non-current liabilities, decreased by 752.8 million euros to 940.8 million euros. This is due to early repayment of the syndicated bank loan of 610.0 million euros taken out in 2016 to finance the acquired Sunrise shares as well as the repayment of promissory note loans from 2015 and 2016 with a total nominal volume of 486.5 million euros. The latter were refinanced by a promissory note loan with a nominal amount of 345.0 million euros in July 2020 (see note 28 of the notes to the consolidated financial statements for more details).

Trade accounts payable decreased by 85.9 million euros to 379.3 million euros. This was mainly attributable to balance sheet date-related developments in connection with liabilities to dealers and hardware suppliers.

CASH FLOWS

Table 18: Key cash flow indicators of the Group

In EUR millions	2020	2019	Change
Cash flows from operating activities	357.1	364.2	– 7.2
Cash flows from investing activities	1,074.2	– 38.8	1,113.0
Cash flows from financing activities	– 898.1	– 318.0	– 580.0
Change in cash funds	**533.2**	**7.4**	**525.8**
Free cash flow [1]	**237.3**	**249.0**	**– 11.7**

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

The cash flows from operating activities decreased by 7.2 million euros to 357.1 million euros year-on-year. EBITDA declined by 0.9 million euros year-on-year, while the profit/loss from discontinued operation Sunrise rose by 356.2 million euros. Besides the adjustment of 351.0 million euros for non-cash gains on the sale of the Sunrise shares, cash flows from operating activities were also negatively impacted by cash payments of 10.6 million euros for transaction costs arising on this sale and the increase in net working capital of 3.4 million euros. The main items with a positive year-on-year impact, on the other hand, were the higher dividend payment from Sunrise in the first half of the year (2020: 46.0 million euros; previous year: 41.5 million euros) and the fall in tax payments of 2.5 million euros (2020: 28.0 million euros; previous year: 30.6 million euros).

In financial year 2020, the cash flows from investing activities developed from −38.8 million euros in the previous year to 1,074.2 million euros. This was primarily due to proceeds from the sale of the shares in Sunrise in the amount of 1,125.2 million euros. For further details, please refer to the explanatory disclosures in note 35 of the notes to the consolidated financial statements.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets (net capital expenditure), increased in 2020 by 5.6 million euros compared with the previous year to 46.2 million euros (previous year: 40.6 million euros). This was primarily due to higher investments in the TV and Media segment, for example in the "Radio DAB" area. The cash investments were financed entirely out of the company's retained earnings.

Cash flows from financing activities changed from −318.0 million euros in the prior-year period to −898.1 million euros.

Cash repayments of borrowings amounting to 1,096.5 million euros relate to the early repayment of the syndicated bank loan of 610.0 million euros taken out in 2016 to finance the acquisition of the package of shares in Sunrise and the repayment of promissory note loans from 2015 and 2016 totalling 486.5 million euros. The promissory note loans falling due were partially refinanced, resulting in a cash inflow to the Group of 342.9 million euros in financial year 2020 (new promissory note loan raised).

The share buyback programme completed on 28 December 2020 resulted in cash outflows totalling 51.4 million euros.

Free cash flow of 237.3 million euros was generated in financial year 2020, representing a decrease of 11.7 million euros compared previous year (249.0 million euros).

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. Discussions cover not only current themes, but also future internal and external developments, measures and potential opportunities. The identification, analysis and communication of opportunities, as well as their exploitation, is a corporate (management) task that is performed by the Executive Board and the responsible managers in the individual business units in a process of continuous dialogue.

freenet AG and its subsidiaries strive to offer their customers high-quality and attractively priced products combined with excellent customer service in all of their business units. In addition, the company remains focused on expanding the TV and Media segment. Internet-based television in particular offers the company the opportunity to diversify and tap new growth potential. New partnerships are further steps towards a steady increase in market penetration of waipu.tv. Continuously expanding the product portfolio and the innovative app will continue to offer opportunities to increase user numbers in future.

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

- A continued willingness of customers to pay for mobile communication devices
- A persistent trend towards mobile Internet and data use via smartphones, tablets and laptops
- Acceleration of the digital transformation in numerous areas of life and progressive expansion of digital infrastructures in Germany (e.g., 5G, public WLAN, fibre-optic connections)
- Changes in the way multimedia content is consumed and a continued trend towards customised TV programmes via streaming services
- Increasing demand for convergent bundled products (e.g. mobile communications and TV, landline or digital services)

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.

The increase in mobile Internet / data use associated with the ongoing digitalisation of our private lives as well as the related use of increasingly powerful mobile devices may lead to accelerated customer growth in conjunction with further development of the IPTV market by freenet AG, even though this accelerated customer growth is generally considered somewhat less likely.

Steadily increasing demand for fast broadband connections, coupled with the expansion of fibre-optic infrastructure in Germany, could present an opportunity in the medium term to operate in this related area in future. The positive effects of this would most likely include increased customer retention and significant contributions to EBITDA and free cash flow.

Internal opportunities for freenet AG could emerge in particular from:

- assessing and implementing strategic options in core business areas,
- continuously strengthening of the brands klarmobil, freenet Flex and FUNK in the market segment for flexible tariff and contract models, with the aim of participating even more actively in their growth,
- enhancing our established omni channel sales by expanding existing and opening new directly controllable retail and non-retail sales channels and utilising existing and new sales collaborations and partnerships,
- improving sales performance with even more customer-focused products and services and sales pitches,
- maintaining a strong service focus at all customer touchpoints and a local presence with our own shops and stores,
- marketing additional products (cross-selling), including Digital Lifestyle and TV and Media products, in conjunction with vertical growth in the product portfolio as a whole,
- (further) enhancing our own, innovative products, e.g. additional app-based tariffs,
- 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 communication media,
- continuously strengthening business relationships with suppliers to stabilise existing and develop new and improved condition models,
- 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 employee 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 and media, 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 freenet Flex and FUNK, which can only be booked via the App, will continue to create opportunities for further market penetration in the future. If our brands perform better than expected in the market for flexible tariff and contract models, this could lead to higher 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, for example, in the development of further business areas.

Both external and internal opportunities were identified. These basically remained at the same level since the previous year and could lead to an 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.

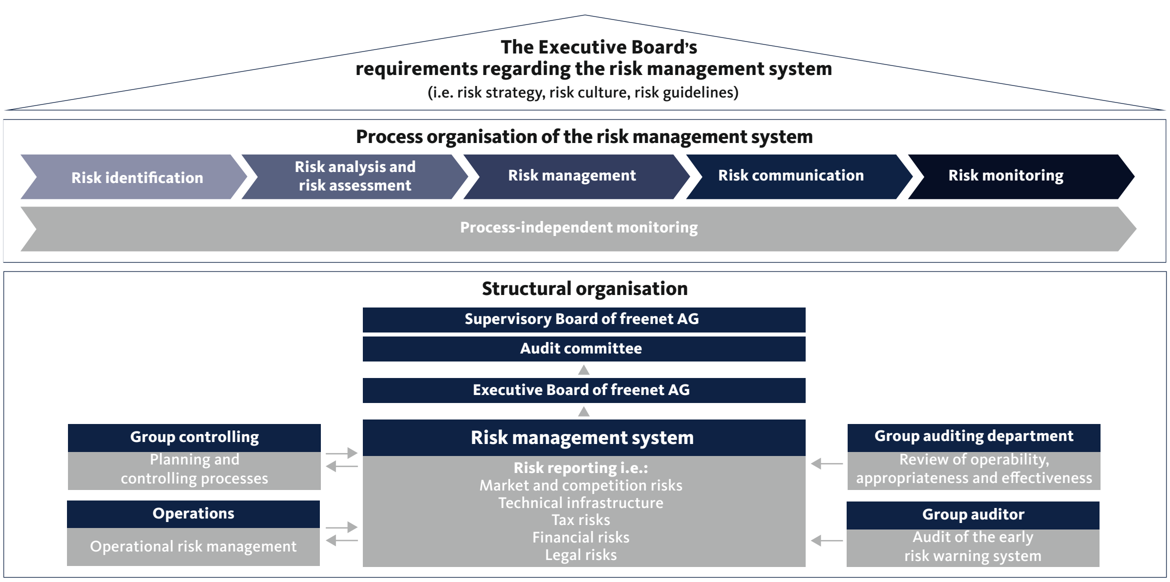
Management therefore expects business to develop as described in the report on expected developments.

RISK MANAGEMENT SYSTEM

An effective risk management system is considered essential for safeguarding a company's continued existence as a going concern in the long term. This is why the freenet AG Executive Board has set up within the Group a comprehensive early warning, monitoring and management system that integrates all Group companies and is applied only to risks but not to 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 further designed to ensure that appropriate steps are taken to deal with the identified risks, thereby averting damage to our company, our employee and our customers.

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 regularly 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.

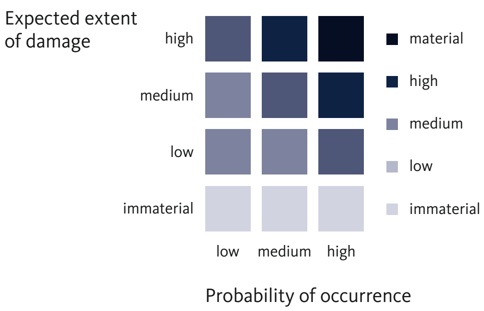
Figure 13: Process and structural organisation of freenet AG's risk management system



At least once every six months, the individual business units of freenet AG (including all of 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 14: 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, assessed 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 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 employee 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 Group 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. It is also 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, operating risks and other 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. The possible effects of the coronavirus crisis on the risk situation of freenet AG are described first.

CORONAVIRUS CRISIS

In financial year 2020, the economic and social impacts that have arisen as a result of COVID-19 and the associated lockdown and could yet arise in the future led to the recognition of new risks allocated no higher than the "medium" category and what are expected to be temporary assessment adjustments to existing risks in individual cases.

The Executive Board of freenet AG continually monitors and evaluates the dynamic circumstances and effects of the coronavirus crisis on the business activities of freenet AG. By doing this, countermeasures can be coordinated, established and communicated across the Group. This is done in close cooperation with freenet AG's risk management team. The development of the most important financial and non-financial performance indicators is continually analysed and accompanied by scenario analysis to enable the Group to react appropriately at any time.

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 may not develop as planned. 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.

Distribution

Large parts of the economy and bricks-and-mortar retail in particular are directly affected by the impact of the coronavirus crisis due to developments such as government-mandated store closures, for example. There may also be a longer-term change in consumer behaviour. It is more likely than not that measures to tackle and prevent the further spread of COVID-19 will also be needed in future and that this will result in official regulations. This would particularly affect mobilcom-debitel Shop GmbH and Gravis Computervertriebsgesellschaft mbH and their sales locations as well as all of the freenet Group's bricks-and-mortar sales channels. The countermeasures for this would include a stronger shift towards non-stationary sales channels, particularly online, and applications for short-time work to reduce personnel expenses. Overall, this represents a medium risk for freenet AG, with implications for customer acquisition, revenue, EBITDA and free cash flow.

The freenet Group has a broad distribution network. As a countermeasure with regard to the loss of distribution performance, the respective subsidiaries enter into long-term contracts with their main distribution partners and offer 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 low by freenet AG.

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 low risk for freenet AG overall.

EXARING AG has also established a monitoring procedure to track customer performance in order to take operational management measures in distribution. freenet AG considers the risk of not being able to achieve planned waipu.tv customer figures to be low.

Network operators
Bonus payments and commissions of the network operators form part of the revenue of freenet AG. Reducing these network operator premiums may increase capital commitment and marketing risk. This aspect constitutes a medium risk for freenet AG, primarily as a result of limited bricks-and-mortar sales channels amid the coronavirus crisis. 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.

Laws and regulation
Legislative changes, interventions by regulators or even landmark judicial decisions may have repercussions for the company's business models and for the possibility of acquiring and retaining customers and collecting receivables from customers. This might have a negative impact on the forecast revenue and on the amount of free cash flow. The potential impact of current legislative projects in Germany (Telecommunications Modernisation Act, Fair Consumer Contracts Act) cannot be adequately assessed at present. 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.

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

Data theft and hacker attacks

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 failure of the TV boxes. Extensive security mechanisms have been implemented in order to prevent this. In addition, information security and cyberrisk insurance policies have been taken out to cover any potential damage. 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 shareholder 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

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. 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. Finally, the appropriate recognition of loss allowances takes the risks into account. The default risk of receivables due from end customers is classified by freenet AG as medium, particularly as a result of potential long-term consequences of the coronavirus crisis such as a rise in unemployment or an increasing number of personal bankruptcies.

Extensive credit check processes are also taking place in the area of receivables owed by dealers and franchise partners, with credit limits and preventative advance payment terms being set out for critical suppliers. Reminder and debt collection processes are used in the event of a default of payment. 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. There are regularly significant 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 receivables portfolio is regularly evaluated and the collection of these receivables is also monitored on an ongoing basis. Even taking into account the effects of the coronavirus crisis, experience shows that the overall risk of bad debt losses in this area is 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 impairments might occur. 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, December 2018 and July 2020 (recognised at 940.7 million euros, including interest accruals, as of 31 December 2020) and a loan tranche in the form of a revolving credit facility of 300.0 million euros (previous year: 300.0 million euros), which, as in the previous year, had not been drawn on as of 31 December 2020.

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 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). There is a risk that banks no longer service these lines and that therefore possible liquidity reserves 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 (leverage). 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 and deriving suitable measures at an early stage.

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 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 price risks. Since the sale of its equity investment in Sunrise, freenet AG has been exposed to what are only insignificant foreign currency and exchange rate risks.

STRATEGIC RISKS

Equity investments

freenet AG holds several equity investments. It is possible that the business of these equity investments 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 AG.

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

Since March 2017, Capita has been handling the entire customer service of mobilcom-debitel as a strategic partner 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. freenet AG considers that there is a medium risk of a downturn in revenue or possible payment overall.

OTHER RISKS

Buildings at the Group's Büdelsdorf site have been identified as requiring modernisation and renovation and an appropriate amount has been budgeted. If the projected expenses or investments turn out to be higher than planned, this could have a minor impact on EBITDA and free cash flow. The risk has been classified as low by freenet AG.

OVERVIEW OF THE RISK SITUATION

The risks for freenet AG outlined above are summarised below. Risks that were recorded for the first time as a result of the coronavirus crisis or whose assessment has changed have been colour-coded separately.

Table 19: Risk overview

	Probability of occurrence	Expected extent of damage	Risk	Tendency
Market risks				
Highly competitive markets	medium	medium	medium	▶
Distribution				
Restriction of bricks-and-mortar distribution channels	medium	medium	medium	new
Loss of distribution partners	low	medium	low	▶
Customer demand for TV and media	low	low	low	▼
Network operators				
Bonuses and commission	medium	medium	medium	▲
Premiums and margins	low	low	low	▶
Shift to direct	medium	low	low	▶
Laws and regulation	low	medium	low	▶
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 risks				
Bad debt losses				
End customers	medium	medium	medium	▲
Distribution and business partners	low	low	low	▶
Impairment of the assets	low	high	medium	▶
Liquidity				
General liquidity risk	low	high	medium	▶
Constraint of financial leeway	low	low	low	▶
Mobile phone upgrade option factoring	low	high	medium	▶
Dividend payment	low	high	medium	▶
Capital risk management	low	high	medium	▶
Interest rate risk	medium	low	low	▼
Other financial risks	low	immaterial	immaterial	▼

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

	Probability of occurrence	Expected extent of damage	Risk	Tendency
Strategic risks				
Equity investments	low	medium	low	▶
Outsourcing of customer service business	low	medium	low	▶
Operational risks				
Service prices for customers in default	medium	medium	medium	▶
Other risks				
Redevelopment of Büdelsdorf office	low	low	low	new

▲ Classification in higher risk class compared to previous report
▶ Classification in same risk class compared to previous report
▼ 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, operational and other risks were identified as of 31 December 2020. The probability of occurrence or the expected extent of damage from risks has increased in individual cases as a result of the pandemic.

Their potential effects on the general future development of freenet AG and its financial and non-financial performance indicators are classified as low overall by the Executive Board. Numerous assessment made continue to be dependent upon the duration and extent of the coronavirus crisis. At this point, it is not possible to reliably and completely assess this. Taking these general conditions into account, the Executive Board expects that the positive trend forecast in the outlook will not be significantly impaired by the risks outlined. 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 on this basis develop adjusted internal standards and trainings for the responsible employee.

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 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 department 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.

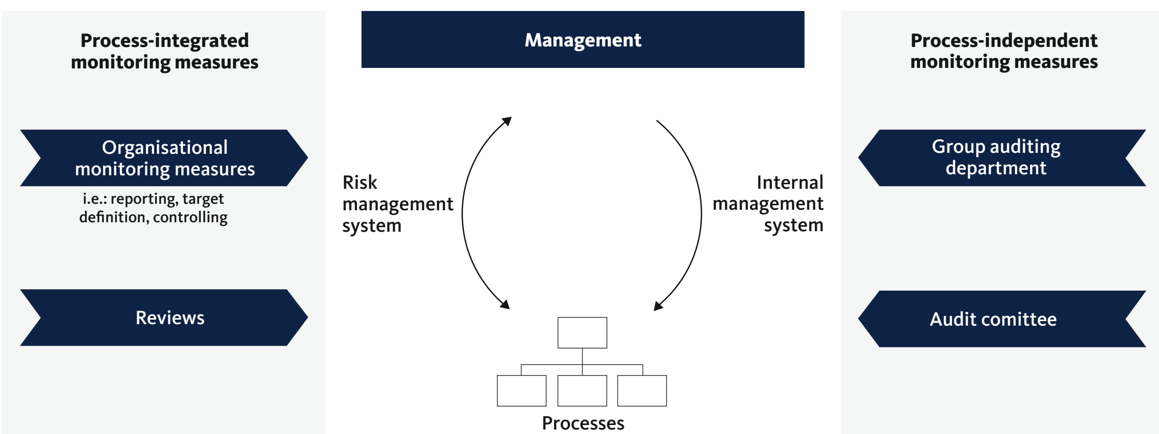
The objective of the controls implemented in the ICS for the accounting process is to guarantee that the financial statements conform to standards and to ensure that the accounting is accurate. Approval processes for issuing access rights protect the IT systems used in the accounting process from unauthorised access. Internal controls ensure the correct function of the interface between SAP-FI and the SAP EC-CS consolidation module, 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 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 audits the effectiveness of the ICS for accounting purposes from the auditor's perspective during the annual audit of the consolidated financial statements and in doing so, in particular checks the interface and reconciliations between the single-entity financial statements (SAP FI) and the consolidation module (SAP EC-CS) using a risk-based audit approach.

The risk management system is linked to the ICS 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 15: Key features of the internal control system of freenet AG



GROUP MANAGEMENT REPORT

REPORT ON EXPECTED DEVELOPMENTS

MARKET/INDUSTRY FORECAST

MACROECONOMIC ENVIRONMENT

In 2020, the worldwide health crisis caused the most severe global economic downturn in decades. Due to the spread of the coronavirus pandemic and its further impact, which is not yet completely foreseeable, economic researchers are providing cautiously optimistic forecasts for 2021 while at the same time emphasising the considerable uncertainty surrounding their estimates. Nevertheless, experts are once again expecting the global economy to recover in 2021, not least because of the political measures introduced to limit the spread of the coronavirus pandemic, progress in testing and treatment methods and the approval of COVID-19 vaccines.

On this basis, the IMF is anticipating global economic growth of 5.2 per cent compared to 2020 (as of October 2020). This means that, while the coronavirus pandemic will not affect the global economy as heavily as in the previous year, it will continue to have a severe impact in 2021.

Germany weathered 2020's year of crisis well by international standards. A robust pre-crisis national budget, a comparatively well-developed healthcare system and numerous economic policy measures introduced by the federal government are likely to continue to soften the coronavirus pandemic's negative impact on the German economy in 2021. In light of this, the IMF is expecting German gross domestic product (GDP) to increase by 4.2 per cent in 2021 (as of October 2020). The federal government itself is anticipating a 4.4 per cent rise on the previous year (as of October 2020) and is thus predicting a rather slow economic recovery.

Economic activity is only forecast to return to its pre-crisis starting point at the beginning of 2022. With regard to domestic demand in particular, it is already conceivable that the measures prescribed to limit the spread of the virus will weaken economic development in several sectors in the long term.

TELECOMMUNICATIONS MARKET

The German mobile communications sector proved to be relatively resistant to economic influences during the year of the coronavirus crisis in 2020. It is characterised by a diverse and highly competitive provider landscape from which both consumers and companies benefit equally. The results of a Bitkom survey on mobile prices show that this diversity has most recently had a positive impact on mobile prices in Germany, which are competitive and fair at the same time. Given the clear market segmentation, companies will continue to focus on reducing churn among existing customers and migrating customers from the prepaid to the postpaid segment in 2021.

According to VATM and Dialog Consult, revenue in the overall telecommunication services market in Germany will increase moderately from 58.3 billion euros in the previous year to 58.9 billion euros in 2020. As in the previous year, around 44 per cent of this total will be attributable to the mobile communications segment. German network operators also invested billions of euros in expanding the 5G and broadband networks in 2020, even broadening their expansion goals in some cases. As a result, infrastructure investments increased to 9.7 billion euros in 2020 according to the experts (previous year: 9.6 billion euros).

The digitalisation and expansion of network infrastructure in Germany is also expected to continue in 2021, and the market for telecommunication services is likely to continue on its positive trajectory. Bitkom's experts anticipate that revenue in the overall market will grow by 1.0 per cent in 2021.

It remains to be seen whether the previous momentum in network expansion will slow due to the impact of the pandemic as a result of supply chain interruptions or restrictions to mobile network operator (MNO) budgets, for example. The ongoing pandemic may also result in sales losses in the retail business or in device sales in the coming year due to additional temporary store closures, as well as another fall in roaming revenue.

There is also continuing uncertainty over the regulatory framework of the telecommunications market in Germany. The completion of the legislative process to reform the Telecommunications Act and the related incorporation into national law of the European Electronic Communications Code was originally planned for the end of 2020. Due to discrepancies between the ministries involved on individual points (such as contract periods and security requirements), the implementation of the Telecommunications Act amendment is likely to be delayed by several months, thus making it difficult for market players to plan with certainty.

TV/VIDEO MARKET

The TV and media landscape has been in a state of transition for several years now, and even here the coronavirus pandemic has accelerated the expansion of digital products and services. Conversely, non-digital business models in the traditional media and entertainment market have been forced to accept heavy losses.

After a decline in total revenue in the German media and entertainment in 2020, a study (by PwC) expects a recovery in 2021 and anticipates revenue growth of 7.6 per cent compared to the previous year. For revenues generated by subscriptions to linear television and pay TV including intermediary fees, which fell slightly in 2020, the experts predict average annual growth of 0.3 per cent between 2019 and 2024, which means that revenue will rise to 5.8 billion euros by 2024.

The television remains the most-used device for viewing video content and is still at the heart of media consumption. With the number of television households in Germany virtually stagnating, however, the provision of basic services such as the sale of television connections to new customers only offers low potential for increasing revenue. On the other hand, this business can primarily be expanded as a result of shifts in the reception types used or by bundling television reception with other services.

The trend of developing TV broadcasting methods away from traditional TV reception via satellite or cable networks and towards wireless television reception (cord-cutting trend) and the use of Internet-based services is likely to continue in 2021. The main drivers of this trend are the ongoing expansion of IPTV products and services and relatively high cable charges in Germany.

In the medium to long term, the planned abolition of what is known as cable network operators' Nebenkostenprivileg, which allows landlord's to automatically add a cable subscription to a resident's rent, in the Telecommunications Act amendment, and the proposed SD shutdown of television content via satellite could trigger an even greater shift in the distribution of TV broadcasting methods. IPTV providers in particular could profit from this. The reception of television content via DVB-T2 HD is likely to remain more stable.

COMPANY FORECAST FOR 2021: STABLE PERFORMANCE EXPECTED

Generally speaking, the developments forecast for the telecommunications and the TV / video market do not provide any grounds for changes that would have an effect on the freenet Group's current business model.

It is still not possible to conclusively assess the impact that COVID-19 and the associated lockdowns could have on economic and social life in the future. The risks to the freenet Group explicitly derived from this situation are included in the Company's risk inventory accordingly (see "Report on opportunities and risks").

Overall, the company forecast is based on our understanding of potential macroeconomic developments in Germany and the duration of government-mandated measures to tackle the pandemic (e.g. closure or restriction of bricks-and-mortar retail) at the time it was prepared (25 February 2021). In particular, if the measures taken to tackle the pandemic are significantly extended beyond the previous assumption in terms of scope and/or time, it may not be possible to meet the financial and non-financial key performance indicator forecasts.

Other assumptions considered material for deriving forecasts for the freenet Group's financial and non-financial key performance indicators are:

- Existing customer loyalty remains constant, particularly in the Mobile Communications segment
- Slight market growth in the otherwise saturated mobile communications market
- IPTV continues to increase its market share among television broadcasting methods
- No unexpected state or regulatory interventions occur
- Cost savings from the 2020 financial year prove to be largely sustainable

The expectations for 2021 are set out below and are based on the assumption of a comparable Group structure. All statements are formulated in relation to the previous year, while the following pattern applies to qualitatively comparative forecasts: significant decrease, marked decrease, moderate decrease, stable, moderate growth, solid growth, significant growth.

The financial performance indicators are expected to develop as follows in 2021:

- Revenue for financial year 2020 was in line with expectations at 2,576.2 million euros. Revenue is likely to remain stable overall in 2021. This expectation is based on moderate revenue growth in the TV & Media segment and stable performance in the Mobile Communications segment.
- At 425.9 million euros in the reporting period, EBITDA was on a par with the previous year (426.8 million euros) and in the middle of the forecast range of 415 to 435 million euros. Overall, this indicates stable business performance. EBITDA of 415 to 435 million euros is anticipated for 2021.
- At 237.3 million euros in the reporting period, free cash flow was likewise in line with expectations. The free cash flow figure includes a positive effect of around 36.0 million euros from the equity investment in Sunrise (2020 dividend less interest payments) that will no longer be recognised in free cash flow in future due to the disposal of the Sunrise shares in November 2020. If adjusted, this would result in free cash flow of 201.3 million euros for 2020. Free cash flow of between 200 and 220 million euros is anticipated for 2021.
- Postpaid ARPU remained stable during the financial year ended at 18.2 euros. Similarly stable performance is also expected for 2021. No positive effects are anticipated from the introduction of 5G tariffs, for example.

Table 20: Forecast of financial performance indicators

In EUR millions/as indicated	2020 reference value	Forecast for 2021
Financial performance indicators		
Revenue	2,576.2	stable
EBITDA	425.9	415 – 435
Free cash flow (without Sunrise contribution)[1]	201.3	200 – 220
Postpaid ARPU (in EUR)	18.2	stable

[1] Free cash flow adjusted for 2020 dividend from Sunrise (46.0 million euros) and interest payments in 2020 on the syndicated bank loan (approx. 10 million euros).

The non-financial performance indicators are expected to develop as follows in 2021:

Table 21: Forecast of non-financial performance indicators

In millions	2020 reference value	Forecast for 2021
Non-financial performance indicators		
Postpaid customers	7.079	moderate growth
freenet TV subscribers (RGU)	0.902	moderate decrease
waipu.tv subscribers	0.572	solid growth

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

The COVID-19 pandemic meant that 2020 was both a socially and an economically challenging year for Germany and the entire world. However, the German information and communication technology sector, which had already proven robust and less vulnerable to economic fluctuations during the global financial crisis more than ten years ago, has come through this exceptional situation reasonably unscathed so far. In particular, the subscription-based business model and increased need for mobile working and virtual collaboration during the coronavirus crisis has protected this industry.

In the view of management, the same applies to the freenet Group. All of the targets set prior to the coronavirus crisis have been reached and shareholders are set to participate significantly in this commercial success once again. As a result, the freenet Group's management is also entering the 2021 financial year with confidence. As the forecast issued for 2021 assumes that the pandemic will continue to prevail, our expectations for the business continue to be characterised by stability and continuity.

In the Mobile Communications segment, we intend to continue participating in the market's moderate growth and expand the base of postpaid customers that forms the main pillar of this segment. 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 of the customer.

In the TV and Media segment, the freenet Group's management is striving to grow both in financial terms and with regard to customer numbers. The IPTV product waipu.tv will remain the main driver of this growth.

GROUP MANAGEMENT REPORT

REPORT ON POST-BALANCE SHEET DATE EVENTS

On 2 February 2021, the Executive Board of freenet AG adopted a resolution, with the approval of the Supervisory Board, to launch another share buyback programme (2021 Share Buyback Programme). Under this share buyback programme, up to 9.75 million of the company's shares (which equates to around 7.61 per cent of the share capital of 128,061,016 euros) are to be repurchased through the stock market. The share buyback programme totals up to 135 million euros in amount, is to begin on 25 February 2021 and will run until 31 December 2021 at the latest.

Furthermore, the Executive Board intends to propose to the Annual General Meeting that a dividend of 1.50 euros per share be paid for the 2020 financial year. The Executive Board also plans to pay a special dividend of 0.15 euros per share in financial year 2021. In total, therefore, an amount of 1.65 euros per eligible share would be distributed to shareholders in 2021.

Furthermore, on 2 February 2021, the Supervisory Board of freenet AG announced that it had renewed the contracts of Executive Board members Antonius Fromme (Chief Customer Experience Officer) and Rickmann v. Platen (Chief Commercial Officer) expiring in May 2021 by five years until 31 May 2026. The appointment of freenet AG's Chief Financial Officer, Ingo Arnold, was likewise extended by five years until 31 December 2026. In addition, Ingo Arnold was appointed Deputy Chairman of the Executive Board of freenet AG with effect from 1 January 2021.

GROUP MANAGEMENT REPORT

NON-FINANCIAL STATEMENT *

ABOUT THIS REPORT

BUSINESS MODEL

The operating activities of freenet AG, which has been listed at the Frankfurt Stock Exchanges since 2007, and its subsidiaries are limited mainly to private customers and to the German market. The majority of the more than 2.5 billion euros in revenue is generated with mobile communications and mobile Internet services. 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 to complement its Mobile Communications business, 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 40 – 43 of the Group management report.

MATERIALITY ANALYSIS

When preparing the initial non-financial statement in 2017, freenet 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 22: Material issues assigned to CSR RUG aspects and GRI standards

Material issues	Aspect of the CSR-RUG	Corresponding GRI standards
Employee	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

The review of the materiality analysis as part of the aforementioned process is planned for 2021. Irrespective of this, internal stakeholders are asked annually whether their assessment of materiality has changed fundamentally. 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). The analysis found that measured in terms of the legal materiality criteria [1] for reporting non-financial risks, and after the implementation of risk-mitigation measures, none of the identified risks is of a material nature as defined in the RMS established Group-wide 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. 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 2020 to 31 December 2020 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 by way of a limited assurance engagement (for the audit report see the "Further information" section). This engagement was conducted based on the International Standard on Assurance Engagements ISAE 3000 (revised).

MATERIAL ISSUES

EMPLOYEE

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 employee who effectively put their expertise and skills to use for the company's benefit. The company has launched a number of different measures and programmes in support of these efforts, and additionally prioritises occupational health and safety. 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.

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 Group-wide issues and questions of strategy involving personnel recruitment and development. The freenet Group's human resources strategy 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.

Organizational development involves preparing plans for organizational change that actively support managers in implementing them, addressing topics relating to the promotion of diversity, and creating the environment for modern working models. We will further improve our appeal as an employer by focusing on attracting employee in a challenging market that favours applicants. Employee retention

* 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.

is another key focus. The most important fields of action in this context are continuing professional development (CPD) and learning. Good leadership is an essential prerequisite for pursuing goals and, in particular, achieving them. Since 2015, we have therefore 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 on the new world of work, we aim to analyse and address digital transformation issues and new working practices.

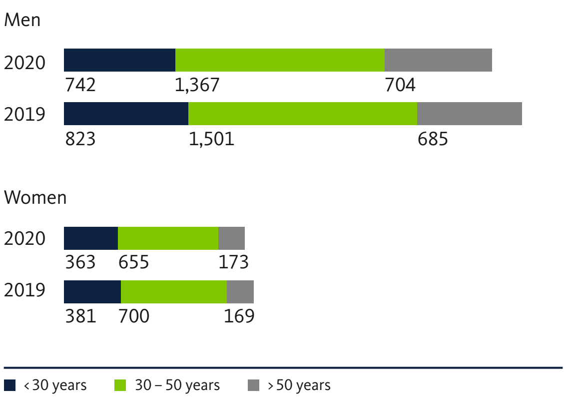
Diversity

The diversity of its workforce reflects the history and success of the freenet Group. The workforce currently comprises employee of 60 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 as a key value underlying cooperation and leadership in the Group ("We leverage our diversity"). Diversity comes alive in our company even in our hiring process and then is reflected in our daily work through various programmes, management tools/courses and training events.

Executives setting examples in their conduct, generally applicable principles of conduct and attentive cooperation – supported by Human Resources – further serve to ensure that there is no discrimination, especially when it comes to hiring, promoting, paying and training staff. Explicit attention is paid to possible grounds for discrimination under Article 3 of the German Constitution, such as age, disability, ethnic origin, marital status, race, religion, gender, sexual orientation, social origin and other personal characteristics. As in the previous years, there were no cases of discrimination in the Group to be addressed in 2020.

Gender diversity is a focus topic because 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 targets of ensuring that 30 per cent of first-level and extended senior managers are women by 31 December 2021 (for more details please refer to "Corporate Governance Statement").[2] Of the Group's salaried employee, 29.3 per cent are women, which is roughly level with the previous year (2019: 29.8 per cent; 2018: 28.9 per cent).

Figure 16: Employee by gender and age



Employee attraction and retention

Attracting and retaining staff and increasing its attractiveness as an employer is a central pillar of freenet's human resources strategy. Employee turnover[3] and external recruitment are key indicators for measuring employer attractiveness. A total of 444 employee (2019: 595; 2018: 632) were hired and recruited in 2020. In 2020, employee turnover in the Group again was down year-on-year, standing at 10.6 per cent (2019: 11.9 per cent; 2018: 13.7 per cent). Employee turnover at the mobilcom-debitel stores and GRAVIS stores also decreased compared to the previous year to 25.4 per cent (2019: 30.8 per cent; 2018: 30.0 per cent). The reduction in staff turnover is driven by a general COVID-19 effect on the world of work, but at the same time also continues the positive trend of recent years that the freenet Group has been aiming for.

[2] Disclosures on the diversity plan for the Supervisory Board and Executive Board are provided in the Corporate Governance Statement.
[3] Number of employee (salaried employee) who leave the organisation voluntarily or due to dismissal, retirement, or death (exits) as compared to the average number of employee [(Exits * 100) / Ø Number of employee].

Table 23: New hires and employee turnover[4]

Number	2020			2019			2018
	Total	Men	Women	Total	Men	Women	Total
New hires at the freenet Group (without Shops/Stores)	**232**	**145**	**87**	**281**	**162**	**119**	**264**
thereof <30 years	78	43	35	92	49	43	n.a.
thereof 30 – 50 years	138	91	47	171	101	70	n.a.
thereof >50 years	16	11	5	18	12	6	n.a.
New hires at Shops/Stores	**212**	**178**	**34**	**314**	**248**	**66**	**368**
thereof <30 years	153	124	29	220	169	51	n.a.
thereof 30 – 50 years	57	52	5	91	76	15	n.a.
thereof >50 years	2	2	0	3	3	0	n.a.
Employee turnover at the freenet Group (without Shops / Stores) in %	**10.6**	**11.1**	**9.4**	**11.9**	**12.0**	**11.9**	**13.7**
thereof <30 years	20.1	21.7	18.0	21.6	23.2	19.5	n.a.
thereof 30 – 50 years	11.0	12.8	7.7	11.0	11.0	11.0	n.a.
thereof >50 years	6.4	6.1	7.7	10.1	10.5	8.5	n.a.
Employee turnover at Shops/Stores in %	**25.4**	**26.6**	**22.1**	**30.8**	**31.0**	**30.2**	**30.0**
thereof <30 years	36.5	37.5	33.3	45.9	44.5	49.6	n.a.
thereof 30–50 years	19.3	20.5	15.9	20.8	21.8	17.8	n.a.
thereof >50 years	7.0	7.1	7.1	10.8	15.2	0.0	n.a.

We continually evaluate relevant employer rating platforms to determine actions we can take to increase our attractiveness as an employer. In addition, a Group-wide exit survey of employee (not including Media Broadcast) has been conducted since 2019 along with a target group-specific selective survey at GRAVIS Vertriebsgesellschaft mbH and mobilcom-debitel Shop GmbH. The results are analysed quarterly so that we can take appropriate measures to counter undesirable developments.

In the interest of viewing the coronavirus pandemic as an opportunity, the Executive Board, senior management and the HR department have held in-depth discussions to define our attractiveness as an employer more precisely than before in terms of the flexibility with which we deal with various employee needs going forward. As a result we issued a statement in August 2020 in recognition of the way all of our lives are changing that transparently outlined existing and new principles for the work environment in the freenet Group.

The focus here is on collaborating with each other in a spirit of trust and partnership at all levels of the Group. We intend to more heavily factor in the life circumstances of each employee and avoid issuing blanket rules so that we can provide a better balance between work and life in the interests of both the company and our employee. Last, but not least, flexible working time models promote work-life balance. Possibilities include flexible shift models in our shops and logistics operations, working from home for field sales staff and mobile working in many locations for back office staff. Media Broadcast has innovated the work week: employee there have been working a four-day week since 2019, a schedule that has met with general satisfaction. On the whole, the commitment to addressing the changing world of work contributes to increasing awareness of responsibility and discipline on the part of both the company and employee.

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

Other projects aimed at positioning the Group as an attractive employer both inside and outside the company in 2020 were as follows:

- We expanded a scheme whereby mothers and fathers employed by the freenet Group who are on parental leave are regularly provided with information about their team and the company by one of their team colleagues, who also invites them to important meetings. This successful programme in place for several years now was expanded in 2020 and will be implemented as a digital process in early 2021.
- We stepped up the use of successful communications channels and platforms for collaboration already in place: "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, and town halls, in which the CEO gives an update on current issues in the freenet Group in a 45-minute live video once a quarter and employee can also ask questions and have them answered on the spot. Moreover, two 60-minute Executive Board dialogues were held in 2020 with selected employee on the topics of sustainability and culture. These involved employee and the CEO discussing these issues in the context of freenet and its business activities, and developing possible new ideas and suggestions for improvement.
- The short-form "Information in 30 Minutes" ("Wissen in 30 Minuten") channel continued regular coverage of relevant issues in the departments by employee for employee in 2020.

Above and beyond these efforts, the freenet Group allows employee to share in the company's profits by way of variable remuneration. Besides the company pension plan with an employer contribution, employee of the freenet Group have also been offered the opportunity to obtain disability insurance requiring a less extensive medical examination since 2016. Site-specific benefits are also provided (e.g. discounts on wellness services, massages and meal subsidies). For the most part, no distinction is made between full-time and part-time employment when granting 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.

In 2020, the freenet Group again received several awards for its employer brand:

- Focus Money's "TOP Karrierechancen" ("TOP Career Opportunities") title: A total of 22,500 major corporations headquartered in Germany were surveyed for this award.
- "LEADING EMPLOYER Deutschland 2020" seal: This designation is awarded only to the top 1 per cent of all employers in a country and is the most comprehensive assessment of employer qualities of its type. The title is awarded based on an independently conducted analysis of several million pieces of meta data. On the whole, the report analysed more than 100,000 companies worldwide.
- "Faires Trainee-Programm" ("Fair Trainee Programme") seal by Trendence for the Group's specialist trainee programme.
- Media Broadcast was also voted among the ten most family-friendly employers in Germany's telecommunications industry in a report by Freundin magazine and kununu.

Training and continuing professional development (CPD)

The pace of change in the telecommunications market and the increasing digitalisation of workflows and processes pose new challenges and place new demands on employee, and make reinforcing and advancing their skills essential. Developing and promoting the skills of the workforce in line with the company's requirements is a key ingredient for the freenet Group's progress and fitness for the future.

The company-wide competency model [5] effectively develops employee skills and serves as a guide in selecting and designing measures to accomplish this goal. Based on the competency model, binding performance reviews are held annually by managers with their employee. In addition to evaluating the employee's competencies, another priority in the review is identifying individual areas of focus and development activities. In 2020, the participation rate stood at around 95.7 per cent (2019: 96.1 per cent; 2018: 90.6 per cent).

In 2020, the Weiterentwicklung@freenet online education portal launched in 2018 was expanded into a learning management system (LMS) with the goal of encouraging independent study by freenet employee. The system provides one-stop shopping for all training and CPD opportunities, whether in-person or online. In addition to the standard range of training programmes available to executives for employee development, the LMS also offers all employee access to their educational history, upcoming training sessions and especially a comprehensive catalogue of independent study and CPD options. A total of 1,234 employee have used the new LMS.

The introduction of the LMS tripled the number of online training opportunities available (2020: 114, 2019: 35), increased transparency regarding CPD opportunities and made accessing content much easier. The new platform also offers a large variety of formats for training to suit all types of learners and situations. The portfolio of online classes for employee covers a very broad range of subjects such as ethics, sustainability, learning from mistakes, design thinking, agile principles, business English, and even finding happiness at work and communicating with peers. Much of the content in the LMS is also presented by in-house experts. The aim here is to transfer expertise within the Group to other employee and therefore help build a general training culture that supports learning from others.

A separate communication channel called Weiterentwicklung@freenet was set up on the in-house communication platform Yammer to promote transparency in the flow of information to employee. It goes without saying that time spent on training during regular business hours is considered work time. After all, the company's overall business success depends on the training and professional development of individual employee. Alongside this culture-changing initiative, senior managers received personnel development training to in turn improve their skills in employee development. Training courses covering topics such as "Developing and Coaching Employee" and "CPD and Leadership – What Is Your Role?" were offered to all senior managers.

In total, employee throughout the Group [6] completed 18,983 hours of training in 2020 (2019: 28,177 hours), 6,805 of which were online training hours (2019: 1,459 hours). In the year under review, this equalled an average of 6.7 hours of formal training per employee (2019: 9.8 hours), an average of 2.4 hours of which was training conducted online (2019: 0.5 hours per employee). The decline in training hours completed from the previous year and the shift toward the increased use of online training options was largely due to the effects of the coronavirus pandemic. Our declared goal is to continually increase the average formal training hours completed per employee.

A separate training unit is responsible for providing continuing education to employee of the mobilcom-debitel shops and GRAVIS stores due to their specific requirements and customer-facing business. This unit provides the shop and store employee with various training courses, e-learning options, programmes and individual coaching sessions. As early as 2018, a structured, four-level top consultant programme for sales representatives was successfully implemented at mobilcom-debitel Shop GmbH. In 2020, the mauiCAMPUS training platform was redesigned and the technology upgraded. All shop and store employee can now also use this platform as a mobile app (on iOS and Android phones). We improved not only existing processes such as participant management and the video channel, but also included new functions, including the coaching process and a podcast function. All told, more than 1,000 users have accessed the new mauiCAMPUS via the app.

In 2020, shop and store employee attended a total of 33,421 hours of specially tailored training and CPD sessions (2019: 36,165 hours), 13,475 hours of which were completed online

[5] 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.

[6] Learning hours of employee in the mobilcom-debitel shops and GRAVIS stores are reported separately due to their highly specific nature.

(2019: 12,948 hours). This came to an average of 26.5 hours of training, or 1.1 training days, per shop/store employee (2019: 27.5 hours per employee), 10.7 hours per employee of which was conducted online (2019: 9.8 hours per employee). The variety of subjects covered by this training and CPD runs from product and sales events to topics such as fraud and occupational safety, which are delivered in various formats like video, podcasts, e-learning courses, and online and classroom training sessions.

In addition to continuing to develop employee, the freenet Group takes its responsibility to society and the younger generation seriously and has created multifaceted training options that serve as 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 across Germany every year, which consist of a total of 20 training courses. 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. In 2020, 10 participants successfully completed this programme (2019: 10 participants). The number of students participating in "dual studies" was 43 (2019: 32; 2018: 27), and a total of 328 employee were in training at more than 150 sites (2019: 336 employee; 2018: 325 employee).

Moreover, the following specific programmes and measures were carried out in 2020:

- An e-learning course outlining all of the freenet Group's entities and companies was added to the existing onboarding programme used throughout the Group to increase knowledge of the company and promote a feeling of belonging. In addition, a job rotation option for all senior managers was integrated into the onboarding process with the objective of providing new managers with specific information on the company.[7]
- A total of 26 courses focused on developing senior management were run and 67 measures were implemented in 2020.[7]
- In this exceptional year, many planned in-person training courses were held online instead and additional products (e.g. digital work dates) were offered to support employee directly in the current climate.
- A repeat of the "freenet entrepreneur" programme to promote high-performing and high-potential employee with the aim of establishing employee as entrepreneurs within the company. A hackathon was again held as part of the programme. Nine participants worked on solutions to a problem assigned by the Executive Board using agile methods.
- We also implemented many different projects to establish new ways of working and introduced focused corporate culture initiatives presented as digital keynotes and workshops to improve cooperation and break down silos.

Table 24: Key figures on training and continuing professional development (CPD)

Unit as specified	Unit	2020	2019	2018
Implementation of annual performance reviews	%	95.7	96.1	90.6
Qualification activities within the Group	Number of learning hours	18,983	28,177	n.a
thereof in a digital format	Number of learning hours	6,805	1,459	n.a
Formal learning time per employee in the Group	Avg. number of learning hours/employee	6.7	9.8	n.a
thereof in a digital format	Avg. number of learning hours/employee	2.4	0.5	n.a
Qualification activities at shops/stores	Number of learning hours	33,421	36,165	n.a
thereof in a digital format	Number of learning hours	13,475	12,948	n.a
Formal learning time per employee at shops/stores	Avg. number of learning hours/employee	26.5	27.5	n.a
thereof in a digital format	Avg. number of learning hours/employee	10.7	9.8	n.a
Vocational trainees	Number	328	336	325
thereof dual students	Number	43	32	27

[7] Due to different system requirements, this does not apply to Media Broadcast, EXARING and The Cloud.

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 employee. Occupational health and 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 employee 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. Human resources development offers special training courses for managers on dealing with employee illness and absence and leading healthy teams. The latter aim to enable senior managers to ensure not only a safe, but also a healthy, workplace.

The coronavirus pandemic once again clearly highlighted our occupational health and safety responsibilities to each and every employee. The freenet Group reacted without delay to the new situation by putting in place the new SARS-CoV-2 occupational safety standard developed by Germany's Federal Ministry for Labour and Social Affairs. Very quickly, all employee were provided with VPN access so they could work from anywhere. Rolling A/B shifts and physical distancing and hygiene rules ensured a safe environment in cases where in-person work could not be avoided. At the same time, we considered it essential to quickly identify the fears and uncertainties experienced by our staff. Notices were issued and townhalls with the CEO were held at regular intervals to provide information and answer questions on the results of general and physical hazard assessments and the newly applicable rules of conduct at the various sites. Moreover, we distributed protective masks and equipped the sites with notice boards featuring hygiene and ventilation rules and, if necessary, safety barriers.

In order to promote the health of the workforce in general and maintain it in 2020, a year marked by a major health crisis, we held mainly online exercise classes under the banner of #wirbleibenaktivundgesund (#stayingactiveandhealthy). Employee were able to attend live exercise sessions from home or choose from a wide variety of recorded classes in video libraries. We were unable to hold our usual health days on-site this year, so an online version was tested at some of the sites. In the summer months, some events, such as the G37 eye exam, were held in-person. Employee showed great interest in our company's free flu vaccine programme this year. They could make appointments for the various health events using a new appointment app developed in cooperation with the IT department, which greatly simplified the process for all participants.

In addition, the members of the occupational safety committees conduct site walk-throughs to identify possible ways to improve working conditions. Persons responsible for the various locations can access a separate section of the intranet concerning health topics. A separate Yammer channel was launched this year named "aktiv & gesund" ("active & healthy"). Employee were able to use this to access exercise sessions and tips and tricks on general health topic and more specifically remaining healthy while working remotely. People responsible in this area meet at regular intervals across sites and organise issue-specific workshops when necessary. The absentee rate [8], which is reported to the Executive Board monthly, was again low in 2020, standing at 4.6 per cent (2019: 4.6 per cent; 2018: 4.8 per cent).

Safety at work is particularly relevant at Media Broadcast due to its specific activities. Of the 613 employee (2019: 650; 2018: 673) 131 (2019: 142; 2018: 145) are involved with the maintenance and possible repair of transmission masts and antennas, some of which are very high. Accordingly, precautions have been taken to comply with the stringent safety requirements to protect workers in these particular areas: These employee 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 employee 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.

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

The further drop in the rate of accidents occurring at work and on the way to/from work [9] in all areas of the company resulted from a combination of an unchanged high level of workplace safety, including the applicable training, and coronavirus-driven rules on remote working. In 2020 there were no deaths in the Group due to work-related injuries and no severe work-related injuries.

Table 25: Occupational injuries and commuting accidents

Per 1,000 employee	2020	2019	2018
Group	**16.2**	**23.6**	**31.4**
thereof industrial accidents (accident reports/notes)	10.4	15.2	19.5
thereof commuting accidents	5.9	8.4	11.9
Media Broadcast	**10.4**	**14.8**	**41.3**
thereof industrial accidents (accident reports/notes)	5.2	6.6	24.5
thereof commuting accidents	5.2	8.2	16.8

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 telecommunication 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. The company's network traffic is technically analysed for security incidents so that countermeasures can be established at an early stage. Several initiatives to further improve data security were implemented in 2020.

External partners provide support for incident response (e.g. crisis management, communications, preservation of evidence) in the event of a cyberattack 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 operation in all IT functions. In this way, the freenet Group is able to respond quickly and in an appropriate manner to changes in threat scenarios. The entire IT system landscape as well as the security level in the Group's own data centre meet the legal requirements and correspond to the current state 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 freenet's own data centre in Düsseldorf. [10] Both companies have implemented an Information Security Management System (ISMS) establishing procedures certified according to ISO 27001 to ensure information security in the case of outsourced data processing. This ensures the basis for contract design, monitoring and auditing for standard-compliant requirements for outsourced data processing.

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 the Group's infrastructure and processes are also regularly subjected to routine testing by regulators focusing on different areas. In 2019, the most recent 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

[9] Frequency of accidents per 1,000 full-time employee [((industrial accidents + commuting accidents) * 1,000)/Number of full time employee].
[10] 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.

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.

The customers of the freenet Group 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. Content is regularly evaluated for comprehensibility, taking account of customer enquiries from the Customer Care Center. In addition, every customer can request information regarding the data stored about them and can request them to be corrected or erased. 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 consent granted as well as change them as necessary.

All employee are required to comply with both data protection requirements and the freenet Group's regularly updated confidentiality instructions. They can also access a comprehensive wiki and online training on data protection and data security at any time for their own training. 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 the Group's 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 approximately 8.5 million customers with fixed-term contracts and more than 4,000 employee, freenet received only a very small number of data protection complaints in 2020. Most of these were queries regarding the fulfilment of data subjects' right of access 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 – BBK) and also of the Federal Office for Information Security (Bundesamt für Sicherheit in der Informationstechnik – BSI) to protect critical infrastructure: 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.

In 2020 Media Broadcast became one of the first companies in Germany to be named an operator of critical media and culture infrastructure as part of the National Strategy for Critical Infrastructure Protection (CIP Strategy). As a CIP company, Media Broadcast was a standout in fulfilling its mission to safeguard media and culture infrastructure during the pandemic. To this end, core processes and mission-critical tasks comprising our pandemic and crisis management systems were analysed, refined and implemented in the company in preparation for the CIP Strategy.

CUSTOMER MATTERS

In a saturated 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 their individual needs. The Chief Customer Experience Officer (CCE) is responsible for all activities from attracting new customers through maintaining relationships with existing customers to winning back former customers as well as reinforcing a customer-focused corporate culture. To implement these plans, a central organisational unit was set up to deal primarily with the topic of "customer experience".

The aim is to consistently align the brands and products with the respective needs and expectations of customers in order to strengthen customer acquisition and loyalty and also to remain economically successful in the long term. This also includes treating customer data as confidential and complying with data protection regulations (see "Digital responsibility" section), and strict implementation of consumer protection legislation. Customers therefore enjoy wide-ranging transparency regarding our prices and services in accordance with the applicable laws.

The strategy of putting customers first is based on improving customer satisfaction and follows three main principles:

Figure 17: Customer satisfaction guiding principles

Customer satisfaction by way of service quality

Service quality is considered to be a strategic asset in the freenet Group with its almost 8.6 million subscribers, because meeting customer expectations improves loyalty and enables us to unlock cross-selling and up-selling potential. The freenet Group's service approach includes customer service by phone, a comprehensive range of digital contact opportunities for customers and the integration of the shops. Implementation of a virtual communication system for shops in 2020 expanded the ability of shops to take phone calls from all customers and interested parties during the coronavirus pandemic. This effort intended to permanently ensure that customers are able to contact shops and receive consultations, particularly during lockdowns, but also as a general rule.

A key element required for a customer-centric approach is analysing the main drivers for contact with customer service. The results of the analysis will be used both to proactively avoid potential uncertainty during the customer experience as well as to systematically improve service quality. The following firmly established measures support these efforts:

- Systematic contact analysis across all service touchpoints
- Incorporation of various third-party market research studies
- Carrying out regular customer satisfaction analyses (CSAs)

Our customer satisfaction analysis generates information about satisfaction, expectations and potential for improving the customer experience. This enables us to specifically measure perceived service quality over the entire customer life cycle at all service touchpoints. In addition to continually updating the customer experience, achieving long-term customer loyalty (churn reduction) is a key aspect of the CSA. The CSA builds on an established KPI and target system for this purpose and therefore enables us to make clear and reliable determinations about service quality.

This is measured in three different categories:

1. Customer satisfaction triad: Measurement of overall satisfaction (percentage = how many customers are satisfied (score 2) or very satisfied (score 1)) along with the intent-to-repurchase and net promoter score.
2. Agent score: Measurement of overall satisfaction with the employee and the technical, social and methodological skills of the customer service agent.
3. First-contact resolution (FCR): Measurement of whether customer queries could be resolved during the first contact.

Figure 18: Results of the CSA as of 31 December

in % / as indicated

* Numerical rating scale from 1 (very good) to 5 (poor).

In the interest of remaining viable and competitive in the future with regard to offering phone-based customer service in particular, the freenet Group outsourced customer service to an external company – namely Capita Customer Services (Germany) GmbH. The Customer Service Management (CSM) department secures collaboration with this partner. A comprehensive management structure and ongoing analysis of customer contacts guarantee that agreed performance indicators are met and service quality is continually improved based on the factors mentioned before.

This service approach also transfers to the TV and Media segment. Media Broadcast's entire value chain is certified in accordance with the ISO 9001 quality management standard. This certification is the basis for and the central element of our consistently high service quality and resulting customer satisfaction. EXARING AG under its waipu.tv brand received the German Fairness Award in 2020. This consumer survey reflecting the population awarded high marks to the IPTV product in three areas: value for money, reliability and transparency.

Customer satisfaction by enhancing digital dialogue

Since 2018, the freenet Group has focused on strategically enhancing its digital dialogue with customers to further boost customer satisfaction. A positive side effect is the removal of barriers to provide equal access to the freenet Group's services to people with disabilities. In 2020, we updated the "mein mobilcom-debitel.de" and "mein klarmobil.de" customer service portals and expanded the functionality of the "mein md" and "klarmobil.de" smartphone apps. In addition, customers were given the opportunity to use the self-service portals to easily cancel certain options or services themselves, block third-party providers and initiate termination of their entire mobile communications contracts.

Moreover, WhatsApp was introduced as an additional communication channel in 2019. The messaging technology has since become one of the most important ways for many customers to contact us, thanks to its facilitation of direct, personal, one-to-one conversations. Due to this high degree of acceptance, we plan to continue migrating customer service from conventional, analogue communication channels to the WhatsApp messaging service in 2021. The expanded use of bot technologies (natural language processing) is a key driver here and has allowed us to already process a large percentage of incoming customer queries automatically.

Sustainable and inclusive product solutions

The freenet Group is continually enhancing its portfolio of customer-focused mobile tariffs and telecommunication-related 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 diversified 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 [11].

We also continue to offer a separate smartphone solution in cooperation 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 in Germany, mobilcom-debitel remains one of the largest Fairphone partners with a share of approximately 19 per cent in overall sales volume (2019: 19 per cent; 2018: 15 per cent). The shift toward environmentally friendly product alternatives is also evident in the further diversification of the product portfolio. For instance, the freenet Group concentrated on marketing used smartphones in the past financial year. Marketing refurbished products entails reconditioning devices both in terms of their appearance and their technical functionality. The aim is to provide customers with a fully reconditioned, cleaned and tested product with an extended life cycle.

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 association of German e-mail providers guarantees 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 respective “Code of Conduct of German Mobile Communications Providers” and JusProg e.V., a non-profit association that aims to better protect minors 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.

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 digital 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 82 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. This is why the freenet Group explicitly supports political and societal expectations and initiatives in the area of climate protection. Since 2018, the freenet Group has supported the Carbon Disclosure Project (CDP) and each year discloses climate data, especially carbon emissions, thereby ensuring transparency of information regarding the impact of the Group’s business on the environment.

From the freenet Group’s perspective, reducing the fuel consumption of the company’s vehicle fleet and the electricity used for network infrastructure in TV and Media are significant ways to lower carbon emissions that can be influenced directly. The goal is to either reduce absolute consumption further or to increase intensity in relation to total revenue. After weighing costs and benefits, the company applies energy efficiency improvement recommendations arising from regular statutory energy audits (at least once every 4 years) 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. The most recent statutory energy audit took place in December 2019 and covered all Group companies with the exception of Media Broadcast, where separate energy audits are carried out for historical reasons. For 2021, Media Broadcast also plans to conduct an energy audit required by

[11] 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.

law and to use this opportunity to set new, suitable targets for energy purchasing and use, among others. The Group has not yet 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. The Media Broadcast Group additionally maintains an energy management system aligned with the requirements of DIN EN ISO 50001 and has an energy management representative 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 with respect to contracting partners, service providers and customers. The backbone of the EMS is the environmental protection and energy policy, which defines its importance, goals, activities and their implementation, and audits. Furthermore, internal regulations stipulate that only certified suppliers and waste disposal companies may be hired, e.g. to demolish or dismantle transmission systems, so as to provide employee 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 employee of this issue. Media Broadcast is required to instruct all employee 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 also continues to contribute toward the greater energy efficiency that is our goal. Replacing the analogue FM radio[12] with the more energy-efficient digital DAB+ transmission standard again decreased the Media Broadcast Group's electricity usage year-on-year (–4.3 per cent). Compared with the 2015 benchmark, the overall electricity consumption of the Media Broadcast Group has declined by approximately 48.9 per cent, and the associated carbon emissions have declined by approximately 61.1 per cent. There are technological and regulatory limitations to implementing energy savings in the field of broadcasting and transmission technology, however. For example, contracting and using frequencies is subject to a regulatory framework governing infrastructure design and expansion, which Media Broadcast must comply with.

In the remainder of the Group, the data centre, managing and equipping the shops, stores and logistics sites, and the company vehicle fleet represent the main areas for reducing carbon emissions. Accordingly, the data centre of the Group in Düsseldorf is supplied exclusively by renewable energy and has therefore been carbon-neutral for several years (2020: 5.0 GWh; 2019: 5.4 GWh; 2018: 5.4 GWh).

High-quality lighting and sufficient heating and air conditioning in the shops and stores are something the customers and employee of the freenet Group expect as a matter of course. Nonetheless, these two factors affect our energy consumption and carbon emissions figures. In the interest of reducing energy consumption, all mobilcom-debitel shops and around 70 per cent of GRAVIS stores (target: 100 per cent by 2021) were equipped with energy-efficient and long-lasting LED lighting technology by the end of 2020. Likewise, around 75 per cent of the lighting at the logistics facility in Oberkrämer was replaced with LEDs (target: 100 per cent by 2022). We also installed smart heating control systems at the logistics facilities. These guarantee optimal ventilation of the space while at the same time interrupting the heat supply, which is particularly important during the pandemic. A comprehensive overhaul of the physical plant is planned in conjunction with the renovation of the office and administration building in Büdelsdorf in the next few years. We are also reviewing the option of including installation of a photovoltaic system in the construction project.

As in the previous year, the freenet Group focused on fuel efficiency and low emissions when selecting models for both company and employee vehicles for the company's fleet. The freenet Group continues to pursue the goal of increasing the number of electric vehicles in the Group and expanding the charging infrastructure for these vehicles. In 2020, the freenet Group therefore commissioned construction of another four charging columns at the Hamburg site, each capable of charging two vehicles. This increases the number of charging facilities in the Group to a total of 18. The addition

[12] Sale of Media Broadcast's analogue radio infrastructure in 2018.

of further selected sites in Germany is being reviewed. Moreover, the Group supplemented the fleet of employee vehicles with a purely electric car to enable all employee to opt for an electric vehicle for private and business use as part of the employee model. In addition, the first plug-in hybrid vehicles (PHEV) were included in the company vehicle model based on the Group-wide eCar Policy following the results of a driving profile analysis. The driving profile analysis is intended to ensure that the environmental and economic benefits of PHEV use are balanced. Additional incentive for selecting an electric vehicle is provided by the freenet Group's assumption of part of the costs of constructing a charging column at the residence of employee entitled to a company vehicle, if installation on-site is possible. The company additionally intends to increase the share of electric vehicles in the vehicle fleet that can be used for business trips. Compared to the previous year, the number of electric vehicles registered in the Group more than tripled and, in the first quarter of 2021, will increase again when the purely electric vehicles currently in the ordering process are included.

Media Broadcast conducted a needs analysis of its service vehicles in 2020 based on operational necessity and continuous mileage checks, among other things. The analysis revealed that the vehicle fleet can be significantly reduced. Returning expiring leased vehicles will therefore reduce the number from 312 by the end of 2020 to 187 vehicles by the end of 2021. (2019: 312; 2018: 350).

Table 26: Energy consumption and carbon emissions

Unit as specified		2020	2019	2018	2015 (base year)[13]
Group					
Fuel consumption[14]	GWh	21.2	27.3	31.9	32.6
Fuel consumption	tCO_2eq[15]	4,962.3	6,504.5	7,677.0	7,994.9
thereof CO_2 emissions (Scope 1)	tCO_2eq	2,875.2	3,768.7	4,448.1	4,632.3
thereof CO_2 emissions (Scope 3, employee vehicle model)[16]	tCO_2eq	2,087.1	2,735.7	3,228.9	3,362.6
Electricity consumption[17]	GWh	72.0	76.6	90.5	134.0
thereof CO_2 emissions (Scope 2, location-based)[18]	tCO_2eq	28,875.5	36,292.1	42,897.9	70,638.2
thereof share from renewable energies[19]	%	45.99	42.14	41.53	34.88
Energy consumption	**GWh**	**93.2**	**103.9**	**122.4**	**166.7**
thereof carbon emissions	**tCO_2eq**	**33,837.7**	**42,796.6**	**50,574.9**	**78,633.1**
This includes: Media Broadcast Group					
Fuel consumption	GWh	3.0	4.0	5.5	7.2
thereof CO_2 emissions (Scope 1)	tCO_2eq	722.6	988.4	1,365.8	1,755.5
Electricity consumption	GWh	59.4	62.1	76.3	116.2
thereof CO_2 emissions (Scope 2, location-based)	tCO_2eq	23,825.8	29,413.8	36,176.8	61,216.1
Energy consumption	**GWh**	**62.4**	**66.1**	**81.8**	**123.3**
thereof carbon emissions	**tCO_2eq**	**24,548.4**	**30,402.3**	**37,542.6**	**62,971.6**
CO_2 intensity	**tCO_2eq/ million revenue**	**13.1**	**14.6**	**17.5**	**25.2**

13 The year 2015 was set as the base year, as this is the first year for which retrograde, consolidated reporting of energy consumption and carbon emissions has been carried out.
14 The fuel consumption comprises consumption in the form of diesel and petrol for the company car fleet. 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.
15 $CO_2eq = CO_2$, CH4 and N2O.
16 CO_2 emissions comprise diesel and petrol consumption for the fleet of employee vehicles (2020: 805). The employee vehicles are mainly used for private purposes (including for commuting to the workplace). In return, the employee pays a monthly amount to the company that is deducted from their gross salary. Emissions from fuel consumption were previously reported in Scope 1; due to the predominantly private use, it was decided in 2020 to report them separately as Scope 3. For simplification purposes, the previous year's figures are based on the share of carbon emissions employee vehicles in total fuel consumption in 2020 (42%).
17 Electricity consumption calculated on the basis of appropriate estimates and extrapolations.
18 The CO_2 emissions factor of the Federal Environmental Office (Umweltbundesamt) is used for converting electricity consumption into CO_2 emissions.
19 Calculated by basically taking into account the German electricity mix for electricity consumption plus an explicit green electricity contract.

Consumption of resources

The freenet Group concentrates primarily on digital communication among employee 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. At the main mobile communications brand mobilcom-debitel, this improved the share of digitally delivered invoices by more than 10 per cent to 88.4 per cent in 2020 (2019: 77.7 per cent; 2018: 74.9 per cent). At the discount brands, the share remained stable at 95.5 per cent (2019: 95.5 per cent; 2018: 95.7 per cent). Overall therefore, 89.9 per cent of all invoices are transmitted digitally (2019: 81.4 per cent; 2018: 78.8 per cent).

Sustainability in logistics is becoming an increasingly important issue. As part of the efforts to uncouple continually growing online and mail-order sales from the freenet Group's environmental footprint, mobilcom-debitel's logistics department has launched various initiatives to improve the sustainability of packaging materials and optimise or reduce the in-house volume of shipments. In 2020, for instance, a tender was issued for filler and closure materials in which sustainability was weighted at 40 per cent alongside economic and safety factors. Next year, additional measures are planned, including a regular review of standardised box dimensions in relation to the various items sold. In compliance with applicable and necessary transport safety standards, external suppliers will also be asked to take greater responsibility and work with us to develop and implement improved packaging materials.

The "FLIP4NEW" programme conducted by the GRAVIS and mobilcom-debitel subsidiaries in partnership with external provider Flip4 GmbH represents another contribution by the freenet Group towards ensuring the conservation of resources and reducing electric waste. The aim is to purchase devices – in particular smartphones, tablets and CPUs – to extend the lifecycle of the devices by selling them on and by recovering spare parts. Some 99 per cent of used devices are refurbished and returned to the market by this service provider. Refurbishment involves wiping the data with software certified by the BSI so that the legacy data can no longer be accessed. The remaining devices that are no longer suitable for a circular economy and can no longer be resold are scrapped and the raw materials recycled by a company certified in accordance with Section 56 of the Circular Economy Act (Kreislaufwirtschaftsgesetz) in conjunction with the Specialist Waste Management Company Directive (Entsorgungsfachbetriebsverordnung), ISO 9001:2015 and DIN ISO 50001:2018.

Table 27: Key figures on resource consumption

in %	2020	2019	2018
Online invoice	89.9	81.4	78.8
thereof mobilcom-debitel	88.4	77.7	74.9
thereof klarmobil	95.5	95.5	95.7

ANTI-CORRUPTION

The freenet Group is committed to the 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. Based on our risk analysis, this risk is assessed to be low, because the companies in question are all entities heavily involved in compliance issues, i.e. mobile network operators doing business in Germany, suppliers of smartphones and prominent electronics retailers.

In order to be able to successfully address general compliance risks, the company has implemented a compliance management system (CMS) which has created uniform standards for compliance matters such as combating corruption throughout the Group. Compliance measures are the central responsibility of the Chief Compliance Officer (CCO) and are implemented and monitored continually for compliance in close and constructive collaboration with the Internal Audit, Human Resources and Legal departments. The CCO reports directly to the CFO and advises the CFO as the person responsible 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.

Figure 19: Compliance management structure

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 employee with a stable framework with which they can align themselves. The corporate culture we embody promotes the continual exchange of information among employee and between employee 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. Payments from customers and to suppliers are normally not settled in cash. Only when dealing with end customers does the freenet Group accept cash at customary levels in order to keep the risk of money laundering to a minimum. 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 employee 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 employee 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. As whistleblowers can remain anonymous, it is ensured that their actions have no negative consequences for them. The whistleblower committee reviews incoming tip-offs and conducts additional investigations where appropriate. The composition and working practices of the 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 per cent of the purchasing volume in terms of value in this area:

- The three mobile network operators Deutsche Telekom, Vodafone and Telefónica Germany (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 main suppliers listed above with regard to sustainability aspects is limited given the Group's share in the suppliers' total business volume and its 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 ask the cooperating manufacturers and network operators to use their influence on and position in the value chain, particularly 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, the freenet Group requires its strategic suppliers to declare that their standards at least correspond to those of the freenet Group. Suppliers are also committed to the Code of Conduct by default via freenet's General Terms and Conditions of Purchase.

In 2021, we plan to refine the Code of Conduct and incorporate into this document the values expressed by the Global Compact and the United Nations (UN) Guiding Principles as well as the Declaration on Fundamental Principles and Rights at Work of the International Labour Organisation (ILO). These values reflect our understanding of operating a sustainable business, so we intend these to also be followed by our business partners.

In the event of violations, the freenet Group reserves the right to suitably 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 employee wish to report a possible violation of applicable law or the freenet Group's standards, the Code of Conduct provides for direct contact for business partners to our Compliance department, which initiates investigations if required. This can also be done anonymously.

To date, we have not conducted a costly and time-intensive systematic review of all suppliers to ensure compliance with standards. Around 98.6 per cent of suppliers in indirect sales and even 100.0 per cent of merchandise suppliers commissioned in calendar year 2020 are domiciled in Germany, another EU member state or in the European Economic Area. At Media Broadcast, this figure is 99.4 per cent of the goods and services supplied based on the purchasing volume in euros. These suppliers are therefore subject to comparable legal (transparency) regulations as the freenet Group itself, which is why the risk of a significant, negative societal impact from these business relationships is considered low.

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 the responsible employee to explicitly take sustainability criteria into account when making purchasing decisions. For this purpose, information about sustainability aspects, in particular environmental management, has been obtained and taken into account in advance for all tenders in addition to aspects relating to the financial situation since the second quarter of 2020. In this context, all suppliers and service providers will be required to agree to the Supplier Code of Conduct prior to submitting a quote. These aspects will be incorporated into a uniform and standardised analysis of tenders in the second quarter of 2021.

Media Broadcast's purchasing policy focuses to a greater extent on the aspects of environmental protection and particularly energy efficiency as Media Broadcast consumes a large amount of electricity. Accordingly, assuming that all other criteria are equivalent, the company prefers suppliers who consider these aspects more prominently. 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.

GROUP MANAGEMENT REPORT

CORPORATE GOVERNANCE

In this section, the Executive Board and Supervisory Board report on the Corporate Governance in the freenet Group. 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 (GCGC) 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 employee in the freenet Group, are committed to pursuing these goals.

In its meeting on 9 December 2020, the Supervisory Board considered the regulations of the GCGC as amended on 19 December 2019 and, together with Executive Board, issued the annual Declaration of Compliance with regard to the GCGC. The Declaration of Compliance dated 9 December 2020 is included in the following Corporate Governance Statement and has been made permanently accessible on the company's website under 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 Compliance in accordance with section 161 of the German Stock Corporation Act (AktG) and explains the relevant disclosures about corporate management practices that are applied over and above the statutory provisions. In addition, the working practices of the Executive and Supervisory Boards are described and the composition and working practices of the Supervisory Board's committees are disclosed. Also to be found in the following are the information regarding the percentage of women 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.

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 2020.

STATEMENT ON THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Executive Board and the Supervisory Board issued the following Declaration of Compliance in accordance with section 161 AktG. The first part of the declaration refers to the Code as applicable until 20 March 2020 and the second part refers to the version applicable since that date.

I. Since submitting the last Declaration of Compliance on 3 December 2019, freenet AG has complied with the recommendations of the GCGC as amended on 7 February 2017 ("2017 Code"), with the following exceptions:

   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 benefit the company. It is taken for granted that all Supervisory Board members carry out their duties responsibly. In order to treat all the Supervisory Board members equally, moreover, any deductible would have to be set at a uniform level, even though the members' personal financial backgrounds vary. A deductible would therefore not have an equal impact on the members of the Supervisory Board. As their responsibilities are the same, this does not seem appropriate. (2017 Code: clause 3.8 (3))

   2. The company is highly committed to transparency in its 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. (2017 Code: clause 4.2.5 sentence 5 and 6)

* 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.

3. When appointing new members to the Executive Board, the Supervisory Board so far has appointed candidates 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 2017 Code were not the focus of the Supervisory Board's attention when previous appointments were made and from the Supervisory Board's point of view were secondary to the candidate's specific suitability. (2017 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. (2017 Code: clauses 5.1.2 sentence 8 and 5.4.1 sentence 2)

5. The Supervisory Board has not set any specific targets for its composition, as defined in clause 5.4.1 (2) and 5.4.2 sentence 1 of the 2017 Code. Neither has it drawn up a profile of skills for the entire Supervisory Board for that reason. It could therefore not follow the recommendations made in clause 5.4.1 (4) of the 2017 Code. When proposing new members for election, the Supervisory Board has so far been guided solely by their suitability. (2017 Code: clauses 5.4.1 (2), (4) and 5.4.2 sentence 1)

6. Clause 5.4.6 of the 2017 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. (2017 Code: clause 5.4.6 (2)

II. freenet AG will comply with the recommendations of the German Corporate Governance Code as amended on 19 December 2019 and announced on 20 March 2020 ("2019 Code"), with the following exceptions:

1. Age limit for Executive Board and Supervisory Board members

a) Recommendations B.5 and C.2:

B.5: An age limit shall be specified for members of the Executive Board and disclosed in the Corporate Governance Statement.

C.2: An age limit shall be specified for members of the Supervisory Board and disclosed in the Corporate Governance Statement.

b) Statement of non-compliance:

The Supervisory Board has not specified an age limit for members of the Executive Board and has not disclosed it in the Corporate Governance Statement as such a limit is not practically relevant. In view of the age structure of the current Executive Board, no change is currently envisaged.

No age limit has been specified for the members of the Supervisory Board either. The Supervisory Board does not believe that qualified individuals with relevant professional and other experience should not be considered as candidates solely on the grounds of their age. Therefore, no change is envisaged for this either.

2. Other seats held by members of the Executive Board

a) Recommendation C.5:

   Members of the Executive Board of a listed company shall not hold, in aggregate, more than two Supervisory Board seats in non-group listed companies or comparable functions, and shall not accept the chairmanship of a Supervisory Board in a non-group listed company.

b) Statement of non-compliance:

   The chairman of the Executive Board, Christoph Vilanek, currently is a member of two Supervisory Boards of listed companies: CECONOMY AG, Düsseldorf, and Ströer SE & Co KGaA, Cologne, where he is also chairman of the Supervisory Board. freenet AG holds an equity interest in CECONOMY AG. freenet AG therefore has an interest in being represented on the Supervisory Board of CECONOMY AG to reflect its importance for the company.

   The Supervisory Board, through the personnel committee of the Supervisory Board, has approved all of Christoph Vilanek's seats and considers the time required for the external memberships to be reasonable compared with the experience gained by the chairman of the Executive Board. This also applies to his post as chairman of the Supervisory Board of Ströer SE & Co KGaA.

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. In addition, current developments are regularly assessed on the Governance Board by the CFO together with the CCO and the Head of Audit and Fraud Management and measures are derived, if necessary. The CCO also reports regularly to the Supervisory Board's audit committee. The CCO informs the Supervisory Board whenever risks arise which endanger the continued existence of the freenet Group.

The freenet Group is 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 internal whistleblowers or suppliers 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 CCO 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, which in coordination with the individual fraud management functions in the specialist departments of the freenet Group, 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 employee, especially given the General Data Protection Regulation (GDPR) and special regulations applying in 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 employee to this subject in order to continuously improve the overall security level and to meet the challenges posed by the 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 in-person or virtual meetings, 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 chairs report on the subject matter of the committee meetings to the full Supervisory Board. With the exception of the nomination committee, all committees comprise equal numbers of shareholders' 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 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 and for reviewing the content of the non-financial statement. 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, Theo-Benneke Bretsch, Knut Mackeprang

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
In 2017, 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:

Table 28: Target for share of women, 2021

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 previous 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:

Table 29: Target-actual comparison for share of women, 2017

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

In the period under review, the percentages of men and women on the Supervisory Board complied with the legal 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 formal 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 or education or career background.

With regard to its own composition, the Supervisory Board has complied with the legal requirements regarding gender diversity. The Supervisory Board has already dealt with diversity characteristics in the past and intends to take diversity criteria into account for the composition of the Supervisory Board, including aspects such as age, gender, education and professional background, when appointing shareholder representatives to the Supervisory Board in the future. In light of this, the Supervisory Board began developing a profile of skills in 2020 and will incorporate diversity criteria into this when making future candidate proposals to the Annual General Meeting.

Although the Supervisory Board is not currently pursuing a specific diversity plan for the composition of the Executive Board in light of the latest legal developments, it has decided – in a departure from previous Declarations of Compliance with the GCGC – to be mindful of diversity when replacing Executive Board members in the future.

SELF-ASSESSMENT OF THE SUPERVISORY BOARD

The Supervisory Board and its committees regularly review the overall effectiveness of the Supervisory Board and how effectively its committees perform their tasks, either internally or with the involvement of external advisers. In the 2020 financial year, the Supervisory Board carried out a self-assessment based on a survey with external support from KPMG Law Rechtsanwaltsgesellschaft mbH. The Supervisory Board discussed the results of this self-assessment at length at its meeting on 23 September 2020. The results of the self-assessment confirm that cooperation both within the Supervisory Board and with the Executive Board is professional, constructive and characterised by a high degree of trust and openness. The results also confirm that meetings are organised and conducted efficiently and that the supply of information is sufficient. No fundamental need for change was identified. Individual suggestions are also highlighted and implemented during the year.

INDEPENDENCE

On the shareholder side, the Supervisory Board should include an appropriate number of independent members in accordance with the assessment of the Supervisory Board's shareholder representatives. More than half of the shareholder representatives shall be independent from the company and the Management Board. The shareholder representatives on the Supervisory Board have determined that a share of at least four Supervisory Board members who are independent of the Executive Board and the company is considered appropriate. All six shareholder representatives currently on the Supervisory Board consider themselves to be independent from the company and the Executive Board.

In addition, no more than two former members of the Executive Board may hold seats on the Supervisory Board. Material conflicts of interest and those that are more than temporary in nature are to be avoided. Supervisory Board members should have sufficient time to fulfil their mandate to ensure that they can do so with due regularity and care.

LONG-TERM SUCCESSION PLANNING FOR THE COMPOSITION OF THE EXECUTIVE BOARD

The personnel committee of the Supervisory Board, which is responsible for making preparations for Executive Board appointments, also oversees long-term succession planning for the Executive Board. This is done regularly when making new appointments or extending existing Executive Board appointments. The committee regularly reviews whether there is reason to give particular consideration to long-term succession planning and consults the chairman of the Executive Board as required. The chairman of the Supervisory Board also communicates regularly with the chairman of the Executive Board about succession options in good time prior to the expiration of Executive Board appointments.

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 2020, 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 EMPLOYEE HOLD AN INTEREST IN SHARE CAPITAL

If employee 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 27 May 2020 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 2 September 2025 (Authorised Capital 2020).

In addition, on 27 May 2020, 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 2020). 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 27 May 2020 under agenda item 8.1) 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 27 May 2020, the Executive Board was authorised, until 26 May 2026, to acquire own shares equivalent to up to 10 per cent of the current share capital or – if lower – 10 per cent of the share capital existing at the time at which the authorisation is exercised. This authorisation can be exercised by the company, by its subsidiaries, or by third parties for the account of the company or for the account of its subsidiaries. Acquisition of such shares shall be carried out at the discretion of the Executive Board through the stock market, by way of a public offer of purchase, through a public invitation to submit offers for sale, by issuing tender rights to the shareholders or by using equity derivatives (put or call options or a combination of the two). There is also the possibility of purchasing own shares in accordance with sections 71 et seq. AktG.

On the basis of this authorisation, freenet AG repurchased a total of 2,956,232 treasury shares, corresponding to 2.308 per cent of its share capital, at an average price of 17.3851 euros in the period from 1 September 2020 to 28 December 2020 under a share buyback programme. The aggregated volume of the repurchased shares excluding ancillary costs was 51,394,456.11 euros. The repurchased shares are to be retired.

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 in either in part or in their entirety without freenet being able to influence such a move. Such a change of control, irrespective of whether it precedes the takeover offer, might exist in the event of the acquisition of more than 50 per cent of the voting rights in freenet AG or if one or more persons acting in concert have the right to determine the majority of members of the Supervisory Board of freenet AG. In such a case, freenet would be exposed to the risk that subsequent financing for settling the repayment claims might not be agreed or might only be agreed subject to less favourable conditions.

COMPENSATION AGREEMENT OF THE COMPANY

There are no compensation agreements in place between the company and members of the Executive Board or employee 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. The maximum possible target achievement for the annual variable remuneration is 150 per cent.

In addition, agreements concerning the contracts of employment that grant benefits with a long-term incentive effect (LTIP Programmes) were entered into with the members of the Executive Board. In LTIP Programme 2, which is still applicable to Mr Esch, the years 2015 to 2019 have been defined as target attainment years. In LTIP Programme 2, an LTIP account is maintained; 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. Mr Esch may receive a cash payment minus taxes and duties until 30 June 2021 (end of this programme). The amount of this payment 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 v. Platen and Mr Fromme with effect from 1 June 2018; for Mr Arnold with effect from 1 January 2019), supplemental agreements to the employment contracts granting a new LTIP (LTIP Programme 3) was 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 v. 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 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. Various caps exist in LTIP Programme 3. Annual payment into the virtual account is capped at 150 per cent of the basic amount. The entry figure determined can be doubled at the most, if at least 105 per cent of the EBT target for a certain financial year is achieved. When calculating payout amounts, the payout multiplier (average stock market price of the freenet share to be used) is capped at 50 euros. When calculating dividend, an amount of 20 euros per phantom share payable may not be exceeded.

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 30: Executive Board remuneration for financial year 2020 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	1,739	2,754	0	2,754
Ingo Arnold	511	808	1,319	0	1,319
Stephan Esch	515	308	823	0	823
Rickmann v. Platen	512	308	820	0	820
Antonius Fromme	509	308	817	0	817
Total	**3,062**	**3,471**	**6,533**	**0**	**6,533**

Table 31: 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**

In financial year 2020, the Executive Board benefits in accordance with section 314 (1) no. 6a HGB amounted to 6,533 thousand euros (previous year: 6,207 thousand euros). For 2020, this does not include benefits with a long-term incentive effect (previous year: 1,391 thousand euros in benefits with a long-term incentive effect under the LTIP Programme 3).

In financial 2020, the current Executive Board members received no cash payments under the LTIP programmes. In the financial year 2019, cash payments of 5,421 thousand euros were made from Programme 2. Cash payments of 559 thousand euros were made for the former Executive Board member Mr Preisig to terminate his LTIP Programme in 2020; the provision of 678 thousand euros recognised for this purpose as of 31 December 2019 was utilised and an amount of 119 thousand euros was released.

As at 31 December 2020, the provision recognised for LTIP Programme 2 according to HGB for Mr Esch amounted to 1,777 thousand euros (previous year: 1,967 thousand euros).

As at 31 December 2020, the provision for LTIP Programme 3 according to HGB amounted to 2,088 thousand euros (previous year: 1,305 thousand euros) for Mr Vilanek, 748 thousand euros (previous year: 419 thousand euros) for Mr Arnold, 547 thousand euros (previous year: 227 thousand euros) for Mr Esch, 673 thousand euros (previous year: 485 thousand euros) for Mr v. Platen and 673 thousand euros (previous year: 485 thousand euros) for Mr Fromme.

The variable cash remuneration in the 2020 financial year includes recognition awards totalling 1.5 million euros for Mr Vilanek and Mr Arnold to acknowledge their exceptional performance in connection with preventing the acquisition of UPC Schweiz GmbH by Sunrise Communications Group AG in 2019 and selling the equity investment in Sunrise Communications Group AG to Liberty Global plc for approximately 1.1 billion euros.

In November 2004, Mr Esch was granted an indirect pension commitment. In the financial year 2009, Mr Vilanek was granted an indirect pension commitment on the occasion of his appointment as chairman of the Executive Board as of 1 May 2009. freenet AG had taken on the pension commitment granted to Mr Preisig from the former debitel AG as of 1 September 2008. In February 2014, adjustments were made to all three Executive Board members' pension commitments. For further details, see the section "Remuneration arrangements in the event of a termination of employment". 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 of 31 December 2020, the obligation under commercial law for Mr Vilanek amounted to 5,692 thousand euros (previous year: 4,620 thousand euros), and the obligation for Mr Esch came to 4,880 thousand euros (previous year: 4,052 thousand euros). The obligation amount for Messrs Preisig, Spoerr, Krieger and Berger, as former Executive Board members, totalled 12,339 thousand euros as at 31 December 2020 (previous year: 11,304 thousand euros). Due to the nature of the selected commitment, there are no obligations under German commercial law for Messrs Platen, Fromme and Arnold.

Current service costs of 986 thousand euros (previous year: 884 thousand euros) were recognised in total in personnel expenses for the members of the Executive Board as a result of the pension commitments. In 2020, Mr Vilanek accounted for 428 thousand euros (previous year: 371 thousand euros) of this amount, Mr Esch for 258 thousand euros (previous year: 213 thousand euros), Mr v. Platen for 100 thousand euros (previous year: 100 thousand euros), Mr Fromme for 100 thousand euros (previous year: 100 thousand euros), and Mr Arnold for 100 thousand euros (previous year: 100 thousand euros).

In 2020, pension commitments for Executive Board members did not include any past service costs. In the previous, personnel expenses recognised for Mr Esch in relation to pension commitments included past service costs of 222 thousand euros.

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 GERMAN CORPORATE GOVERNANCE CODE

Within the meaning of clause 4.2.5 of the DCGK, we hereby make the following disclosures about the benefits granted to the members of the Executive Board for financial year 2020 and the previous year, and about the benefits paid to the members of the Executive Board in the financial year 2020 and the previous year.

Table 32: Benefits granted to the Executive Board for financial year 2020 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	500	500	500	3,000
Fringe benefits	15	11	15	12	9	62
Total	**1,015**	**511**	**515**	**512**	**509**	**3,062**
One-year variable remuneration	1,600	750	250	250	250	3,100
Multi-year variable remuneration						
LTIP Programme 2	0	0	61	0	0	61
LTIP Programme 3	342	201	151	138	138	970
Total	**1,942**	**951**	**462**	**388**	**388**	**4,131**
Pension expense						
Current service cost	569	100	347	100	100	1,216
Past service cost	0	0	0	0	0	0
Total	**569**	**100**	**347**	**100**	**100**	**1,216**
Total remuneration	**3,526**	**1,562**	**1,324**	**1,000**	**997**	**8,409**

Table 33: 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 34: Benefits received by the Executive Board in financial year 2020 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	500	500	500	3,000
Fringe benefits	15	11	15	12	9	62
Total	**1,015**	**511**	**515**	**512**	**509**	**3,062**
One-year variable remuneration	1,239	558	308	308	308	2,721
Multi-year variable remuneration						
LTIP Programme 2	0	0	0	0	0	0
LTIP Programme 3	0	0	0	0	0	0
Total	**1,239**	**558**	**308**	**308**	**308**	**2,721**
Pension expense						
Current service cost	569	100	347	100	100	1,216
Past service cost	0	0	0	0	0	0
Total	**569**	**100**	**347**	**100**	**100**	**1,216**
Total remuneration	**2,823**	**1,169**	**1,170**	**920**	**917**	**6,999**

Table 35: 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**

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:

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

Arrangements for the former Executive Board member Joachim Preisig:

- On reaching the age of 60, Mr Preisig shall receive a retirement pension amounting to 2.5 per cent of their last annual fixed salary for each year commenced on the Executive Board of the company or the former debitel AG, to a maximum of one-third of the last annual fixed salary (guaranteed pension).
- Surviving dependant pension for the spouse or life companion and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- On 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 the Chief Executive Officer Christoph Vilanek, the following arrangement has applied since 1 January 2019:

- On reaching the age of 60, Mr Vilanek shall receive a retirement pension amounting to 2.7 per cent of their last annual fixed salary for each contract year commenced on the Executive Board of the company, to a maximum of 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 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 the Executive Board member Stephan Esch, the following arrangement has applied since 1 January 2020:

- On 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, but no more than 225,000.00 euros (guaranteed 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 27, to a maximum total amount of the guaranteed pension or the value of pension entitlements accrued at the time of Mr Esch'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 Esch is entitled to 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 the Executive Board member Antonius Fromme, the following arrangement has applied since 1 June 2018:

- A three-year target agreement was signed. If the service contract ends prematurely due to termination, cancellation or otherwise, or his appointment to the position is revoked, Mr Fromme is entitled to 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 the Executive Board member Rickmann v. Platen, the following arrangement has applied since 1 June 2018:

- A three-year target agreement was signed. If the service contract ends prematurely due to termination, cancellation or otherwise, or his appointment to the position is revoked, Mr v. Platen is entitled to 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 the 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 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 chair of the Supervisory Board receives double this amount, the vice chair one-and-a-half times this amount.

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

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

For their activities during financial year 2020, the members of the company's Supervisory Board received fixed remuneration of 405 thousand euros plus attendance fees amounting to 83 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 2020. The aggregate expenses for Supervisory Board activities thus amounted to 893 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 36: Remuneration for financial year 2020

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	9.0	30.0	69.0
Robert Weidinger	30.0	12.0	30.0	72.0
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**	**83.0**	**405.0**	**893.0**

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

Table 37: 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	0.0	72.0
Knut Mackeprang[1]	45.0	6.0	0.0	51.0
Claudia Anderleit[1]	30.0	5.0	0.0	35.0
Thorsten Kraemer	30.0	5.0	0.0	35.0
Marc Tüngler	30.0	7.0	0.0	37.0
Robert Weidinger	30.0	13.0	0.0	43.0
Sabine Christiansen	30.0	5.0	0.0	35.0
Thomas Reimann[1]	30.0	8.0	0.0	38.0
Fränzi Kühne	30.0	4.0	0.0	34.0
Theo-Benneke Bretsch[1]	30.0	4.0	0.0	34.0
Bente Brandt[1]	30.0	8.0	0.0	38.0
Gerhard Huck[1]	30.0	5.0	0.0	35.0
Total	**405.0**	**82.0**	**0.0**	**487.0**

The presentation for 2019 has been adjusted as dividend payment was significantly reduced in accordance with the dividend resolution adopted on 27 May 2020, resulting in no payout of performance-related remuneration.

Büdelsdorf, 4 March 2021

freenet AG

The Executive Board

Christoph Vilanek Ingo Arnold Stephan Esch Antonius Fromme Rickmann v. Platen

CONSOLI-DATED FINANCIAL STATEMENT

03

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 January to 31 December 2020

In EUR '000s/as indicated	Note	1.1.2020 – 31.12.2020	1.1.2019 – 31.12.2019 restated[1]
Revenue	4	2,576,230	2,932,544
Other operating income	5	52,758	67,276
Other own work capitalised	6	22,120	20,258
Cost of materials	7	– 1,714,171	– 2,036,334
Personnel expenses	8	– 229,587	– 236,450
Other operating expenses	10	– 281,472	– 320,499
Thereof loss allowances on financial assets and contract assets		– 33,822	– 39,482
Thereof without loss allowances on financial assets and contract assets		– 247,650	– 281,017
EBITDA[2]		**425,878**	**426,795**
Depreciation, amortisation and impairment	9	– 162,897	– 156,841
EBIT[3]		**262,981**	**269,954**
Profit or loss of equity-accounted investments	17	– 428	343
Thereof from share of profit or loss		– 428	343
Thereof from subsequent accounting from purchase price allocation		0	0
Interest and similar income	11	2,447	9,573
Interest and similar expenses	12	– 47,633	– 56,699
Other financial result	12	138	621
Financial result		**– 45,476**	**– 46,162**
Earnings before taxes (EBT)		**217,505**	**223,792**
Income taxes	13	– 26,996	– 51,788
Consolidated profit from continuing operations		**190,509**	**172,004**
Consolidated profit from discontinued operations, attributable to shareholders of freenet AG	35	**370,501**	**12,728**
Consolidated profit		**561,010**	**184,732**
Consolidated profit attributable to shareholders of freenet AG	24	565,835	190,899
Consolidated profit attributable to non-controlling interests	24	– 4,825	– 6,167
Earnings per share in EUR (basic/diluted)	14.1, 14.2	**4.44**	**1.49**
Earnings per share from continuing operations in EUR (basic/diluted)		1.53	1.39
Earnings per share from discontinued operations in EUR (basic/diluted)		2.91	0.10
Weighted average number of shares outstanding in thousands (basic/diluted)	24	127,465	128,011

[1] Retrospective restatement of prior-year comparatives due to discontinued Sunrise operations in accordance with IFRS 5.
[2] EBITDA represents earnings before depreciation, amortisation and impairment, financial result and income taxes.
[3] EBIT represents earnings before financial result and income taxes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 January to 31 December 2020

In EUR '000s	Note	1.1.2020 – 31.12.2020	1.1.2019 – 31.12.2019
Consolidated profit		**561,010**	**184,732**
Currency translation differences		– 287	23
Currency translation differences from subsequent accounting for equity-accounted investments	17.1	1,103	1,924
Reclassification amounts from currency translation differences from subsequent accounting for equity-accounted investments		4,508	0
Income tax recognised in other comprehensive income		– 84	– 29
Other comprehensive income/to be reclassified to the income statement in future periods		**5,240**	**1,918**
Change in fair value of investments in equity instruments		9,578	74,334
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. to IAS 19 (2011)	29	– 6,031	– 11,539
Other shares of the profit or loss of equity-accounted investments	17.1	– 739	– 1,263
Income tax recognised in other comprehensive income		1,698	2,388
Other comprehensive income/not to be reclassified to the income statement in future periods		**4,506**	**63,920**
Other comprehensive income		**9,746**	**65,838**
Consolidated total comprehensive income		**570,756**	**250,570**
Consolidated total comprehensive income attributable to shareholders of freenet AG		575,581	256,737
Consolidated total comprehensive income attributable to non-controlling interests		– 4,825	– 6,167

CONSOLIDATED BALANCE SHEET

31 December 2020

ASSETS

In EUR ’000s	Note	31.12.2020	31.12.2019 restated[1]
Non-current assets			
Intangible assets	15, 16, 39	494,722	501,878
Lease assets	2.5	441,342	451,964
Goodwill	15, 16	1,382,394	1,383,474
Property, plant and equipment	15, 16, 39	140,475	143,830
Equity-accounted investments	17	2,088	1,753
Deferred income tax assets	18	129,440	130,226
Trade accounts receivable	21	63,678	68,678
Other receivables and other assets	21	107,015	122,921
Other financial assets	21	270,400	268,480
Contract acquisition costs	19	289,335	297,240
		3,320,889	**3,370,444**
Current assets			
Inventories	20	74,751	75,819
Current income tax assets	23	2,103	2,084
Trade accounts receivable	21	189,262	225,753
Other receivables and other assets	21	203,033	201,734
Other financial assets	21	48,729	46,187
Liquid assets	22	666,867	133,692
Available-for-sale non-current assets	35	0	783,884
		1,184,745	**1,469,153**
		4,505,634	**4,839,597**

[1] Retrospective restatement of prior-year comparatives due to discontinued Sunrise operations in accordance with IFRS 5.

EQUITY AND LIABILITIES

In EUR '000s	Note	31.12.2020	31.12.2019
Equity			
Share capital	24.1	128,061	128,061
Capital reserve	24.2	737,536	737,536
Own shares	24.3	– 51,420	0
Cumulative other comprehensive income	24.3	– 75,518	– 74,282
Consolidated net retained profits	24.4	1,081,861	521,031
Equity attributable to shareholders of freenet AG		**1,820,520**	**1,312,346**
Non-controlling interests in equity	24.4	559	9,255
		1,821,079	**1,321,601**
Non-current liabilities			
Lease liabilities	2.5, 28	451,452	473,272
Other liabilities and deferrals	26	108,790	107,378
Other financial liabilities	26	36,941	31,048
Borrowings	28	734,826	1,428,009
Pension provisions	29	103,508	98,787
Other provisions	30	43,718	41,206
		1,479,235	**2,179,700**
Current liabilities			
Lease liabilities	2.5, 28	85,209	80,004
Trade accounts payable	26	379,323	465,230
Other liabilities and deferrals	26	404,847	402,175
Other financial liabilities	26	63,438	64,546
Current income tax liabilities	27	38,943	43,991
Borrowings	28	206,001	265,610
Other provisions	30	27,559	16,740
		1,205,320	**1,338,296**
		4,505,634	**4,839,597**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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 at 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
Deconsolidation 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.

For further details, please refer to our explanations in note 25, Equity.

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 CHANGES IN EQUITY

1 January to 31 December 2020

In EUR '000s	Share capital	Capital reserve	Own shares	Currency translation differences	Currency translation differences from subsequent accounting for equity-accounted investments	Change in fair value of investments in equity instruments
As of 1.1.2020	**128,061**	**737,536**	**0**	**966**	**– 5,527**	**– 52,304**
Dividend payment	0	0	0	0	0	0
Changes due to the measurement of leases	0	0	0	0	0	0
Recognition of option liabilities	0	0	0	0	0	0
Acquisition of further interests in subsidiaries	0	0	0	0	0	0
Purchase of own shares	0	0	– 51,420	0	0	0
Consolidated profit	0	0	0	0	0	0
Change in fair value of investments in equity instruments [1]	0	0	0	0	0	9,431
Other shares of the profit or loss of equity-accounted investments [1]	0	0	0	0	0	0
Reclassification of other shares of the profit or loss of equity-accounted investments due to deconsolidation	0	0	0	0	0	0
Recognition of actuarial gains and losses acc. to IAS 19 (2011) [1]	0	0	0	0	0	0
Foreign currency translation [1]	0	0	0	– 287	0	0
Foreign currency translation from subsequent accounting for equity-accounted investments [1]	0	0	0	0	5,527	0
Subtotal: Consolidated total comprehensive income	0	0	0	– 287	5,527	9,431
As of 31.12.2020	**128,061**	**737,536**	**– 51,420**	**679**	**0**	**– 42,873**

[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
–29,127	**11,710**	**521,031**	**1,312,346**	**9,255**	**1,321,601**
0	0	–5,120	–5,120	0	–5,120
0	0	–47	–47	0	–47
0	0	–14,691	–14,691	0	–14,691
0	0	3,871	3,871	–3,871	0
0	0	0	–51,420	0	–51,420
0	0	565,835	565,835	–4,825	561,010
0	0	0	9,431	0	9,431
0	–728	0	–728	0	–728
0	–10,982	10,982	0	0	0
–4,197	0	0	–4,197	0	–4,197
0	0	0	–287	0	–287
0	0	0	5,527	0	5,527
–4,197	–728	565,835	575,581	–4,825	570,756
–33,324	**0**	**1,081,861**	**1,820,520**	**559**	**1,821,079**

CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 31 Dezember 2020

In EUR '000s/as indicated	Note	1.1.2020 – 31.12.2020	1.1.2019 – 31.12.2019
Earnings before financial result and taxes (EBIT) from continuing operations		262,981	269,954
Earnings before financial result and taxes from discontinued operations		351,042	0
Earnings before interest and taxes from continuing and discontinued operations		**614,023**	**269,954**
Adjustments			
Depreciation, amortisation and impairment of non-current assets	9	162,897	156,841
Dividends received from equity-accounted investments	17	46,047	41,462
Payments for transaction costs relating to the sale of equity-accounted investments		– 10,571	0
Gains on the sale of equity-accounted investments	35	– 351,042	0
Gains on the sale of subsidiaries		– 1,527	– 66
Gain on disposal of non-current assets		862	– 363
Increase in net working capital not attributable to investing or financing activities	19, 20, 25, 28, 29, 31	– 52,766	– 49,376
Proceeds from the cash repayment of financial assets under leases		14,732	14,940
Capitalisation of contract acquisition costs		– 309,532	– 306,315
Amortisation of contract acquisition costs		317,437	313,313
Tax payments	13, 18	– 28,033	– 30,554
Income from interest and other financial result		1,832	2,408
Interest paid		– 47,302	– 48,012
Cash flows from operating activities	32.1	**357,057**	**364,232**
Payments to acquire property, plant and equipment and intangible assets		– 49,881	– 45,155
Proceeds from disposal of intangible assets and property, plant and equipment		3,657	4,553
Proceeds/payments to acquire subsidiaries	36	– 25	3,052
Payments from deconsolidation of subsidiaries	36	– 3,923	– 1,108
Proceeds from sale of companies accounted for using the equity method	35	1,125,238	0
Return of capital contributions from companies accounted for using the equity method		250	0
Payments to acquire other equity investments		– 1,113	– 173
Cash flows from investing activities	32.2	**1,074,203**	**– 38,831**
Payments to company owners and minority shareholders		– 5,120	– 211,218
Payments for the acquisition of own shares		– 51,420	0
Payments for the acquisition of minority interests		– 3,871	0
Proceeds from borrowings	28	342,905	0
Cash repayments of borrowings	28	– 1,096,500	– 31,000
Cash repayments of lease liabilities	26	– 84,079	– 74,603
Payments of other financing costs		0	– 1,220
Cash flows from financing activities	32.3	**– 898,085**	**– 318,041**
Net change in cash funds		**533,175**	**7,360**
Cash funds at beginning of period		**133,692**	**126,332**
Cash funds at end of period		**666,867**	**133,692**

Composition of cash funds

In EUR '000s	31.12.2020	31.12.2019
Liquid assets	666,867	133,692
Cash funds	**666,867**	**133,692**

Composition of free cash flow[1]

In EUR '000s	31.12.2020	31.12.2019
Cash flows from operating activities	357,057	364,232
Adjusted for payments for transaction costs relating to the sale of equity-accounted investments	10,571	0
Payments to acquire property, plant and equipment and intangible assets	– 49,881	– 45,155
Proceeds from disposal of intangible assets and property, plant and equipment	3,657	4,553
Cash repayments of lease liabilities	– 84,079	– 74,603
Free cash flow (FCF)	**237,325**	**249,027**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF FREENET AG

FOR FINANCIAL YEAR 2020

1 GENERAL INFORMATION

1.1. BUSINESS ACTIVITY AND ACCOUNTING STANDARDS

freenet AG (“the company”), the parent company of the Group (“freenet”), is headquartered in Hollerstraße 126, 24782 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 2020 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 2020. 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 2020 and their respective effects on the Group:

Standard/Interpretation		Effective date	Adopted by the EU Commission	Effects
IFRS 16	Amendments to IFRS 16 Leases – Covid-19-Related Rent Concessions	01.01.2020	09.10.2020	None

The following table shows the new or modified standards (IAS/IFRS) and interpretations (IFRIC) whose application was not yet mandatory in the 2020 financial year and their respective effects on the Group:

Standard/Interpretation		Effective date	Adopted by the EU Commission	Effects
IFRS 4	Amendments to IFRS – Deferral of IFRS 9	01.01.2021	15.12.2020	None
Various	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (Phase 2)	01.01.2021	Open	No material effects

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.

In financial year 2020, the freenet Group's entire stake in Sunrise Communications Group AG (hereinafter referred to as "Sunrise" –24.42 per cent), which since 2016 had been accounted for using the equity method, was sold to Liberty Global plc ("Liberty Global"). For further details on this point, please refer to the explanatory disclosures in note 35 of the notes to the consolidated financial statements.

Antenne Deutschland GmbH & Co. KG, Berlin, ("Antenne Deutschland") was included for the first time in the consolidated financial statements as of December 31, 2020 as an equity-accounted entity. Please refer to note 17 of the notes to the consolidated financial statements.

The companies 01019 Telefondienste GmbH, 01024 Telefondienste GmbH, freenet.de GmbH, freenet Cityline GmbH, freenet Datenkommunikations GmbH, 01050.com GmbH, Vitrado 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, 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 2020.

The freenet digital Group – consisting of the entities freenet digital GmbH, iLove GmbH, Lorena Medienagentur GmbH, MHF Media GmbH (formerly: Ojom International GmbH) and Vene International GmbH – was no longer included in the basis of consolidation in the 2020 financial year.

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES

The following accounting policies were applied for the preparation of these consolidated financial statements. The accounting policies have generally been applied consistently to the previous year, with the exception of the changes described in section 2.17, Comparative figures.

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 IPTV 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.

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 2020, the remaining useful life of these trademarks was 122 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 2020, the remaining useful life of the customer relationships recognised was between 96 and 216 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 2020, the remaining useful life of the distribution rights recognised was six 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 25 years
Technical equipment and machinery	5 to 15 years
Motor vehicles	6 to 10 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	31.12.2020	31.12.2019
Right-of-use assets, site leases	226.2	237.2
Right-of-use assets, shops / stores [1]	104.8	110.5
Right-of-use assets, co-location leases	79.5	79.8
Right-of-use assets, network infrastructure	21.6	10.7
Right-of-use assets, motor vehicles	1.8	1.1
Right-of-use assets, other	7.4	12.7
Total	**441.3**	**452.0**

[1] As of 31 December 2020, this item includes operations leases from subleasing of shop spaces to franchise partners in the amount of 31,7 million euros (31 December 2019: 32,8 millionen euros).

Additions to lease assets are reported at 92.8 million euros in the 2020 financial year (31 December 2019: 35.5 million euros). In the year under review, depreciation of right-of-use assets is broken down as follows:

In EUR millions	31.12.2020	31.12.2019
Site leases	34.9	30.6
Shops / stores	21.0	21.1
Co-location leases	10.9	10.5
Network infrastructure	3.4	2.1
Motor vehicles	1.0	1.0
Other	5.4	5.4
Total	**76.6**	**70.7**

Other operating expenses include expenses relating to short-term leases (31 December 2020: 0.6 million euros, 31 December 2019: 11.1 million euros) and expenses relating to leases of low-value assets (31 December 2020: 0.3 million euros; 31 December 2019: 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.

Interest expense on lease liabilities amounted to 12.3 million euros in the reporting period (31 December 2019: 17.2 million euros). We provide the following breakdown of the maturities of the lease liabilities as of 31 December 2020 and 31 December 2019:

In EUR millions	31.12.2020	31.12.2019
1 year or less	85.2	80.0
More than 1 year up to and including 5 years	297.6	278.1
More than 5 years	153.9	195.1
Total	**536.7**	**553.2**

In financial year 2020, total cash outflows for leases amounted to 97.2 million euros (31 December 2019: 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 (previous year: 431.9 million euros) in addition to the lease liabilities currently recognised.

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 2020: 70.0 million euros; 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 1.6 million euros in financial year 2020 (previous year: 2.0 million euros). 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 were due as follows as of 31 December 2020 and 31 December 2019:

In EUR millions	31.12.2020
2021	16.2
2022	14.5
2023	12.8
2024	11.8
2025	12.0
2026 ff.	6.8
Future (undiscounted) cash inflows	**74.1**
Unearned interest income	– 4.1
Receivables from finance leases	**70.0**

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 6.2 million euros is shown in other operating income in the 2020 financial year (previous year: 6.4 million euros).

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

In EUR millions	31.12.2020
2021	5.5
2022	3.6
2023	2.1
2024	1.1
2025	0.5
2026 ff.	0.3
Future (undiscounted) cash inflows	**13.1**

2.6. INTERESTS IN ASSOCIATES AND JOINT VENTURES

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

2.7. FINANCIAL INSTRUMENTS

2.7.1 Definition and classification

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

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

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

2.7.2 Financial assets measured at amortised cost

The Group classifies these assets in the following three categories:

Liquid assets

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

Trade accounts receivable

Trade accounts receivable are amounts owed by customers for goods and services provided in the ordinary course of business. They are classified as current assets, with the exception of those which do not fall due until 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 within a business model whose objective is to hold financial assets in order to collect 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 (FVTCOI). The classification is made on initial recognition of the financial asset and is based on the business model for managing financial assets and the characteristics of the contractual cash flows of the financial asset.

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

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

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

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

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

Upon initial recognition, financial liabilities measured at amortised cost are shown at the fair value of the consideration received less the transaction costs associated with borrowing. In the subsequent period, the financial liabilities are measured at amortised cost using the effective interest rate method. Profits and losses are recognised through profit or loss when the liabilities are derecognised or as a result of amortisation. Non-current 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.

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. In the 2020 financial year, foreign currency transactions mainly related to the sale of the shares in Sunrise.

Sunrise was included in the consolidated financial statements of freenet AG as an associate until 31 October 2020. Until then, the average exchange rate was 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 was translated using the rate prevailing on the closing date. Currency translation differences resulting from the accounting for equity-accounted investments were shown in the consolidated statement of comprehensive income under the item, Currency translation differences from subsequent accounting for equity-accounted investments.

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, treasury shares, 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.

The Executive Board is authorised by the Annual General Meeting to acquire own shares, with this requiring the approval of the Supervisory Board (section 71 (1) no. 8 of the German Stock Corporation Act (Aktiengesetz – AktG). Thresholds are defined for buyback programmes, such as number, total amount and duration. The acquisition of own shares is measured at cost plus fees per individual transaction.

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 the financial result.

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 employee. 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 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 2020, three significant long-term incentive programmes ("LTIP programmes") for employee were in place in the Group.

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.

In addition, the freenet Group maintains two further employee incentive programmes (hereinafter referred to as "Other 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 30 June 2026 or 31 July 2026; other locations until 31 December 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 2020: 1,382.4 million euros; previous year: 1,383.5 million euros) as well as impairments of intangible assets with an indefinite useful life (carrying amount as of 31 December 2020: 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 665 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 892 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 1,152 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 1,541 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 96 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 126 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 177 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 235 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 6 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 7 million euros if the WACC were to decline by 0.5 percentage points, and that, if 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 12 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 15 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 2020, 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 18,134 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 23,604 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. 20.2 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. COMPARATIVE FIGURES

Comparability with the consolidated financial statements as at 31 December 2019 is limited due to the retrospective restatement of the prior-year comparative figures in connection with the sale of the shares in Sunrise in November 2020 and Sunrise's classification as a discontinued operation ad defined in IFRS 5. In this context, we refer to the extensive explanations provided in note 35, Non-current assets held for sale, discontinued operations and disposal of subsidiaries.

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 2020:

- 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
- 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 53.7 million euros (previous year: 61.6 million euros) reported for the “Other/Holding” segment in 2020 is attributable to operating activities (54.5 million euros; previous year: 62.5 million euros) and other business activities (–0.8 million euros; previous year: –0.9 million euros). Of the figure of 42.2 million euros (previous year: 46.0 million euros) reported for gross profit for 2020 for the “Other/Holding” segment, 43.3 million euros (previous year: 47.3 million euros) is attributable to the operating activities and –1.1 million euros (previous year: –1.3 million euros) is attributable to the other business activities. The EBITDA of –8.6 million euros (previous year: –14.0 million euros) reported for the “Other/Holding” segment for 2020 was accounted for by operating activities to the extent of 16.8 million euros (previous year: 14.1 million euros) and by other business activities in the amount of –25.4 million euros (previous year: -28.1 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 2020

In EUR '000s	Mobile Communications	TV and Media	Other/Holding	Elimination of inter-segment revenue and costs	Total
Third-party revenue	**2,289,304**	**249,091**	**37,835**	**0**	**2,576,230**
Inter-segment revenue	16,829	9,878	15,844	– 42,551	0
Total revenue	2,306,133	258,969	53,679	– 42,551	2,576,230
Cost of materials, third party	**– 1,628,522**	**– 74,908**	**– 10,741**	**0**	**– 1,714,171**
Inter-segment cost of materials	– 18,899	– 15,309	– 713	34,921	0
Total cost of materials	– 1,647,421	– 90,217	– 11,454	34,921	– 1,714,171
Segment gross profit	**658,712**	**168,752**	**42,225**	**– 7,630**	**862,059**
Other operating income	50,567	327	5,150	– 3,286	52,758
Other own work capitalised	13,790	6,061	2,269	0	22,120
Personnel expenses	– 133,341	– 59,139	– 37,107	0	– 229,587
Other operating expenses	– 234,907	– 36,301	– 21,180	10,916	– 281,472
Thereof loss allowances on financial assets and contract assets	– 32,408	– 1,095	– 319	0	– 33,822
Thereof without loss allowances on financial assets and contract assets	– 202,499	– 35,206	– 20,861	10,916	– 247,650
Overhead [1]	**– 303,891**	**– 89,052**	**– 50,868**	**7,630**	**– 436,181**
Thereof inter-segment allocation	– 7,029	– 903	302	7,630	
Segment EBITDA	**354,821**	**79,700**	**– 8,643**	**0**	**425,878**
Depreciation, amortisation and impairment					– 162,897
EBIT					**262,981**
Financial result					– 45,476
Income taxes					– 26,996
Consolidated profit/loss from continuing operations					**190,509**
Consolidated profit/loss from discontinued operations attributable to the shareholders of freenet AG					**370,501**
Consolidated profit					**561,010**
Consolidated profit attributable to shareholders of freenet AG					565,835
Consolidated profit attributable to non-controlling interests					– 4,825
Net cash investments	**25,101**	**17,412**	**3,711**		**46,224**

[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 2019

In EUR '000s	Mobile Communications	TV and Media	Other/Holding	Elimination of inter-segment 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					– 46,162
Income taxes					– 51,788
Consolidated profit/loss from continuing operations					**172,004**
Consolidated profit/loss from discontinued operations attributable to the shareholders of freenet AG					**12,728**
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.

Consolidated financial statements

4 REVENUE

A breakdown of the revenue of 2,576 million euros (previous year: 2,933 million euros) by segments is set out under note 3, Segment reporting.

Of the Mobile Communications segment's external revenue totalling 2,289 million euros in the 2020 financial year (previous year: 2,641 million euros), 1,641 million euros (previous year: 1,675 million euros) was attributable to revenue from services (of which 1,522 million euros (previous year: 1,541 million euros) is accounted for by postpaid, and 119 million euros (previous year: 134 million euros) by no-frills and prepaid), 530 million euros (previous year: 863 million euros) to revenue from hardware and 118 million euros (previous year: 103 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 2020, revenue in the amount of 33,202 thousand euros (previous year: 35,000 thousand euros) was recognised which had previously been reported in net contract liabilities to customers from contracts with customers as at 1 January 2020. Revenue totalling 45 thousand euros (previous year: 89 thousand euros) from performance obligations settled or partly settled in prior periods was recognised in the 2020 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 1,223.3 million euros (previous year: 1,235.1 million euros). The outstanding performance obligations relate to the following periods: 861.0 million euros to 2021, 336.5 million euros to 2022, 25.4 million euros to 2023 and 0.4 million euros to 2024. 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 employee, 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	2020	2019
Costs of purchased goods	559,685	893,467
Costs of purchased services	1,154,486	1,142,867
Total	**1,714,171**	**2,036,334**

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 2020 financial year, contract acquisition costs of 317,437 thousand euros (previous year: 313,054 thousand euros) were amortised. 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. As in the previous year, contract acquisition costs amortised in 2020 relate almost exclusively to dealer commissions.

8 PERSONNEL EXPENSES

Personnel expenses are broken down as follows:

In EUR '000s	2020	2019
Wages and salaries	191,932	197,388
Social security and post-employment benefit costs	37,655	39,062
Total	**229,587**	**236,450**

An average of 4,050 persons were employed in the Group in the financial year 2020 (previous year: 4,200). At the end of the financial year, the Group employed 4,004 persons (previous year: 4,238). Of this figure, 29 (previous year: 35) were senior executives and 329 (previous year: 336) were apprentices or students of the vocational academy as of 31 December 2020.

The Group's employee incentive programmes triggered personnel expenses of 1,536 thousand euros as per IFRS 2 (previous year: 4,359 thousand euros).

With regard to an explanation of the employee incentive programmes, please refer to our comments to notes 2.13 and 25, Employee incentive programmes.

Personnel expenses also comprise an expense of 2,121 thousand euros for defined benefit plans (previous year: 1,841 thousand euros), see also note 29, Pension provisions and similar obligations.

Personnel expenses include a figure of 15,200 thousand euros as the employer's social insurance contribution as costs of defined contribution benefit plans (previous year: 15,604 thousand euros).

9 DEPRECIATION, AMORTISATION AND IMPAIRMENT

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

In EUR '000s	2020	2019
Depreciation of lease assets	76,565	70,701
Amortisation of intangible assets	55,878	54,657
Impairment of intangible assets	208	0
Depreciation of property, plant and equipment	29,767	31,483
Impairment of of property, plant and equipment	479	0
Total	**162,897**	**156,841**

For information on the depreciation of lease assets, we refer to our comments in note 2.5, Leases.

The impairment of intangible assets concerns internally generated software that is no longer used. The impairment of property, plant and equipment relate to part of the administrative building at the Büdelsdorf site, which cannot be used at present due to refurbishment and modernisation.

10 OTHER OPERATING EXPENSES

Other operating expenses consist mainly of marketing costs (91,456 thousand euros in 2020 compared with 108,247 thousand euros in 2019), 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 2020 financial year, other operating expenses included impairment losses on financial assets and contract assets of 33.8 million euros (previous year: 39.5 million euros). Of this amount, 36.2 million euros (previous year: 38.9 million euros) is attributable to impairment losses recognised under IFRS 9, of which 36.2 million euros (previous year: 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 consists of the following items:

In EUR '000s	2020	2019
Interest from lease receivables	1,670	2,035
Interest from banks, debt collection and similar income	746	1,155
Interest income from tax refunds	31	126
Interest from the subsequent measurement of the put option from the acquisition of MOTION TM	0	6,257
Total	**2,447**	**9,573**

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 FINANCIAL RESULT

Interest and similar expenses are comprised as follows:

In EUR '000s	2020	2019
Interest to banks and similar expenses	30,523	32,372
Interest from leases	12,269	17,167
Interest expense from the unwinding of discounts on liabilities	2,165	4,023
Interest expense from pension obligations	1,310	1,725
Interest expense from additional tax payments and similar expenses	35	83
Other	1,331	1,329
Total	**47,633**	**56,699**

The interest expense for 2020 relating to the unwinding of the discount on liabilities in the amount of 2,165 thousand euros (previous year: 4,023 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 2,172 thousand euros (previous year: 4,018 thousand euros) and in the interest expense relating to the unwinding of the discount on liabilities in the amount of 2,165 thousand euros (previous year: 4,023 thousand euros).

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

The other financial result amounts to 0.1 million euros (previous year: 0.6 million euros).

13 INCOME TAXES

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

In EUR '000s	2020	2019 restated
Current tax expense for the financial year	– 23,405	– 25,881
Tax income from previous years	406	503
Deferred tax income (previous year: tax expense) due to write-up (previous year: write-down) on deferred tax assets	9,146	– 8,684
Deferred tax income (previous year: tax expense) relating to temporary differences	– 13,230	– 17,304
Deferred tax income from tax rate changes		
relating to temporary differences	625	– 926
relating to tax loss carryforwards	– 538	504
Total	**– 26,996**	**– 51,788**

For further details concerning deferred taxes, please refer to note 18, Deferred tax assets and deferred tax liabilities.

In addition to the net expense of 27.0 million euros reported in "Income taxes", "Consolidated profit/loss from discontinued operations" includes current tax expense of 2.7 million euros and deferred tax income of 1.3 million euros arising from the sale of the equity investment in Sunrise; for further information, please refer to our comments in note 35 of these notes to the consolidated financial statements, Discontinued operations. The reclassification of the Sunrise investment to discontinued operations for 2019 as well resulted in a restatement of the prior-year figures: compared with the presentation in the consolidated financial statements published for 2019, the income tax expense for 2019 (sub-item: deferred tax expense relating to temporary differences) was reduced by 1.6 million euros, as this expense is now shown net in consolidated profit/loss from discontinued operations for 2019.

Applying the average tax rate of the consolidated companies to consolidated profit from continuing operations before income taxes would result in anticipated tax expense of 66.1 million euros (previous year restated: 67.8 million euros). The difference between this amount and the current tax expense of 27.0 million euros (previous year: 51.8 million euros) is shown in the following reconciliation:

In EUR '000s / as indicated	2020	2019 restated
Earnings before taxes	**217,505**	**223,792**
Expected tax expense applying the tax rate of 30.40% (previous year: 30.40%)	– 66,122	– 67,809
Change in deferred tax assets on loss carryforwards and unrecognised deferred tax assets on loss carryforwards	45,926	23,508
Tax effect on non-deductible expenses due to trade tax additions	– 2,683	– 2,620
Tax effect of other non-deductible expenses	– 4,117	– 10,558
Tax effect of tax-free income	456	9,382
Effects of tax rate changes	87	– 422
Tax income from previous years	406	503
Other effects	– 949	– 3,772
Current tax expense	**– 26,996**	**– 51,788**
Effective tax rate (in %)	12.41	23.14

The retrospective restatements for 2019 were made due to the presentation of the equity investment in Sunrise as a discontinued operation. This resulted in changes in earnings before taxes, expected tax expense, the tax effect of tax-free income and the effective tax rate compared with those shown in the consolidated financial statements published for 2019.

For 2019, the other effects included 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 2020 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 415.42 per cent (previous year: 413.74 per cent) were also applied. The deferred taxes in financial year 2020 were calculated using an average tax rate of 30.40 per cent (previous year: 30.30 per cent).

14 EARNINGS PER SHARE

14.1. BASIC EARNINGS PER SHARE

Basis earnings per share are calculated by dividing the profit attributable to the shareholders by the weighted average number of shares outstanding during the financial year. In the future, basis earnings per share may decrease as a result of the possible utilisation of conditional capital. For information purposes, please refer to our comments under note 24.7, Conditional capital.

	2020	2019
Consolidated profit attributable to shareholders of freenet AG In EUR '000s	565,835	190,899
Weighted average number of shares outstanding	127,465,092	128,011,016
Earnings per share in EUR (basic)	**4.44**	**1.49**

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 2020, there are neither actual nor potential dilution effects.

	2020	2019
Consolidated profit attributable to shareholders of freenet AG in EUR '000s	565,835	190,899
Weighted average number of shares outstanding	127,465,092	128,011,016
Weighted average number of shares outstanding plus number of potentially dilutive shares	127,465,092	128,011,016
Earnings per share in EUR (diluted)	**4.44**	**1.49**

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

Movements in intangible assets and property, plant and equipment are shown under note 38.

The most significant carrying amount in intangible assets relates to trademarks arising from the purchase price allocation on the occasion of the acquisition of the debitel Group in financial year 2008.

The following table sets out the carrying amounts of these intangible assets from purchase price allocations:

In EUR '000s	31.12.2020	31.12.2019
Trademarks	300,081	300,754
Customer relationships	82,810	87,828
Right-of-use assets	36,261	43,536
Software	1,491	1,945
Total	**420,643**	**434,063**

In addition to the intangible assets resulting from the various purchase price allocations, further intangible assets of 74.1 million euros are shown as at 31 December 2020 (31 December 2019: 67.8 million euros) including distribution rights of 21.1 million euros (previous year: 19.3 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 2020 (previous year: 18.8 million euros). No impaired intangible assets existed as at 31 December 2020.

Lease assets amounted to 441.3 million euros as at 31 December 2020 (31 December 2019: 452.0 million 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	31.12.2020	31.12.2019
Mobile Communications	1,122,814	1,122,814
Online	28,807	29,887
TV	226,621	226,621
Other	4,152	4,152
Total	**1,382,394**	**1,383,474**

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: 1,122,814 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 2020, 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 28,670 thousand euros (previous year: 29,887 thousand euros) has been allocated to the "Online" CGU. The year-on-year decrease in the carrying amount results from the disposal of the freenet digital Group. In this context, we refer to note 35, Non-current assets held for sale, discontinued operations and disposal of subsidiaries. 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 2024. 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 2024), 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 as of 31 December 2020, 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	1,122.8	3.94	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	4.70	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	28.7	5.53	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 following table shows the basic assumptions for 2019.

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 2020 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 2020 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 2020 (previous year: 0.0 million euros).

The following disclosures were made in the previous year 2019:

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	31.12.2020	31.12.2019 restated
Interests in joint ventures	2,088	1,753
Total	**2,088**	**1,753**

The consolidated financial statements for the period ending 31 December 2020 include Jestoro GmbH, Hamburg, as an insignificant joint venture with a carrying amount of 1.8 million euros (31 December 2019: 1.8 million euros). In financial year 2020, the net profit/loss of Jestoro GmbH amounted to 0.5 million euros (previous year: 0.5 million euros). Antenne Deutschland was included in the consolidated financial statements as of 31 December 2020 for the first time with a carrying amount of 0.3 million euros. Antenne Deutschland posted a net loss of –1.4 million euros in the 2020 financial year.

18 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The deferred tax assets and deferred tax liabilities, taking account of the temporary differences in accordance with the liability method, were taxed at an overall rate of 30.40 per cent (previous year: 30.30 per cent).

The following amounts are shown in the consolidated balance sheet:

In EUR '000s	31.12.2020	31.12.2019
Deferred income tax assets	129,440	130,226
Total	**129,440**	**130,226**

The overhang of deferred tax assets for the corporation tax and trade tax group of freenet AG which are recognised (123.9 million euros; previous year: 124.1 million euros) is classified as current (38.8 million euros; previous year: 35.1 million euros) and non-current (85.1 million euros; previous year: 89.0 million euros) as a result of the anticipated use of tax loss carryforwards. For companies outside freenet AG's consolidated tax group for corporation and trade tax purposes, an excess of deferred tax assets was recognised in the amount of 5.5 million euros (previous year: 6.1 million euros), of which 0.9 million euros (previous year: 0) are classified as current.

Changes in the deferred income tax assets and deferred income tax liabilities in the financial year 2020 are shown in the following table:

In EUR '000s	1.1.2020	Effects from initial consolidation/deconsolidation	Set off in other comprehensive income	Expenses and income from income taxes	31.12.2020
Property, plant and equipment	2,739	0	0	– 370	2,369
Intangible assets	– 171,744	351	0	– 8,802	– 180,195
Lease assets	– 139,646	155	0	2,900	– 136,591
Other financial assets	– 35,074	0	– 144	1,493	– 33,725
Contract acquisition costs	– 90,024	0	0	2,084	– 87,940
Loss carryforwards	283,107	0	0	9,771	292,878
Lease liabilities	167,096	– 158	0	– 4,231	162,707
Pension provisions	12,595	0	1,834	– 600	13,829
Other provisions	4,524	0	– 2	– 513	4,009
Other financial liabilities	28,867	0	0	– 4,877	23,990
Trade accounts payable, other liabilities	134,295	– 21	0	– 646	133,628
Borrowings	1,392	0	0	– 646	746
Trade accounts receivable, other assets	– 67,901	1,271	– 74	439	– 66,265
Total	**130,226**	**1,598**	**1,614**	**– 3,998**	**129,440**

Income tax expenses and income amounting to a net expense of 3,998 thousand euros (previous year: 27,968 thousand euros) are shown in the consolidated income statement as deferred income taxes within “Income taxes”. As in the previous year, they are attributable solely to continuing operations. The effects of deconsolidation in financial year 2020 amounted to net income of 1,598 thousand euros in total, of which 1,271 thousand euros are attributable to the sale of the equity investment in Sunrise (component of profit/loss from discontinued operations; see also our comments in note 35 of these notes to the consolidated financial statements regarding discontinued operations) and 327 thousand euros to the deconsolidation of the freenet digital Group.

The deferred tax assets and deferred tax liabilities developed as follows in financial year 2019:

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	3,450	–35,074
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 summarised net change in deferred taxes is shown below:

In EUR '000s	2020	2019
As of 1.1.	**130,226**	**158,094**
Transition to IFRS 16	0	338
Effects from initial consolidation and deconsolidation	1,598	– 2,597
Set off in other comprehensive income	1,614	2,359
Tax expense (previous year: tax income)	– 3,998	– 27,968
As of 31.12.	**129,440**	**130,226**

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 2020, deferred tax assets amounting to 292,878 thousand euros had been recognised in relation to loss carryforwards (previous year: 283,107 thousand euros). Of this figure, 154,556 thousand euros (previous year: 144,294 thousand euros) is attributable to corporation tax loss carryforwards and 138,322 thousand euros (previous year: 138,813 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, 0.7 billion euros relate to corporation tax (previous year: 0.8 billion euros corporation tax and 0.1 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 2020, 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 54.0 million euros (previous year: approximately 54.7 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 289,335 thousand euros as of 31 December 2020 (31 December 2019: 297,240 thousand euros). They relate predominantly to dealer commissions in the Mobile Communications segment and, to a lesser extent, to employee commissions.

In financial year 2020, costs recognised as assets amounted to 309,532 thousand euros (previous year: 306,315 thousand euros) and amortisation to 317,437 thousand euros (previous year: 313,054 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, 93 per cent of the amortisation amount in 2020 (2019: 94 per cent) was attributable to contract acquisition costs with an amortisation period of 24 months.

20 INVENTORIES

The inventories are comprised as follows:

In EUR '000s	31.12.2020	31.12.2019
Mobile phones/Accessories	49,352	46,888
Computers/IT products	14,350	16,592
SIM cards	6,605	6,727
Bundles and vouchers	38	51
Other	4,406	5,561
Total	**74,751**	**75,819**

Impairment of 3,890 thousand euros (previous year: 3,726 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:

	31.12.2020		
In EUR '000s	Total	Non-current	Current
Trade accounts receivable	252,940	63,678	189,262
Other non-derivative financial assets	19,905	6,527	13,378
	272,845	**70,205**	**202,640**
Lease receivables	69,734	55,572	14,162
Other financial assets	33,961	12,772	21,189
Other equity instruments	195,529	195,529	0
Financial assets	**572,069**	**334,078**	**237,991**
Other assets	304,460	106,909	197,551
Prepayments made	5,588	106	5,482
Non-financial assets	**310,048**	**107,015**	**203,033**
Total receivables, other assets and other financial assets	**882,117**	**441,093**	**441,024**

	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**

These other equity instruments are comprised as follows:

In EUR '000s	31.12.2020	31.12.2019
Equity investment in CECONOMY	184,869	178,767
Equity investments in MGI	9,191	0
Miscellaneous other equity investments	906	806
Other	563	542
Total	**195,529**	**180,115**

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 2020, the equity investment in CECONOMY is reported under other financial assets at a carrying amount of 184.9 million euros. Subsequent accounting is at fair value through other comprehensive income. The Group reports the fair value as the reporting date market price of 5.665 euros (Xetra trading).

Under an agreement dated 28 August 2020 and through its performance on 30 September 2020, the Group sold all shares in freenet digital GmbH and as consideration received 4,376,492 shares of the acquirer, Media and Games Invest plc., Malta (hereinafter also referred to as "MGI"), worth 5.7 million euros (as measured at 30 September 2020). As of 31 December 2020, the equity investment in MGI is reported under other financial assets at a carrying amount of 9.2 million euros. Subsequent accounting is at fair value through other comprehensive income. The Group reports the fair value as the reporting date market price of 2.10 euros (Xetra trading).

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 272,845 thousand euros as at 31 December 2020 (previous year: 317,833 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 mainly comprise receivables from end customers, corporate customers, dealers and sales partners. Other assets and prepayments made of 310,048 thousand euros (previous year: 324,655 thousand euros) consist of non-financial assets as at 31 December 2020.

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 243.8 million euros (previous year: 282.5 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 2020 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 2020 were determined as follows:

31 December 2020

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 (mathe-matical) in %
Receivables from end customers – not past due	Trade accounts receivable	143,789	– 4,494	139,295	3.1
Receivables from end customers – past due for <90 days	Trade accounts receivable	16,999	– 4,915	12,084	28.9
Receivables from end customers – past due for 90 to 180 days	Trade accounts receivable	10,518	– 5,569	4,949	52.9
Receivables from end customers – past due for >180 days	Trade accounts receivable	119,849	– 115,959	3,890	96.8
Receivables from business partners	Trade accounts receivable	95,861	– 3,139	92,722	3.3
Other non-derivative financial assets (Stage 1)	Other financial assets	20,332	– 427	19,905	
Other financial assets					
thereof lease receivables [1]	Other financial assets	69,734		69,734	
Thereof consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option) (Stage 1)	Other financial assets	34,668	– 707	33,961	
Other assets					
Thereof contract assets from contracts with customers (Mobile Communications)	Other receivables and other assets	148,618	– 5,641	142,977	3.8
Thereof consideration payable under IFRS 15 (Mobile Communications/tariff) (Level 1)	Other receivables and other assets	129,927	– 5,420	124,507	4.2
Thereof financial assets from contracts with customers (TV)	Other receivables and other assets	32,349		32,349	

[1] The impairment loss identified for the lease receivables was insignificant in financial year 2020 and was not recognised.

For overdue receivables from retail customers, the calculated expected loss rate increased year-on-year, primarily due to an adjustment of the loss allowance scheme for mobile retail customers that took into account the increased risk of default triggered by the continuing coronavirus crisis.

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.

We provide the following information on the development loss allowances in the 2020 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 31.12.2019 – calculated under IFRS 9 (of which specific loss allowances was 2,971, see following table)	**144,965**	**1,134**	**12,475**	**158,574**
Net change in loss allowances in 2020	– 10,889	0	– 1,414	– 12,303
Loss allowance as at 31.12.2020 – calculated under IFRS 9 (of which specific loss allowances was 3,474, see following table)	**134,076**	**1,134**	**11,061**	**146,271**

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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 31.12.2019 – calculated under IFRS 9 (of which specific loss allowances was 2,971, see following table)	**144,965**	**1,134**	**12,475**	**158,574**

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

In EUR '000s	31.12.2020	31.12.2019
Interest in CECONOMY	184,869	178,767
Interest in MGI	9,191	0
Lease receivables	55,572	68,254
Consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option)	12,772	11,387
Other	7,996	10,072
Total	**270,400**	**268,480**

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	31.12.2020	31.12.2019
Consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option)	21,189	17,585
Lease receivables	14,162	13,924
Other	13,378	14,678
Total	**48,729**	**46,187**

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	31.12.2020	31.12.2019
Contract assets from contracts with customers (Mobile Communications)	46,257	53,520
Other assets from contracts with customers (TV)	30,712	36,127
Consideration payable under IFRS 15 (Mobile Communications/tariff)	29,085	32,462
Other	961	812
Total	**107,015**	**122,921**

Current other receivables and other assets are comprised as follows:

In EUR '000s	31.12.2020	31.12.2019
Contract assets from contracts with customers (Mobile Communications)	96,720	100,112
Other assets from contracts with customers (TV)	93,795	92,887
Consideration payable under IFRS 15 (Mobile Communications/tariff)	3,264	3,456
Other	9,254	5,279
Total	**203,033**	**201,734**

Non-current trade accounts receivable are comprised as follows:

In EUR '000s	31.12.2020	31.12.2019
Receivables from end customers from mobile phone upgrade option (Mobile Communications)	63,512	68,535
Other	166	143
Total	**63,678**	**68,678**

Current trade accounts receivable are comprised as follows:

In EUR '000s	31.12.2020	31.12.2019
Receivables from network operators, dealers, distributors, hardware manufacturers (Mobile Communications)	73,741	77,670
Receivables from end customers (Mobile Communications), without mobile phone upgrade option	51,603	51,364
Receivables from end customers from mobile phone upgrade option (Mobile Communications)	42,863	64,929
Receivables from end customers (TV and Media, and Other/Holding)	2,241	4,351
Other	18,814	27,439
Total	**189,262**	**225,753**

22 LIQUID ASSETS

Liquid assets are comprised as follows:

In EUR ’000s	31.12.2020	31.12.2019
Cash at bank, cheques and cash in hand	666,867	133,692
Total	**666,867**	**133,692**

23 CURRENT INCOME TAX ASSETS

Current income tax assets mainly concern anticipated additional corporation tax and trade tax refunds for previous financial years.

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 27 May 2020 to purchase own shares amounting to a total of 10 per cent of the share capital existing at the time of the resolution on 27 May 2020 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 26 May 2025. In financial year 2020, the Executive Board made use of this authorisation. Please refer to section 24.3, Treasury shares.

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 2020 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. OWN SHARES

On 28 December 2020, freenet AG completed the share buyback announced on 1 September 2020 as required by Article 2, paragraph 2 of Commission Delegated Regulation (EU) 2016/1052. In total, 2,956,232 shares were purchased under the share buyback programme at an average price of 17.39 euros. The cost amounted to 51,420 thousand euros, equating to 2.308 per cent of the share capital. At the beginning of the calendar year, 128,061,016 shares were outstanding; as a result of the acquisition of own shares (2,956,232 shares), a total of 125,104,784 shares remain outstanding as of 31 December 2020. The repurchased shares are to be retired at a later date.

24.4. 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.

24.5. CONSOLIDATED NET RETAINED PROFITS

The consolidated net retained profits for financial year 2020 mainly comprise the cumulative consolidated profit attributable to the freenet AG shareholders.

24.6. NON-CONTROLLING INTERESTS

Of the non-controlling interests in equity an amount of 0.6 million euros (31 December 2019: 9.3 million euros) was attributable to the 38.70 per cent (31 December 2019: 41.37 per cent) interest held by non-controlling shareholders in EXARING. In financial year 2020, 2.67 per cent of the shares were acquired at a purchase price of 3,871 thousand euros. We provide the following information regarding the assets and liabilities of EXARING as of 31 December 2020, 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	31.12.2020	31.12.2019
Non-current assets	64,841	72,398
Current assets	4,705	8,546
Total assets	**69,546**	**80,944**
Non-current liabilities	18,043	18,490
Current liabilities	11,405	10,532
Total liabilities	**29,448**	**29,022**
Net assets	**40,097**	**51,923**
Thereof: non-controlling interests in equity	**559**	**9,255**

The net profit/loss of EXARING AG amounted to – 6,735 thousand euros in financial year 2020 (previous year: – 10,098 thousand euros).

24.7. 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 27 May 2020 (Authorised Capital 2020). 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 10 June 2025. The full wording of the Executive Board's authorisation was published in the Federal Gazette under agenda item 7 of the invitation to the 2020 Annual General Meeting. In financial year 2020, the Executive Board made no use of this authorisation.

24.8. CONDITIONAL CAPITAL

In accordance with the resolution by the Annual General Meeting held on 27 May 2020, 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 2020). 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 27 May 2020 under agenda item 8.1) 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 2020, 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.

For Mr Vilanek, Programme 2 was concluded upon payment in 2019. For Mr Preisig and Mr Esch, 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 31.12.2019	Additions	Disposal by pay-out	Number of phantom shares 31.12.2020	Provision 31.12.2020 in EUR '000s
Joachim Preisig	30,691	0	30,691	0	0
Stephan Esch	64,549	24,169	0	88,718	1,656
Total	**95,240**	**24,169**	**30,691**	**88,718**	**1,656**

The actual target attainment defined for 2019 is 120 per cent. This means that 200 per cent of the base amount, representing 400 thousand euros, would be used for payment into the virtual account for Mr Esch. After the consolidated financial statements for 2019 had been approved, this amount was converted into phantom shares for financial year 2019 based on an average share price of 16.55 euros, with the result that a total of 24,169 phantom shares was credited to the virtual account of Mr Esch.

In 2018, a severance agreement was entered into with Mr Preisig, under which his employment on the Executive Board ended on 31 December 2018. The severance agreement states that Mr Preisig would not be awarded any more phantom shares for financial year 2019. To compensate for any resulting disadvantage, Mr Preisig received a severance award of 80 thousand euros paid in 2019. In 2020, Programme 2 ended for Mr Preisig when his 30,691 phantom shares were paid out at an amount of 559 thousand euros.

In financial year 2020, a decrease in personnel expenses of 333 thousand euros resulted from Programme 2, due to a reduction in the provision from 2,548 thousand euros (as of 31 December 2019) to 1,656 thousand euros as of 31 December 2020, and payments of 559 thousand euros from Programme 2 in 2020 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 v. Platen and Mr Fromme with effect from 1 June 2018; for Mr Arnold with effect from 1 January 2019), supplemental agreements to the employment contracts granting new LTIPs were entered into with the aforementioned members of the Executive Board (hereinafter referred to as “Programme 3”).

In addition to the annual target agreement, a five-year target agreement (in relation to Mr Vilanek and Mr Esch), a three-year and seven-month target agreement (in relation to Mr v. Platen and Mr Fromme) and a three-year target agreement (in relation to Mr Arnold) was entered into, designating as the target metric target attainment from the respective annual variable remuneration for financial years 2019 to 2023 (for Mr Vilanek), financial years 2020 to 2024 (for Mr Esch), financial years 2018 (prorated as of the date of appointment to the Executive Board) to 2021 (for Mr v. Platen and Mr Fromme) and financial years 2019 to 2021 (for Mr Arnold). A basic amount was specified in each beneficiary’s employment contract for this remuneration component; this basic amount is entered in a virtual account for the Executive Board member in question as a positive amount as described below and in accordance with 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 v. Platen, Mr Fromme and Mr Arnold) were specified for the beneficiaries for each full financial year.

If the level of target attainment of the annual variable target agreement for a financial year is 100 per cent, 100 per cent (as the basic amount multiplier) of the basic amount is credited to the virtual account. At most (if the level of target attainment is 125 per cent or above), 150 per cent of the basic amount is credited to the virtual account. If the level of target attainment is less than 70 per cent, no phantom shares are credited for the financial year in question. If target attainment is between 70 and 125 per cent, linear interpolation is used. For the purpose of posting the number of phantom shares in the virtual account, sub-accounts are maintained in the LTIP account bearing the designation of the financial year for which the number posted was ascertained.

The amount shown on the virtual account (known as the “allotment amount” as the product of the basic amount and the basic amount multiplier) is converted into phantom shares. This calculation is based on a reference share price, i.e. the average Xetra closing price in the twelve months of the relevant target period.

Irrespective of the level of target attainment calculated above, phantom shares are only entered for the most recent financial year covered by this LTIP programme if more than 90 per cent of a defined Group EBT target (for all Executive Board members 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 per cent (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 2020, a total of 116,470 phantom shares were entered in the beneficiaries' virtual accounts under Programme 3 – 44,479 of them for Mr Vilanek, 17,107 for Mr Arnold, 27,442 for Mr v. Platen and 27,442 for Mr Fromme. Due to the aforementioned exercise conditions (EBT target), these phantom shares are all non-vesting.

Of the personnel expenses of 1,808 thousand euros recognised in 2020 (previous year: 1,933 thousand euros), 783 thousand euros is attributable to Mr Vilanek, 329 thousand euros to Mr Arnold, 188 thousand euros to Mr v. Platen, 188 thousand euros to Mr Fromme and 320 thousand euros to Mr Esch.

Of the provision recognised as at 31 December 2020 in the amount of 4,729 thousand euros (31 December 2019: 2,921 thousand euros), 2,088 thousand euros (previous : 1,305 thousand euros) is attributable to Mr Vilanek, 748 thousand euros (previous year: 419 thousand euros) to Mr Arnold, 673 thousand euros (previous year: 485 thousand euros) to Mr v. Platen, 673 thousand euros (previous year: 485 thousand euros) to Mr Fromme and 547 thousand euros (previous year: 227 thousand euros) to Mr Esch.

25.4. OTHER EMPLOYEE INCENTIVE PROGRAMMES

The Group had two further employee incentive programmes in the period under review

From an initial balance of 15,477 phantom shares as at 31 December 2019, all 15,477 phantom shares were exercised through disbursements under the programme for senior executives below the Executive Board level during the 2020 financial year. The payments disbursed in 2020 amounted to 562 thousand euros. This programme therefore results in personnel expenses of 61 thousand euros for 2020, with the provision being reduced from 501 thousand euros (31 December 2019) to 0.

The Group has a further employee incentive programme, which was recognised as a provision in the amount of 1,679 thousand euros as at 31 December 2020 (previous year: 2,006 thousand euros). Under the terms of the programme, the employee were granted phantom shares which are earned in several tranches up to 2023. The phantom shares will be paid out until the programme's completion and after its completion in 2023 in an amount linked to the issuing entity’s 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:

	31.12.2020		
In EUR ’000s	Total	Non-current	Current
Trade accounts payable	379,323	0	379,323
Other non-derivative financial liabilities	100,379	36,941	63,438
Financial liabilities	**479,702**	**36,941**	**442,761**
Other liabilities and deferrals	30,008	7,595	22,413
Prepayments received	483,629	101,195	382,434
Non-financial liabilities	**513,637**	**108,790**	**404,847**
Total trade accounts payable, other liabilities and deferrals, and other financial liabilities	**993,339**	**145,731**	**847,608**

	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
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**

As at 31 December 2020, there are no liabilities vis-à-vis related parties; please refer to note 34, Related party transactions.

Of the figure shown for liabilities, 847,608 thousand euros (previous year: 931,951 thousand euros) are due within the next twelve months. Liabilities amounting to 145,456 thousand euros (previous year: 137,738 thousand euros) have a maturity of between one year and five years; liabilities of 275 thousand euros (previous year: 688 thousand euros) are due in more than five years.

Of the figure shown for the liabilities, which is combined under financial liabilities, 442,761 thousand euros (previous year: 529,776 thousand euros) fall due within one year, 36,797 thousand euros (previous year: 30,693 thousand euros) fall due between one and five years and 144 thousand euros (previous year: 355 thousand euros) fall due after more than five years after the balance sheet date.

Current trade accounts payable break down as follows:

In EUR ’000s	31.12.2020	31.12.2019
Liabilities to network operators, dealers, distributors, hardware manufacturers (Mobile Communications)	235,074	297,105
Liabilities to sales partners from contracts with customers	62,080	73,669
Obligations from distribution rights	29,563	29,750
Other	52,606	64,706
Total	**379,323**	**465,230**

Current other financial liabilities are comprised as follows:

In EUR ’000s	31.12.2020	31.12.2019
Refund liabilities	35,221	39,041
Personnel obligations	17,742	14,106
Other	10,475	11,399
Total	**63,438**	**64,546**

Non-current other financial liabilities are comprised as follows:

In EUR ’000s	31.12.2020	31.12.2019
Liabilities to sales partners from contracts with customers	16,782	21,436
Obligations from distribution rights	10,866	0
Obligations from earn-outs	7,912	7,173
Other	1,381	2,439
Total	**36,941**	**31,048**

Current other liabilities and deferrals are comprised as follows:

In EUR ’000s	31.12.2020	31.12.2019
Deferred income from bonuses and commissions received from network operators	318,366	322,057
Deferred income from customer credit balances, Mobile Communications	36,180	36,095
Liabilities to customers from contracts with customers	15,771	16,280
Other	34,530	27,743
Total	**404,847**	**402,175**

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

In EUR ’000s	31.12.2020	31.12.2019
Deferred income from bonuses and commissions received from network operators	100,656	100,945
Liabilities to customers from contracts with customers	7,595	6,433
Other	539	0
Total	**108,790**	**107,378**

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	31.12.2020	31.12.2019
Liabilities from promissory notes	734.8	819.1
Liabilities to banks	0.0	608.9
Non-current	**734.8**	**1,428.0**
Liabilities from promissory notes	205.9	264.5
Liabilities to banks	0.1	1.1
Current	**206.0**	**265.6**
Total	**940.8**	**1,693.6**

In November 2020, freenet AG successfully placed a promissory note loan with a total value of 345.0 million euros. The bullet financing instrument consists of three tranches with one 3.5-year term (166.5 million euros), one five-year term (168.5 million euros) and one six-year term (10.0 million euros) and bears interest with an average margin (plus 6-month EURIBOR) of 1.6 per cent. The promissory note loan was paid out in September 2020 (in the amount of 64.5 million euros) and November 2020 (in the amount of 280.5 million euros).

In November 2020, freenet AG repaid the syndicated bank loan of 610.0 million euros taken out to finance the acquisition of its package of shares in Sunrise in 2016. In financial year 2020, promissory note loans from 2015 and autumn 2016 with a total nominal value of 258.5 million euros were repaid on schedule. In addition, the promissory note loan from spring 2016 with a nominal value of 228.0 million euros was repaid ahead of schedule.

Net debt amounted to 740.6 million euros as at 31 December 2020 (31 December 2019: 2,031.1 million euros).

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

In EUR millions	31.12.2020	31.12.2019
Site leases	267.3	290.4
Shops/stores	87.9	92.4
Co-location leases	74.0	73.6
Network infrastructure	15.1	6.6
Motor vehicles	4.4	3.0
Other	2.8	7.3
Non-current	**451.5**	**473.3**
Site leases	41.2	38.9
Shops/stores	19.8	19.7
Co-location leases	11.5	10.0
Motor vehicles	4.1	4.1
Network infrastructure	4.0	1.9
Other	4.6	5.4
Current	**85.2**	**80.0**
Total	**536.7**	**553.3**

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 17,544 thousand euros (previous year: 14,851 thousand euros).

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

In EUR '000s	31.12.2020	31.12.2019
Present value of funded obligations	32,568	28,795
Present value of unfunded obligations	88,484	84,843
Present value of obligations	**121,052**	**113,638**
Fair value of plan assets	– 17,544	– 14,851
Provision recognised	**103,508**	**98,787**

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	2020	2019
As of 1.1.	**113,638**	**101,560**
Current service cost	2,121	1,841
Past service cost	0	222
Gross interest expense	1,543	2,092
Employe contributions	2	9
Settlement of pension obligations	– 17	– 27
Actuarial losses/gains		
Thereof due to experience adjustments	35	– 1,226
Thereof due to financial parameter adjustments	6,281	12,819
Actuarial losses/gains, subtotal	**6,316**	**11,593**
Payments made	– 2,551	– 3,652
As of 31.12.	**121,052**	**113,638**

The weighted average remaining term of the obligations as of 31 December 2020 amounted to 24.2 years for the freenet plan (previous year: 24.8 years), 17.5 years for the debitel plans (previous year: 17.7 years) and 10.1 years for the plans of the Media Broadcast Group (previous year: 10.2 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	2020	2019	2018	2017	2016
Present value of funded obligation	32,568	28,795	22,715	21,266	21,026
Present value of unfunded obligation	88,484	84,843	78,845	78,069	79,541
Fair value of plan assets	– 17,544	– 14,851	– 12,387	– 11,426	– 7,929
Plan deficit	**103,508**	**98,787**	**89,173**	**87,909**	**92,638**
Experience adjustments of plan liabilities	35	– 1,226	667	– 320	45
Experience adjustments of plan assets	285	53	– 766	– 67	– 112

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 17,544 thousand euros (previous year: 14,851 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	2020	2019
As of 1.1	**14,851**	**12,387**
Interest on plan assets (through income statement, with interest in accordance with IAS 19)	233	366
Differences between the expected and actual income from plan assets (recognised through other comprehensive income)	285	53
Employer contributions to plan assets	2,175	2,045
Reclassification to other financial assets	0	0
As of 31.12.	**17,544**	**14,851**

The actual income from the plan assets amount to 518 thousand euros (previous year: 419 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 2021, freenet is expecting payments of 2,173 thousand euros into the plan assets and payments of 2,869 thousand euros out of the plan assets for pensions. In the previous year 2019, freenet had expected for financial year 2020 payments of 1,626 thousand euros into the plan assets and payments of 2,806 thousand euros out of the plan assets for pensions.

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

In EUR ’000s	2020	2019
As of 1.1.	**98,787**	**89,173**
Current service cost	2,121	1,841
Past service cost	0	222
Net interest expense	1,310	1,725
Gains on the settlement of pension obligations	– 17	– 4
Subtotal: amount recognised in the consolidated income statement	**3,414**	**3,784**
Remeasurement:		
Experience-based gains (–)/losses (+)	29	– 1,226
Gains (–)/losses (+) due to financial parameter adjustments	6,287	12,819
Return on (–)/costs (+) of plan assets not already included in net interest expense	– 285	– 53
Subtotal: remeasurements recognised through other comprehensive income	**6,031**	**11,539**
Payments made	– 2,551	– 3,673
Employer contributions to plan assets	– 2,175	– 2,045
Employee’ contributions	2	9
As of 31.12.	**103,508**	**98,787**

The following significant actuarial assumptions were made:

In %	31.12.2020	31.12.2019
Discount rate (freenet, debitel plans)	1.17	1.49
Discount rate (Media Broadcast Group plans)	0.70	1.01
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

As in the previous year, 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.

31.12.2020	Change in present value of obligations	
In EUR '000s	Increase	Decrease
Increase in discount rate by 1.0 percentage points		18,134
Decrease in discount rate by 1.0 percentage points	23,604	
Increase in future salary increases by 0.5 percentage points	259	
Decrease in future salary increases by 0.5 percentage points		5
Increase in future pension increases by 0.25 percentage points	2,202	
Decrease in future pension increases by 0.25 percentage points		2,082
Life expectancy: +2 years	6,696	

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	

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 2020. 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. 2020	Use	Reversal	Discounting/ Unwinding of discount	Addition	Disposals (Deconsolidation)	31.12. 2020	non-current	current
Other									
Contingent losses	230	76	0	0	175	0	329	75	254
Litigation	1,247	43	25	0	14,971	0	16,150	0	16,150
Asset retirement obligations	41,800	370	1,030	– 516	2,171	0	42,055	35,368	6,687
Storage costs	398	0	2	0	0	17	379	379	0
License costs	3,572	133	3,439	0	0	0	0	0	0
Other	313	120	19	0	2,230	0	2,404	0	2,404
	47,560	**742**	**4,515**	**– 516**	**19,547**	**17**	**61,317**	**35,822**	**25,495**
Personnel									
Employee incentive programmes	7,976	1,718	89	0	2,000	0	8,169	6,408	1,761
Service anniversaries	1,434	181	511	0	939	0	1,681	1,461	220
Restructuring	173	0	173	0	0	0	0	0	0
Other	803	700	0	0	7	0	110	27	83
	10,386	**2,599**	**773**	**0**	**2,946**	**0**	**9,960**	**7,896**	**2,064**
Total	**57,946**	**3,341**	**5,288**	**– 516**	**22,493**	**17**	**71,277**	**43,718**	**27,559**

Provisions for contingent losses concern, among others, expected losses from tariffs with a negative margin and expected vacancy costs for rented store space. An asset outflow of 254 thousand euros is expected for 2021.

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 intellectual property law. The Group is anticipating a complete asset outflow in 2021. 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 5,440 thousand euros in 2021 and 31,312 thousand euros in the years from 2022 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 1,247 thousand euros in 2021 and 4,056 thousand euros in the years from 2022 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 2021 is expected to be 220 thousand euros and the outflow of assets for the years 2022 to 2040 is expected to be 1,461 thousand euros. A discount rate of 0.53 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.

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 2020, the provisions before netting for long-term work accounts amounted to 4,546 thousand euros (previous year: 5,201 thousand euros), and the corresponding provisions for semi-retirement amounted to 412 thousand euros (previous year: 1,068 thousand euros).

In EUR '000s	2020	2019
Long-term work accounts		
Obligation as at 1.1.	5,201	5,575
Payments from long-term work accounts	– 839	– 1,000
Personnel expenses	79	341
Interest expense	105	285
Obligation as of 31.12. before netting	**4,546**	**5,201**
Fair value of plan assets as of 1.1.	6,225	6,149
Payments from plan assets	0	– 500
Loss on plan assets	208	576
Plan assets as of 31.12.	**6,433**	**6,225**

In EUR '000s	2020	2019
Semi-retirement		
Obligation as at 1.1.	1,068	2,076
Payments from semi-retirement accounts	– 661	– 1,012
Personnel expenses	4	– 1
Interest expense	1	5
Obligation as of 31.12. before netting	**412**	**1,068**
Fair value of plan assets as of 1.1.	1,040	1,744
Payments from plan assets	0	– 700
Loss on plan assets	– 6	– 4
Plan assets as of 31.12.	**1,034**	**1,040**

The remaining provision of 110 thousand euros (previous year: 285 thousand euros) for top-up obligations in connection with semi-retirement that may not be offset 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 maintenance, support and other obligations as well as order commitments in the following amounts:

In EUR '000s	31.12.2020	31.12.2019
Maintenance, support and other obligations		
Due within one year	33,563	35,520
Due within one and five years	51,256	74,460
Due after more than five years	0	25
	84,819	**110,005**
Order commitments		
Regarding property, plant and equipment	6,124	754
Regarding inventories, expenses and services	125,409	80,043
	131,533	**80,797**
Total	**216,352**	**190,802**

As in 2019, 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 131,533 thousand euros (previous year: 80,797 thousand euros). Of this sum, 6,124 thousand euros (previous year: 754 thousand euros) is attributable to the procurement of non-current assets. There are other purchase commitments amounting to 125,409 thousand euros (previous year: 80,043 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 40,748 thousand euros (previous year: 37,174 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.

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).

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, free cash flow shows 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

The cash flows from operating activities decreased by 7.2 million euros to 357.1 million euros year-on-year. EBITDA declined by 0.9 million euros year-on-year, while the profit/loss from discontinued operation Sunrise rose by 356.2 million euros. Besides the adjustment of 351.0 million euros for non-cash gains on the sale of the Sunrise shares, cash flows from operating activities were also negatively impacted by cash payments of 10.6 million euros for transaction costs arising on this sale and the increase in net working capital of 3.4 million euros. The main items with a positive year-on-year impact, on the other hand, were the higher dividend payment from Sunrise in the first half of the year (2020: 46.0 million euros; previous year: 41.5 million euros) and the fall in tax payments of 2.5 million euros (2020: 28.0 million euros; previous year: 30.6 million euros).

32.2. CASH FLOWS FROM INVESTING ACTIVITIES

In financial year 2020, the cash flows from investing activities developed from -38.8 million euros in the previous year to 1,074.2 million euros. This was primarily due to proceeds from the sale of the shares in Sunrise in the amount of 1,125.2 million euros. For further details, please refer to the explanatory disclosures in note 35 of the notes to the consolidated financial statements.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets (net capital expenditure), increased in 2020 by 5.6 million euros compared with the previous year to 46.2 million euros (previous year: 40.6 million euros). This was primarily due to higher investments in the TV and Media segment, for example in the "Radio DAB" area. 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 – 318.0 million euros in the prior-year period to – 898.1 million euros.

Cash repayments of borrowings amounting to 1,096.5 million euros relate to the early repayment of the syndicated bank loan of 610.0 million euros taken out in 2016 to finance the acquisition of the package of shares in Sunrise and the repayment of promissory note loans from 2015 and 2016 totalling 486.5 million euros. The promissory note loans falling due were partially refinanced, resulting in a cash inflow to the Group of 342.9 million euros in financial year 2020 (new promissory note loan raised).

The share buyback programme completed on 28 December 2020 resulted in cash outflows totalling 51.4 million euros.

Free cash flow of 237.3 million euros was generated in financial year 2020 as a result of the aforementioned effects, representing a decrease of 11.7 million euros compared previous year (249.0 million euros).

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

The underlying figure for the statement of cash flows is 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	1.1.2020–31.12.2020	1.1.2019–31.12.2019 restated[1]
Earnings before taxes	217,505	223,792
Financial result	45,476	46,162
EBIT	**262,981**	**269,954**

[1] Retrospective restatement of comparatives of discontinued Sunrise operations in accordance with IFRS 5.

32.5. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

The following reconciliation shows the liabilities from financing activities for the period from 1 January 2020 to 31 December 2020.

In EUR '000s	1.1.2020	Changes in fair value[1]	Other changes[2]	31.12.2020
Non-current borrowings	1,428,009	– 267,095	– 426,088	734,826
Current borrowings	258,198	– 486,500	428,260	199,958
Current financial borrowings from interest accruals	7,412	0	– 1,369	6,043
Liabilities from finance leases	553,276	– 84,079	67,464	536,661
Total liabilities from financing activities	**2,246,895**	**– 837,674**	**68,267**	**1,477,488**

[1] The cash changes within borrowings include payments made for the repayment of borrowings (–1,096.5 million euros), proceeds from new borrowings (342.9 million euros) as well as cash repayments of leases (84.1 million euros).
[2] This includes non-cash changes (e. g. reclassifications, interest accruals).

Liabilities from financing activities for the period from 1 January 2019 to 31 December 2019 break down as follows:

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 (– 0.2 million euros).
[2] The cash changes within borrowings include cash repayments of borrowings (– 31.0 million euros) as well as cash reapyments 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 reclassification 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 2020 and 31 December 2019:

Financial instruments by category as at 31 December 2020

In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement			Fair value of financial instruments
		31.12.2020	Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income	31.12.2020
Assets						
Cash/liquid assets	AC	666,867	666,867			—[1]
Trade accounts receivable		252,940				
At amortised cost	AC	148,825	148,825			—[1]
Fair value through profit or loss	FVTPL	104,115		104,115		—[1]
Other financial assets		319,129				
Lease receivables	n / a	69,734				
Non-derivative financial assets						
At amortised cost	AC	19,905	19,905			—[1]
Other financial assets						
Fair value through profit or loss	AC	17,236	17,236			—[1]
Fair value through other comprehensive income	FVTPL	16,725		16,725		
Other equity instruments						
Fair value through profit or loss	FVTPL	951		951		—[1]
Fair value through other comprehensive income	FVTOCI	194,578			194,578	194,578
Equity and liabilities						
Lease liabilities	n / a	536,661				
Trade accounts payable	AC	379,323	379,323			
Borrowings		940,827	940,827			
Borrowings from promissory notes	AC	934,784	934,784			950,465
Other borrowings	AC	6,043	6,043			
Other financial liabilities		100,379				
Non-derivative financial liabilities	AC	76,386	76,386			
Fair value through other comprehensive income	FVTPL	23,993		23,993		—[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.

In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement			Fair value of financial instruments
		31.12.2020	Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income	31.12.2020
Thereof aggregated by IFRS 9 measurement category						
Assets						
At amortised cost	AC	852,833	852,833			–[1]
Fair value through profit or loss	FVTPL	121,791		121,791		–[1]
Fair value through other comprehensive income	FVTOCI	194,578			194,578	194,578
Equity and liabilities						
Fair value through profit or loss	AC	1,396,536	1,396,536			950,465[1]
Fair value through other comprehensive income	FVTPL	23,993		23,993		–[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.

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Financial instruments by category 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	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 in-come	FVTPL	22,765		22,765		
Other equity instruments						
Fair value through profit or loss	FVTPL	826		654		—[1]
Fair value through other comprehensive in-come	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.

In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement			Fair value of financial instruments
		31.12.2019	Amortised 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	2,343,378	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.

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 lower, these are recognised.

For other equity instruments measured at fair value through other comprehensive income, the Group recognises the fair value as the market value in an active market. The other equity instruments relate to the investment in CECONOMY (carrying amount as at 31 December 2020: 184.9 million euros) and MGI (carrying amount as at 31 December 2020: 9.2 million euros), and securities to back pension obligations.

As a result of the discounting carried out using the effective interest rate method and based on the current level of interest rates, there are only minor differences between the carrying amounts of the financial instruments and the corresponding fair values. Because of the maturity involved, the fair value of the current borrowings corresponds to the carrying amount. The fair value of the non-current borrowings exceeds their carrying amount by 15,681 thousand euros as at 31 December 2020 (previous year: 9,998 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 2020.

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 2020.

Fair value hierarchy as of 31 December 2020

In EUR '000s	Total	Level 1	Level 2	Level 3
Assets				
Trade accounts receivable, at fair value through profit or loss	104,115	0	0	104,115
Other financial assets, at fair value through profit or loss	16,725	0	0	16,725
Other equity instruments, at fair value through profit or loss	951	0	0	951
Other equity instruments, at fair value through other comprehensive income	194,578	194,578	0	0
Equity and liabilities				
Borrowings from promissory notes	950,465	0	0	950,465
Other financial liabilities, at fair value through profit or loss	23,993	0	0	23,993

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

The following table shows the changes to Level 3 instruments for financial year 2020:

In EUR '000s	01.01.2020	Additions	Disposals	31.12.2020
Assets				
Trade accounts receivable, at fair value through profit or loss	107,148	0	3,033 [1]	104,115
Other equity instruments, at fair value through profit or loss	22,765	0	6,040 [1]	16,725
Other equity instruments, at fair value through other comprehensive income	826	389	264	951
Equity and liabilities				
Borrowings from promissory notes	1,087,259	352,958	489,752	950,465
Other financial liabilities, at fair value through profit or loss	26,713	739	3,459	23,993

[1] This is a cumulative change in the item.

For the individual categories of financial instruments, the following net gains/losses were shown in financial year 2020 and in the previous year:

Net gains/losses by measurement category 2020

2020	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)	1,920	0	– 29,953	0	– 28,033
Assets measured at fair value through profit or loss (FVTPL)	– 1,210	0	– 6,370	2,501	– 5,079
Assets measured at fair value through other comprehensive income (FVTOCI)	0	9,431	0	0	9,431
Liabilities measured at amortised cost (AC)	– 30,523	0	0	0	– 30,523
Total	**– 29,813**	**9,431**	**– 36,323**	**2,501**	**– 54,204**

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 and losses from assets measured at amortised cost include changes in the loss allowances, gains and losses from derecognition as well as payments received and reversals of impairment losses on previously written-off receivables.

Net gains or losses from the category of financial liabilities measured at amortised cost, mainly comprise interest expense to banks.

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 2020

31.12.2020 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	395,511	142,571	252,940		252,940
Other financial assets	323,976	4,847	319,129		319,129
Total	**719,487**	**147,418**	**572,069**	**0**	**572,069**
Financial liabilities					
Trade accounts payable	521,894	142,571	379,323	4,020	375,303
Other provisions	76,124	4,847	71,277		71,277
Total	**598,018**	**147,418**	**450,600**	**4,020**	**446,580**

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**

In 2020, 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 2020 was 142,571 thousand euros (31 December 2018: 173,354 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 147,418 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 110 thousand euros (31.12.2019: 285 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 leverage. The equity ratio is the ratio of equity to total assets; as at 31 December 2020, it was above the target of 25.0 per cent (31 December 2020: 40.4 per cent; previous year: 27.3 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 leverage relevant for management purposes was changed. The leverage (31 December 2020: 1.7; previous year 2019 restated: 4.8) 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.

As of 31 December 2020, 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 five promissory note loan (disclosed as a total net amount of 940.7 million euros as of 31 December 2020 (previous year: 1,083.5 million euros) – including 339.4 million euros in relation to the floating-rate tranches) and a floating-rate bank loan which is due upon final maturity (shown as a total net amount of 0.0 million euros as of 31 December 2020) (previous year: 610.0 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 2020, the Group reported interest-bearing financial liabilities amounting to 940.8 million euros (previous year: 1,030.5 million euros), of which 339.4 million euros are subject to a variable interest rate. In this respect, the Group is exposed to interest rate risks. Although the interest rate risks are not explicitly hedged, the net 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 940.8 million euros are shown under short-term and long-term borrowings as at 31 December 2020 (previous year: 1,693.6 million euros), 339.4 million euros (previous year: 1,030.5 million euros) of which have variable interest rates. The variable-interest liabilities to banks as at the closing date carried interest of 1.5 per cent. Of the aggregate amount shown for borrowings as at 31 December 2020, 206.0 million euros are shown as current. Of this amount, 6.0 million euros is deferred expected payments of accrued interest, and 200.0 million euros is earmarked for repayment of financial liabilities in 2021. As of 31 December 2020, the variable portion of the loans bears interest within a corridor of 1.2 to 1.9 per cent. On the basis of market estimates, we are predicting a corridor of between 1.2 and 1.9 per cent for the variable portion in 2021. This means that the cash outflows for the entire borrowings in 2021 would amount to 15.2 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 1.5 million euros on earnings before tax (previous year: –1.6 million euros), while a downward shift of 50 basis points in the interest rate curve would have an impact of -1.5 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.

33.3.3. Price risk

The Group has only a few assets and equity investments that are exposed to a price risk (such as shares in CECONOMY AG).

All in all, the Group regards the price risk as negligible.

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 2020 and 2019:

Financial liabilities 31.12.2020

In EUR '000s	Carrying amount	Cash flows 2021			Cash flows 2022			Cash-Flows 2023 and later		
	31.12. 2020	Interest fixed	Interest variable	Pay- ments of principal	Interest fixed	Interest variable	Pay- ments of principal	Interest fixed	Interest variable	Pay- ments of principal
Trade accounts payable	379,323	0	0	379,323	0	0	0	0	0	0
Borrowings (liabilities to banks)	940,827	10,419	4,825	206,001	8,334	4,199	163,258	12,988	6,849	571,568
Other non-derivative financial liabilities	100,379	0	0	63,438	0	0	24,907	0	0	12,034
Lease liabilities	536,661	4,134	0	81,075	3,685	0	76,040	10,310	0	361,417
Other financial liabilities	0	0	0	0	0	0	0	0	0	0

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	Pay- ments of principal	Interest fixed	Interest variable	Pay- ments of principal	Interest fixed	Interest variable	Pay- ments 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	7,616	0	72,388	7,071	0	70,226	24,559	0	371,416
Other financial liabilities	0	0	0	0	0	0	0	0	0	0

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 2.5 million euros was incurred from the sale of receivables (previous year: 3.6 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 134.1 million euros, previous year: 129.6 million euros), a total of 2.9 million euros (previous year: 2.8 million euros) was expensed. 1.6 million euros (previous year: 1.6 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: 1.2 million euros) concern interest expenses from the late payment risk. As at the balance sheet date, receivables amounting to 103.3 million euros (previous year: 99.8 million euros) have been sold and derecognised but not yet paid for. The expenses of 20 thousand euros (previous year: 20 thousand euros) to be anticipated from the late payment risk and the servicing will be realised over the residual term of the receivables (six months). The maximum loss risk for the Group is 1.0 million euros (previous year: 1.0 million euros).

The bank automatically assigns the newly defaulted receivables from the financial period ended to freenet at a fixed price each month. The buyback has no effect on either the apportionment of the risk of bad debt losses or the freenet Group's liquidity.

34 RELATED PARTY TRANSACTIONS

34.1. OVERVIEW

The following significant transactions took place between the Group and related parties:

In EUR '000s	2020	2019
Revenue attributable to billing of services		
Joint ventures		
Jestoro GmbH, Hamburg	408	451
Unconsolidated companies		
Antenne Deutschland GmbH & Co KG	1,005	0
Bayern Digital Radio GmbH	424	379
Digital Radio Südwest GmbH	305	337
Hessen Digital Radio GmbH	901	946
Total	**3,043**	**2,112**

In EUR '000s	2020	2019
Expenses from the purchase of services		
Joint ventures		
Jestoro GmbH, Hamburg	0	8
Check Tech Service GmbH, Hamburg (subsidiary of der Jestoro GmbH)	98	70
Unconsolidated companies		
Bayern Digital Radio GmbH	108	104
Hessen Digital Radio GmbH	58	52
Total	**264**	**235**

The following significant receivables from and liabilities to related parties existed as at 31 December 2020:

In EUR '000s	31.12.2020	31.12.2019
Receivables from current service transactions		
Joint ventures		
Jestoro GmbH, Hamburg	37	54
Total	**37**	**54**

In EUR '000s	31.12.2020	31.12.2019
Liabilities from current service transactions		
Joint ventures		
Check Tech Service GmbH, Hamburg (subsidiary of Jestoro GmbH)	16	21
Total	**16**	**21**

Total remuneration of 425 thousand euros (previous year: 420 thousand euros) was granted to the employee' representatives on the Supervisory Board in financial year 2020.

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 2020

In EUR '000s	Fixed benefits	Other variable benefits	Subtotal	Variable benefits with long-term incentive effect[1]	Total benefits[2]
Christoph Vilanek	1,015	1,739	2,754	783	3,537
Ingo Arnold	511	808	1,319	329	1,648
Stephan Esch	515	308	823	106	929
Rickmann v. Platen	512	308	820	188	1,008
Antonius Fromme	509	308	817	188	1,005
Total	**3,062**	**3,471**	**6,533**	**1,594**	**8,127**

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**

[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] This amount of total benefits in the above table does not include pension expenses of 1.216 thousand euros (previous year: 1.262 thousand euros).

The composition of the variable benefits with long-term incentive effect was as follows:

Variable benefits with long-term incentive effect 2020

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	783	0	783
Ingo Arnold	329	0	329
Stephan Esch	106	0	106
Rickmann v. Platen	188	0	188
Antonius Fromme	188	0	188
Total	**1,594**	**0**	**1,594**

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**

On 26 February 2014, agreements concerning the contracts of employment that grant 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 v. Platen and Mr Fromme with effect from 1 June 2018; for Mr Arnold with effect from 1 January 2019), supplemental agreements to the employment contracts granting new LTIPs were entered into with the aforementioned members of the Executive Board. For information on this LTIP programme, which is also designated "Programme 3", please refer to note 25.3 in these notes to the consolidated financial statements.

No cash payments were made to current Executive Board members from the current LTIP programmes (Programmes 2 and 3) in financial year 2020. In the previous year, cash payments of 5,421 thousand euros were made from Programme 2 and related to Mr Vilanek.

As at 31 December 2020, the provision for the LTIP programmes amounted to 2,088 thousand euros (previous year: 1,305 thousand euros) for Mr Vilanek, 748 thousand euros (previous year: 419 thousand euros) for Mr Arnold, 2,203 thousand euros (previous year: 2,097 thousand euros) for Mr Esch, 673 thousand euros (previous year: 485 thousand euros) for Mr v. Platen and 673 thousand euros (previous year: 485 thousand euros) for Mr Fromme. Cash payments of 559 thousand euros were made for the former Executive Board member Mr Preisig to terminate his LTIP Programme in 2020; the provision of 678 thousand euros recognized for this purpose as of 31 December 2019 was utilised and an amount of 119 thousand euros was released.

In 2020, 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 6,533 thousand euros (previous year: 6,207 thousand euros). For 2020, this does not include benefits with a long-term incentive effect (previous year: 1,391 thousand euros in benefits with a long-term incentive effect under the LTIP Programme 3).

Other variable remuneration in the 2020 financial year includes recognition awards totalling 1.5 million euros for Mr Vilanek and Mr Arnold to acknowledge their exceptional performance in connection with preventing the acquisition of UPC Schweiz GmbH by Sunrise Communications Group AG in 2019 and selling the equity investment in Sunrise Communications Group AG to Liberty Global plc for approximately 1.1 billion euros.

In November 2004, Mr Esch was granted an indirect pension commitment. In the financial year 2009, Mr Vilanek was granted an indirect pension commitment on the occasion of his appointment as chairman of the Executive Board as of 1 May 2009. freenet AG had taken on the pension commitment granted to Mr Preisig from the former debitel AG as of 1 September 2008. In February 2014, adjustments were made to 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 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 2020, the defined benefit obligation (DBO) for Mr Vilanek amounted to 7,458 thousand euros (previous year: 6,219 thousand euros) and for Mr Esch to 6,469 thousand euros (previous year: 5,522 thousand euros). The DBOs for Messrs Preisig, Krieger and Berger, as former Executive Board members, totalled 18,641 thousand euros as at 31 December 2020 (previous year: 17,054 thousand euros). Due to the nature of the selected commitment, there are no defined benefit obligations for Messrs Platen, Fromme and Arnold.

Current service costs of 1,216 thousand euros (previous year: 1,040 thousand euros) were recognised in total in personnel expenses for the members of the Executive Board as a result of the pension commitments. In 2020, Mr Vilanek accounted for 569 thousand euros (previous year: 468 thousand euros) of this amount, Mr Esch for 347 thousand euros (previous year: 272 thousand euros), Mr v. Platen for 100 thousand euros (previous year: 100 thousand euros), Mr Fromme for 100 thousand euros (previous year: 100 thousand euros), and Mr Arnold for 100 thousand euros (previous year: 100 thousand euros). The expenses for Messrs v. 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 2020” and “Executive Board benefits for 2019”.

In 2020, pension commitments for Executive Board members did not include any past service costs. In the previous year, personnel expenses recognised for Mr Esch in relation to pension commitments included past service costs of 222 thousand euros.

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

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

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

For their activities during financial year 2020, the members of the company's Supervisory Board received fixed remuneration of 405 thousand euros plus attendance fees amounting to 83 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 2020. The aggregate expenses for Supervisory Board activities thus amounted to 893 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 2020

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	9.0	30.0	69.0
Robert Weidinger	30.0	12.0	30.0	72.0
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**	**83.0**	**405.0**	**893.0**

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

Adjusted presentation as dividend payment was significantly reduced in accordance with the dividend resolution adopted on 27 May 2020. This also entailed eliminating payout of the performance-related remuneration.

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	0.0	72.0
Knut Mackeprang[1]	45.0	6.0	0.0	51.0
Claudia Anderleit[1]	30.0	5.0	0.0	35.0
Thorsten Kraemer	30.0	5.0	0.0	35.0
Marc Tüngler	30.0	7.0	0.0	37.0
Robert Weidinger	30.0	13.0	0.0	43.0
Sabine Christiansen	30.0	5.0	0.0	35.0
Thomas Reimann[1]	30.0	8.0	0.0	38.0
Fränzi Kühne	30.0	4.0	0.0	34.0
Theo-Benneke Bretsch[1]	30.0	4.0	0.0	34.0
Bente Brandt[1]	30.0	8.0	0.0	38.0
Gerhard Huck[1]	30.0	5.0	0.0	35.0
Total	**405.0**	**82.0**	**0.0**	**487.0**

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

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

35.1. SUNRISE COMMUNICATIONS GROUP AG

In financial year 2020, the freenet Group's entire stake in Sunrise (24.42 per cent, or 11,051,578 shares), which since 2016 had been accounted for using the equity method, was sold to Liberty Global at a cash purchase price of 110.00 Swiss francs per share. The transaction closed on 11 November 2020 and the Group consequently received an amount in Swiss francs equivalent to 1,125.2 million euros.

In these consolidated financial statements for 2020, the equity investment in Sunrise has been presented as a discontinued operation in accordance with IFRS 5. As a result, the comparatives in the income statement were restated retrospectively. The "Profit or loss of equity-accounted investments" included in the financial result was reclassified into "Profit/loss from discontinued operations". In addition, in contrast to the disclosures in the consolidated financial statements published for 2019, the assets attributable to this operation in the previous year were reclassified out of "Equity-accounted investments" and into "Non-current assets held for sale".

The following profit resulted from the sale of the discontinued operation:

In EUR '000s	2020
Consideration received	
Cash	1,125,238
Total consideration	**1,125,238**
Carrying amount of the investment in Sunrise sold	– 759,061
Historical exchange rate differences arising from the application of the equity method	– 4,508
Transaction costs	– 10,627
Current taxes	– 2,671
Deferred taxes	1,271
Gain on disposal from discontinued operation	**349,641**

The financial information relating to the discontinued operation for the period up to when the operation met the criteria for classification as held for sale is shown below:

CONSOLIDATED INCOME STATEMENT

In EUR '000s	2020	2019
Gain on disposal from discontinued operation	349,641	
Profit or loss of equity-accounted investments	20,860	14,286
thereof from share of profit or loss	37,500	34,252
thereof from subsequent accounting from purchase price allocation	– 16,640	– 19,966
Deferred tax expense attributable to discontinued operation	0	– 1,558
Consolidated profit/loss from discontinued operations	**370,501**	**12,728**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In EUR '000s	2020	2019
Currency translation differences from subsequent accounting for equity-accounted investments	1,103	1,924
Reclassification amount from currency translation differences from subsequent accounting for equity-accounted investments	4,508	0
Income tax recognised in other comprehensive income	– 84	– 29
Other comprehensive income/to be reclassified to the income statement in future periods	**5,527**	**1,895**
Other shares of the profit or loss of equity-accounted investments	– 739	– 1,263
Income tax recognised in other comprehensive income	11	19
Other comprehensive income/not to be reclassified to the income statement in future periods	**– 728**	**– 1,244**
Other comprehensive income from discontinued operations	**4,799**	**651**

CONSOLIDATED STATEMENT OF CASH FLOWS

In EUR '000s	2020	2019
Dividends received from equity-accounted investments	46,047	41,462
Cash flows from operating activities	**46,047**	**41,462**

35.2. FREENET DIGITAL GROUP

Under the agreement dated 28 August 2020 and through its performance on 30 September 2020, the Group sold all shares in freenet digital GmbH and all operational parts of the freenet digital Group to MGI.

As a result of this transaction, the Group lost control of the parts of the freenet digital Group disposed of. These were deconsolidated on 30 September 2020.

The freenet digital Group's main activity is offering various digital products and entertainment formats for download, display and use on mobile devices. In the segment reporting, this Group forms part of the "Mobile Communications" segment. The requirements for a discontinued operation codified in IFRS 5 were therefore not met.

The following overview provides information on the disposal of assets and liabilities due to deconsolidation as at 30 September 2020:

ASSETS

In EUR '000s	30.09.2020
Non-current assets	
Intangible assets	1,202
Lease assets	511
Goodwill	1,080
Fixed assets	61
Other financial assets	3
	2,857
Current assets	
Inventories	1,331
Current income tax assets	173
Other financial assets	108
Liquid assets	4,423
	6,035
Total	**8,892**

EQUITY AND LIABILITIES

In EUR '000s	30.09.2020
Non-current liabilities	
Non-controlling interests in equity	57
Lease liabilities	327
Other provisions	17
	401
Current liabilities	
Lease liabilities	465
Trade accounts payable	1,923
Other liabilities and deferrals	257
Other financial liabilities	546
Current income tax liabilities	675
Other provisions	556
	4,422
Total	**4,823**

Its deconsolidation therefore led to the Group disposing of assets of 8,892 thousand euros and liabilities of 4,823 thousand euros in total; that is, net assets of 4,069 thousand euros. As consideration for the sale, the Group received non-current other financial assets in the form of shares of the acquirer, MGI, worth 5,711 thousand euros (as measured at 30 September 2020). The transaction thus resulted in a gain on deconsolidation of 1,642 thousand euros reported as other operating income.

The final selling price will not be fixed until after 1 September 2021. The provisional selling price of 5,711 thousand euros mentioned above may be either increased or reduced.

As the Group did not receive any cash or cash equivalents as a result of the sale in financial year 2020, but the final balance as at 30 September 2020 of the cash and cash equivalents of the entities sold (4,423 thousand euros) was disposed of, an amount of 4,423 thousand euros was presented in the consolidated statement of cash flows within investing activities under “Payments from deconsolidation of subsidiaries”.

In financial year 2020, the disposed entities of the freenet digital Group generated external revenue of 12.0 million euros and positive EBITDA in a small amount of insignificance for the Group.

36 DISCLOSURES PURSUANT TO SECTION 315A HGB

The average number of employee in the Group (section 314 (1) no. 4 HGB) has been shown in note 8, Personnel expenses, in the notes.

With regard to the disclosures concerning remuneration of the company’s executive bodies (section 314 (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 Compliance in accordance with section 161 AktG was submitted by the company’s Executive Board and Supervisory Board on 9 December 2020. 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 1,162 thousand euros in fees was paid to the auditor in accordance with section 314 (1) no. 9 HGB during financial year 2020. Of this figure, 1,040 thousand euros is attributable to auditing services (thereof 1,040 thousand euros for the current audit for 2020), 20 thousand euros is attributable to other assurance services (e.g. plausibility assessments regarding the covenants for the loan agreements and the attainment of targets of the Executive Board for the financial year ended), 21 thousand euros is attributable to other services (in relation to IT security) and 81 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	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
freenet digital GmbH, Berlin[1]	100.00
Ilove GmbH, Berlin[1]	100.00
Lorena Medienagentur GmbH, Berlin[1]	100.00
MHF Media GmbH, Berlin (formerly: Ojom International GmbH)[1]	100.00
freenet digital Espana S.L., Barcelona (Spain)[1]	100.00
freenet digital Entretentimendo do Brasil Ltda., Sao Paulo (Brazil)[1]	100.00
Vene International GmbH, Berlin[1]	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)[1]	100.00
Aldine Productions LLC, Wilmington (USA)[1]	100.00
Seedling Productions LLC, Los Angeles (USA)[1]	100.00
Sure Yield Inc Limited, Hong Kong (China)[1]	100.00

	Share in capital in %
EXARING AG, Munich	61.30
Synergy Networks GmbH, Leipzig	61.30
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	50.00
Sunrise Communications Group AG, Zurich (Switzerland) [2]	24.42
Antenne Deutschland GmbH & Co KG, Berlin [3]	50.00

[1] Deconsolidation as of 30.09.2020
[2] Deconsolidation as of 11.11.2020
[3] Initial consolidation as of 01.09.2020

37 EVENTS OF MATERIAL IMPORTANCE AFTER THE REPORTING DATE

On 2 February 2021, the Executive Board of freenet AG adopted a resolution, with the approval of the Supervisory Board, to launch another share buyback programme (2021 Share Buyback Programme). Under this share buyback programme, up to 9.75 million of the company's shares (which equates to around 7.61 per cent of the share capital of 128,061,016 euros) are to be repurchased through the stock market. The share buyback programme totals up to 135 million euros in amount, is to begin on 25 February 2021 and will run until 31 December 2021 at the latest.

In addition, the Executive Board intends to propose a dividend of 1.50 euros per share for financial year 2020 at the Annual General Meeting. The Executive Board also plans to pay a special dividend of 0.15 euros per share in financial year 2021. In total, therefore, an amount of 1.65 euros per eligible share would be distributed to shareholders in 2021.

Furthermore, on 2 February 2021, the Supervisory Board of freenet AG announced that it had renewed the contracts of Executive Board members Antonius Fromme (Chief Customer Experience Officer) and Rickmann v. Platen (Chief Commercial Officer) expiring in May 2021 by five years until 31 May 2026. The appointment of freenet AG's Chief Financial Officer, Ingo Arnold, was likewise extended by five years until 31 December 2026. In addition, Ingo Arnold was appointed Deputy CEO of freenet AG with effect from 1 January 2021.

38 DEVELOPMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Development of intangible assets, goodwill and property, plant and equipment as at 31 December 2020

In EUR '000s	Cost						
	1.1.2020	Additions	Reclassi-fications	Disposals basis of consolida-tions	Disposals	Foreign currency	31.12.2020
Intangible assets							
Internally generated software	139,440	19,722	0	7,091	757	0	151,314
Software, licenses and right-of-use assets	181,308	29,552	1,203	9,224	9,898	0	192,941
Trademarks	345,247	0	0	3,879	0	0	341,368
Customer relationships	107,234	0	0	0	226	0	107,008
	773,229	**49,274**	**1,203**	**20,194**	**10,881**	**0**	**792,631**
Goodwill							
Goodwill	1,383,474	0	0	1,080	0	0	1,382,394
	1,383,474	**0**	**0**	**1,080**	**0**	**0**	**1,382,394**
Property, plant and equipment							
Land, property facilities and buildings	38,107	972	0	0	4,493	0	34,586
Switches and networks	928	0	0	0	256	0	672
Technical equipment and machinery	204,460	14,222	633	0	8,812	212	210,715
Other operating and office equipment	105,408	12,217	338	597	77,871	0	39,495
Prepayments made and assets under construction	2,323	1,621	−2,174	0	18	0	1,752
	351,226	**29,032**	**−1,203**	**597**	**91,450**	**212**	**287,220**
Total	**2,507,929**	**78,306**	**0**	**21,871**	**102,331**	**212**	**2,462,245**

Depreciation, amortisation and impairment								Carrying amounts	
1.1.2020	Additions	Reclassifications	Disposals basis of consolidations	Disposals	Foreign currency	Fremdwährung	31.12.2020	31.12.2020	1.1.2020
94,858	14,351	208	0	5,891	749	0	102,777	48,537	44,582
112,594	35,836	0	337	9,223	9,897	0	129,647	63,294	68,714
44,493	673	0	0	3,879	0	0	41,287	300,081	300,754
19,406	5,018	0	0	0	226	0	24,198	82,810	87,828
271,351	**55,878**	**208**	**337**	**18,993**	**10,872**	**0**	**297,909**	**494,722**	**501,878**
0	0	0		0	0	0	0	1,382,394	1,383,474
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,382,394**	**1,383,474**
14,322	1,101	479	0	0	4,491	0	11,411	23,175	23,785
928	0	0	0	0	256	0	672	0	0
118,781	15,435	0	– 326	0	8,197	193	125,886	84,829	85,679
73,365	13,231	0	– 11	536	77,273	0	8,776	30,719	32,043
0	0	0	0	0	0	0	0	1,752	2,323
207,396	**29,767**	**479**	**– 337**	**536**	**90,217**	**193**	**146,745**	**140,475**	**143,830**
478,747	**85,645**	**687**	**0**	**19,529**	**101,089**	**193**	**444,654**	**2,017,591**	**2,029,182**

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**

Büdelsdorf, 4 March 2021

freenet AG

The Executive Board

Christoph Vilanek   Ingo Arnold   Stephan Esch   Antonius Fromme   Rickmann v. Platen

FURTHER INFORMATION

04

FURTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT

The auditor's report reproduced below also includes an "Assurance Report in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of the Financial Statements and the Management Report Prepared for Publication Purposes" ("ESEF report"). The subject matter of the audit on which the ESEF report is based (ESEF documents to be audited) is not attached. The audited ESEF documents can be inspected in or retrieved from the Federal Gazette.

"INDEPENDENT AUDITOR'S REPORT

To freenet AG, Büdelsdorf

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the consolidated financial statements of freenet AG, Büdelsdorf, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2020, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the financial year from January 1 through December 31, 2020 and notes to the consolidated financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the group management report of freenet AG, for the financial year from January 1 through December 31, 2020. 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, 2020, and of its financial performance for the financial year from January 1 through December 31, 2020, 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 § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], 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, 2020. 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 matter of most significance in our audit was as follows:

1. Revenue recognition
2. Recoverability of goodwill and intangible assets
3. Recoverability of deferred tax assets on loss carryforwards

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

1. Revenue recognition

1. Revenue totaling 2.6 billion euros 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 straightline 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 straightline 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 appropriate systems and processes, primarily for the Mobile Communications business.

   The accounting treatment of revenue is material 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 fact 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 process, we assessed whether revenue had been recognized fully and accurately and verified whether it had been allocated to the correct periods or correctly deferred. 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 the audit field.

   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 properly 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 1,382.4 million euros (30.7% of consolidated total assets and 75.9% of Group equity) is reported under the "Goodwill" balance sheet item in the Company's consolidated financial statements. Assets amounting to 494.7 million euros (11.0% of consolidated total assets and 27.2% of Group equity) are reported under "Intangible assets". The Company allocates goodwill to the cashgenerating 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 cashgenerating 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 cashgenerating units. The discounted cash flow models are based on planning approved by the executive directors for the period up to 2024, 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 importance during our audit.

2. As part of our audit, we reviewed the methodology employed for the purposes of performing the impairment tests, among other things. We assessed 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 sectorspecific market expectations. With the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amounts calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. Furthermore, we reviewed 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 292.9 million euros, 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 2021 to 2024. From our point of view, this matter is of particular importance, as the multi-year projections serving as the basis for the recoverability of deferred tax assets on loss carryforwards are highly dependent on the estimates and assumptions of the executive directors and are subject to a high level of uncertainty.

2. In our audit of the recoverability of deferred tax assets, we included specialists from our Tax department in our audit team. Among other things, they helped us to assess the methodological process to carry out impairment 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 projections prepared by the executive directors with respect freenet AG's future taxable income and that of its consolidated income tax group subsidiaries, and we assessed the appropriateness of the planning premises used. Our assessment also covered the correctness of the reconciliation of the projected results to the tax result, compliance of the method used to calculate deferred taxes with IAS 12 and the mathematical accuracy of the calculations. We verified the assumptions made by the executive directors and the method applied.

3. The Company's disclosures pertaining to deferred tax assets on loss carryforwards are contained in notes 2.14 and 18 to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the non-financial statement pursuant to Article 315b paragraph 1 German Commercial Code included in section 1.8 "Non-Financial Statement" of the management report
- the statement on corporate governance contained in section 1.9 "Corporate Governance" of the management report pursuant to § 289f HGB and § 315d HGB

The other information comprises further remaining parts of the annual report – excluding further 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. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] 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 Company's financial reporting process for the preparation of the consolidated financial statements and 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 assurance engagement. 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 of the Group.
- 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. [paragraph] 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 annual 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

Assurance Report in Accordance with § 317 Abs. [paragraph] 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes

AUDIT OPINIONS

We have performed an assurance engagement in accordance with § 317 Abs. [paragraph] 3b HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the attached electronic file freenet_AG_KA_KLB_ESEF-2020-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. [paragraph] 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from January 1 to December 31, 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above.

BASIS FOR THE REASONABLE ASSURANCE CONCLUSION

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 Abs. 3b HGB (IDW EPS 410) on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in the "Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ESEF DOCUMENTS

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with § 328 Abs. [paragraph] 1 Satz [sentence] 4 no. 1 HGB [Handelsgesetzbuch: German Commercial Code] and for the tagging of the consolidated financial statements in accordance with § 328 [paragraph] 1 Satz [sentence] 4 no. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material noncompliance with the requirements of § 328 Abs. [paragraph] 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

GROUP AUDITOR'S RESPONSIBILITIES FOR THE ASSURANCE ENGAGEMENT ON THE ESEF DOCUMENTS

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. [paragraph] 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. [paragraph] 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.
- Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as at the balance sheet date on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machinereadable XBRL copy of the XHTML reproduction.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on May 27, 2020. We were engaged by the Supervisory Board on October 02, 2020. We have been the auditor of freenet AG, Büdelsdorf without interruption since financial year 2014.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (longform audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Niklas Wilke.

Hamburg, 5 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

signed	signed
Niklas Wilke	ppa. Benjamin Röhe
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)"

FURTHER INFORMATION

INDEPENDENT PRACTITIONER’S REPORT

“INDEPENDENT PRACTITIONER’S REPORT ON A LIMITED ASSURANCE ENGAGEMENT ON SUSTAINABILITY INFORMATION

TO FREENET AG, BÜDELSDORF

We have performed a limited assurance engagement on the disclosures in the sustainability report of freenet AG, Büdelsdorf, for the period from 1 January to 31 December 2020.

RESPONSIBILITIES OF THE OFFICERS

The officers of the freenet AG are responsible for the preparation of the report in consideration of the principles stated in the Standards of the Global Reporting Initiative (GRI criteria) and in accordance with the principles in the “CSR-Richtlinie-Umsetzungsgesetz” (CSR-RUG).

This responsibility of Company’s officers includes the selection and application of appropriate methods of sustainability reporting as well as making assumptions and estimates related to individual sustainability disclosures, which are reasonable in the circumstances. Furthermore, the officers are responsible for such internal control as they have considered necessary to enable the preparation of a Report that is free from material misstatement.

PRACTITIONER’S DECLARATION RELATING TO INDEPENDENCE AND QUALITY

We are in accordance with the provisions under German commercial law and professional requirements independent of the freenet AG, and we have fulfilled our other ethical responsibilities in accordance with the relevant provisions within these requirements.

Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft applies the German national legal requirements and the German profession’s pronouncements for quality control, in particular the by-laws regulating the rights and duties of German Public Auditors and Chartered Accountants in the exercise of their profession (Professional Code for German Public Auditors and Chartered Accountants) as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in Audit Firms (IDW QS 1), that are consistent with the International Standard on Quality Control 1 issued by the International Auditing and Assurance Standards Board (IAASB).

PRACTITIONER'S RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion, based on the assurance engagement we have performed. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. These Standards require 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 information for the period from 1 January to 31 December 2020 has not been prepared, in all material respects, in accordance with CSR-RUG and the GRI criteria.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's professional judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Assessment of the conception and implementation of systems and processes for the collection, management and monitoring of data, including data consolidation
- Inquiries of personnel involved in the preparation of the Sustainability Report regarding the preparation process and the internal control system relating to this process
- Analytical evaluation of selected disclosures in the Sustainability Report
- Evaluation of the presentation of the selected disclosures regarding sustainability performance

ASSURANCE CONCLUSION

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the disclosures in the Company's Report for the period from 1 January to 31 December 2020 has not been prepared, in all material aspects, in accordance with the legal requirements of with CSR-RUG and the GRI criteria.

LIMITATION OF LIABILITY

We issue this report on the basis of the engagements agreed with the company. The assurance engagement has been performed for purposes of the company and the report is solely intended to inform the company as to the results of the assurance engagement.

The report is not intended to provide third parties with support in making (financial) decisions. Our responsibility lies solely toward freenet AG. We do not assume any responsibility towards third parties.

Hamburg, 18 Februar 2021

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dirk Driesch
Wirtschaftsprüfer

Kai M. Beckmann“

RESPONSIBILITY STATEMENT

To the best of our knowledge and belief, and in accordance with the applicable reporting principles and in compliance with generally accepted accounting 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, 4 March 2021

freenet AG

The Executive Board

Christoph Vilanek Ingo Arnold Stephan Esch Antonius Fromme Rickmann v. Platen

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 explanation:

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)	40 – 43
102–2	Activities, brands, products and services	Business model and organisation; Notes (Note 3, Segment reporting)	40 – 43 145 – 148
102–3	Location of headquarters	Further information (Financial calendar, publishing information and contact)	242f
102–4	Location of operations	Notes (Note 3, Segment reporting)	145 – 148
102–5	Ownership and legal form	The freenet share (changes in shareholder structure)	31 – 36
102–6	Markets served	Non-financial statement (supply chain); Notes (Note 3, Segment reporting)	96f/ 145 – 148
102–7	Scale of the organisation	Key financials (overview)	U1f
102–8	Information on employee and other workers	Non-financial statement (employee); further information on employment: Part time: 25.4% of women (2019: 25.4%) / 7.5% of men (2019: 6.9%); Fixed-term employment contracts: 18.4% of women (2019: 19,8%) /19.0% of men (2019: 20,1%);	80 – 87
102–9	Supply chain	Non-financial statement (supply chain);	96f
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)	96f/ 40 – 43
102–11	Precautionary principle or approach	Reporting on opportunities and risks (risk management system) Non-financial statement (Non-financial risks)	62 – 74 / 80
102–12	External initiatives	Further information (GRI Index and main memberships)	232ff
102–13	Membership of associations	Further information (GRI Index and main memberships)	232ff

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)	36f
	3. Ethics and integrity		
102 – 16	Values, principles, standards and norms of behaviour	Non-financial statement (employee: diversity); Non-financial statement (anti-corruption); Corporate Governance (Corporate Governance Statement)	81 / 94ff/ 98ff
	4. Governance		
102 – 18	Governance structure	To our shareholders (Report of the Supervisory Board); Corporate Governance	26ff/ 98ff
	5. Stakeholder engagement		
102 – 40	List of stakeholder groups	To our shareholders (sustainable action); Non-financial statement (materiality analysis)	36f/ 79f
102 – 41	Collective bargaining agreements	Other disclosures: As of 31.12.2020, 14.9% (31.12.2019: 14.9%) of the salaried employee were paid in accordance with collective bargaining agreements. All of these are employee of Media Broadcast.	—
102 – 42	Identifying and selecting stakeholders	Non-financial statement (materiality analysis)	79f
102 – 43	Approach to stakeholder engagement	Non-financial statement (materiality analysis, employee, customer matters)	79f
102 – 44	Key topics and concerns raised	Non-financial statement (materiality analysis)	79f
	6. Reporting practice		
102 – 45	Entities included in the consolidated financial statements	Notes (Note 36, disclosures in accordance with Section 315a HGB)	211 – 213
102 – 46	Defining report content and the topic boundaries	Non-financial statement (materiality analysis)	79f
102 – 47	List of material topics	Non-financial statement (materiality analysis)	79f
102 – 48	Restatements of information	New presentations are indicated at the respective places.	—
102 – 49	Changes in reporting	High-level materiality assessment as part of the preparation of the non-financial statement did not result in any changes. The scope of consolidation has been reduced by the sale of MOTION TM (2019) and freenet digital (2020). Where necessary, the effects on KPIs have been highlighted.	—
102 – 50	Reporting period	Non-financial statement (general information)	80
102 – 51	Date of most recent report	31.12.2019	—
102 – 52	Reporting cycle	12 months	—
102 – 53	Contact point for questions regarding this report	To our shareholders (IR contact)	38
102 – 54	Claims of reporting in accordance with GRI Standards	Non-financial statement (general information)	80
102 – 55	GRI content index	Further information (GRI Index and main memberships)	232ff
102 – 56	External assurance	Further information (Independent practitioner's report on a limited assurance engagement on non-financial group statement)	229f

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	45 – 51
201–1	Direct economic value generated and distributed	To our shareholders (sustainable action)	36f
201–3	Defined benefit plan obligations and other retirement plans	Notes (Note 2.11, Pension provisions)	139–140
GRI 205	**Anti-Corruption**		
103–1/2/3	Management approach	Non-financial statement (anti-corruption)	94 – 96
205–3	Confirmed incidents of corruption and actions taken	Non-financial statement (anti-corruption)	94 – 96
GRI 300	**Environmental Topics**		
GRI 302	**Energy**		
103–1/2/3	Management approach	Non-financial statement (corporate environmental protection)	91 – 96
302–1	Energy consumption within the organisation	Non-financial statement (corporate environmental protection)	91 – 96
GRI 305	**Emissions**		
103–1/2/3	Management approach	Non-financial statement (corporate environmental protection)	91 – 96
305–1	Direct (Scope 1) GHG emissions	Non-financial statement (corporate environmental protection)	91 – 96
305–2	Energy indirect (Scope 2) GHG emissions	Non-financial statement (corporate environmental protection)	91 – 96
305–4	GHG emissions intensity	Non-financial statement (corporate environmental protection)	91 – 96
GRI 307	**Environmental Compliance**		
103–1/2/3	Management approach	Non-financial statement (corporate environmental protection)	91 – 96
307–1	Non-compliance with environmental laws and regulations	Non-financial statement (corporate environmental protection)	91 – 96
GRI 400	**Social Topics**		
GRI 401	**Employment**		
103–1/2/3	Management approach	Non-financial statement (employee)	80 – 87
401–1	New employee hires and employee turnover	Non-financial statement (employee)	80 – 87
401–2	Benefits provided to employee	Non-financial statement (employee)	80 – 87
GRI 403	**Occupational Health and Safety**		
103–1/2/3	Management approach	Non-financial statement (employee)	80 – 87
403–1	Occupational health and safety management system	Non-financial statement (employee)	80 – 87
403–3	Occupational health services	Non-financial statement (employee)	80 – 87
403–4	Worker participation, consultation, and communication on occupational health and safety	Non-financial statement (employee)	80 – 87
403–5	Worker training on occupational health and safety	Non-financial statement (employee)	80 – 87
403–9	Work-related injuries	Non-financial statement (employee)	80 – 87

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 (employee)	80 – 87
404 – 1	Average hours of training per year per employee	Non-financial statement (employee)	80 – 87
404 – 2	Programs for upgrading employee skills and transition assistance programs	Non-financial statement (employee)	80 – 87
404 – 3	Percentage of employee receiving regular performance and career development reviews	Non-financial statement (employee)	80 – 87
GRI 405	**Diversity and Equal Opportunity**		
103 – 1/2/3	Management approach	Corporate Governance (Corporate Governance Statement); Non-financial statement (employee)	98ff
405 – 1	Diversity of governance bodies and employee	Corporate Governance (Corporate Governance Statement); Non-financial statement (employee)	98ff
GRI 414	**Supplier Social Assessment**		
103 – 1/2/3	Management approach	Non-financial statement (supply chain);	96f
414 – 1	New suppliers that were screened using social criteria	Non-financial statement (supply chain);	96f
GRI 417	**Marketing and Labelling**		
103 – 1/2/3	Management approach	Non-financial statement (customer matters)	
417 – 1	Requirements for product and service information and labelling	Non-financial statement (customer matters)	88 – 91
freenet – specific disclosure	Results of surveys to measure customer satisfaction	Non-financial statement (customer matters)	88 – 91
GRI 418	**Customer Privacy**		
103 – 1/2/3	Management approach	Non-financial statement (digital responsibility)	87 – 88
418 – 1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Non-financial statement (digital responsibility)	87 – 88

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
- Internationale Fernmeldeunion – Funksektor (ITU-R)
- Konferenz der europäischen Post- und Fernmeldeverwaltungen (CEPT)
- WorldDAB Forum

FURTHER INFORMATION

MULTI-YEAR OVERVIEW AND QUARTERLY FIGURES 2020

MULTI-YEAR OVERVIEW

In EUR millions/as indicated	2020	2019	2018
Operations			
Revenue	2,576.2	2,932.5	2,897.5
Gross profit	862.1	896.2	903.7
EBITDA	425.9	426.8	441.2
EBIT	263.0	270.0	312.0
EBT	217.5	223.8[1]	234.0
Consolidated profit	561.0	184.7	212.2
Earnings per share (in EUR)	4.44	1.49	1.74
Dividend per share (in EUR)	1.65[2]	0.04[3]	1.65
Balance Sheet			
Total equity and liabilities	4,505.6	4,839.6	4,634.7
Equity	1,821.1	1,321.6	1,280.8
Equity ratio (in %)	40.4	27.3	27.6
Finances and investments			
Free cash flow	237.3	249.0	263.8
Net investments (CAPEX)[4]	46.2	40.6	43.3
Net debt	740.6	2,031.1	1,856.8
Adjusted net debt	555.8	1,078.0	904.3
Leverage	1.7	4.8	4.2
Adjusted leverage	1.3	2.5	2.0
Customer-related key figures			
Postpaid ARPU (in EUR)	18.2	18.7	19.0
Postpaid customers (in millions)	7.079	6.903	6.896
freenet TV subscribers (RGU) (in millions)	0.902	1.021	1.014
waipu.tv subscribers (in millions)	0.572	0.408	0.252

[1] Retrospective restatement due to discontinued Sunrise operations in accordance with IFRS 5.
[2] The dividend will be paid subject to a resolution at the Annual General Meeting.
[3] In view of the COVID-19 situation and pending refinancing, the Executive Board of freenet AG had proposed to the Annual General Meeting on 27 May 2020 that the dividend be suspended, apart from the mandatory minimum dividend of 0.04 euros per share. This proposal was adopted by a 94.74% majority.
[4] Investments in property, plant and equipment and intangible assets, less the proceeds from the disposal of intangible assets and property, plant and equipment.

QUARTERLY FIGURES FOR 2020

In EUR millions/as indicated	Q1/2020	Q2/2020	Q3/2020	Q4/2020
Revenue	648.8	622.1	634.5	670.7
Gross profit	213.2	212.5	218.1	218.2
EBITDA	104.2	109.7	115.2	96.7
EBIT	64.9	70.5	75.0	52.6
EBT	52.3	59.8	63.7	41.7
Consolidated profit	51.2	58.1	60.1	391.6
Earnings per share (in EUR)[1]	0.41	0.46	0.48	3.08

[1] Diluted and basic. Retrospective restatement due to discontinued Sunrise operations in accordance with IFRS 5.

FURTHER INFORMATION

GLOSSARY

5G Fifth generation mobile communications, which is to be based on the existing mobile communications standard LTE (see “LTE”).

Adjusted leverage Ratio between adjusted net debt (see “Adjusted net debt”) and EBITDA (see “EBITDA”) generated in the last twelve months.

Adjusted EBITDA EBITDA (see “EBITDA”) adjusted for one-time effects.

Adjusted net debt Net debt (see “Net debt”) less equity investments (see “Equity investments”).

AktG German: Aktiengesetz; English: German Stock Corporation Act.

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.

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.

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.

EBIT Earnings before financial result and taxes.

EBITDA EBIT (see “EBIT”) plus depreciation, amortisation and impairment

EBT Earnings before taxes

Equity investments Market value of Sunrise Communications Group AG and CECONOMY AG on the reporting date. The market value of CECONOMY AG is calculated by multiplying the closing price of the CECONOMY share on the Frankfurt stock exchange by the number of CECONOMY AG shares held by the freenet Group (32,633,555 no-par-value shares) as of the relevant reference date.

Equity ratio Ratio between equity to total equity and liabilities.

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 (without payments for transaction costs from acquiring / selling companies) 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.

Goodwill Value of a business entity not directly attributable to identifiable assets.

Gross profit Revenue less cost of materials.

Gross profit margin Ratio between gross profit and revenue.

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.

IFRS 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.

Leverage Ratio between net debt (see “Net debt”) and EBITDA (see “EBITDA”) generated in the last twelve months.

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.

Net interest expense Interest and similar expenses less interest and similar income.

Net investments (CAPEX) Investments in property, plant and equipment and intangible assets, less proceeds from the disposal of intangible assets and property, plant and equipment.

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.

Overhead Overhead includes the items other operating income, other own work capitalised, personnel expenses and other operating expenses.

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).

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”).

WACC abbr. Weighted average cost of capital.

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).

FURTHER INFORMATION

FINANCIAL CALENDAR

Date	Event
6 May 2021[1]	Quarterly Statement as of 31 March 2021 – First quarter 2021
18 June 2021[1]	Annual General Meeting of freenet AG
12 August 2021[1]	Interim Report as of 30 June 2021 – Second quarter 2021
4 November 2021[1]	Quarterly Statement as of 30 September 2021 – Third quarter 2021

[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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